Highlights from the November 18, 2010 Conference Call

Mortgage Delinquencies in Ohio:

Are Loan Modifications Stemming the Tide?

a RapidResponse program

On November 18, 2010, the Federal Reserve Bank of Cleveland, in partnership with NeighborWorks® America, held a session that discussed a study on mortgage delinquencies in Ohio. This report tracked Ohio mortgage delinquencies, loan modifications, and their performance with the use of loan performance data from Lender Processing Services, Inc. (LPS). Loan modifications were flagged according to changes in the terms of the loan, balance, and payments using an algorithm provided by researchers at the Atlanta and Boston Federal Reserve Banks. The analysis is complemented with results from a survey of housing counseling agencies.

In spite of ongoing federal and state relief efforts, many Ohio homeowners are still facing the risk of foreclosure. The study indicated that relatively few delinquent loans in Ohio are being modified, although recent modifications appear to be more successful than past ones. Still, the small percentage of seriously delinquent loans being modified in Ohio, coupled with declining self-recovery rates, suggests that current policy efforts have not been able to effectively cope with the foreclosure crisis to date. The administration and some large servicers have recently placed more emphasis on programs directed to borrowers for whom a modification is not viable. These programs range from facilitating short sales or deed-for-lease actions to allowing former owners to stay in the homes as renters. Unlike loan modification programs, however, these alternatives are relatively new and less familiar to borrowers and counselors. According to our survey, most counselors report having heard about them, although few had used them as of May 2010.

The following observations are a result of the study:

- The number of loan modification per month is increasing but not enough to keep up with existing and new delinquencies.
- In May 2008, the highest percent of delinquent loans was composed of privately securitized loans. By May 2009, seriously delinquent loans were more evenly spread between GSE-securitized (government sponsored enterprise) and privately securitized loans.
- Loan modifications that involve a payment decrease have risen across all investor types. In the post-Home Affordable Modification Program (HAMP) period, while portfolio-held delinquent loans are receiving more concessionary modification, GSE-securitized loans are being modified with a larger reduction in median monthly payment.
- About 18% of seriously delinquent, not modified loans recover on their own during the post-HAMP period, although this recovery rate is lower in comparison to the previous period.
- For every modified loan, there were 10 seriously delinquent loans during the post-HAMP study period, compared to one in nine during the pre-HAMP period. However, the more recently modified loans experience lower re-default rates.