Mortgage Delinquencies in Pennsylvania: Are Loan Modifications Stemming the Tide?

UCSUR Brown Bag Series
March 25, 2011

Lisa Nelson
Francisca Richter
Federal Reserve Bank of Cleveland

The views expressed are mine and not necessarily those of the Federal Bank of Cleveland or the Federal Reserve System

Data and methods

Lender Processing Services (LPS) ~ 60% of the residential mortgage market (securitized and portfolio)

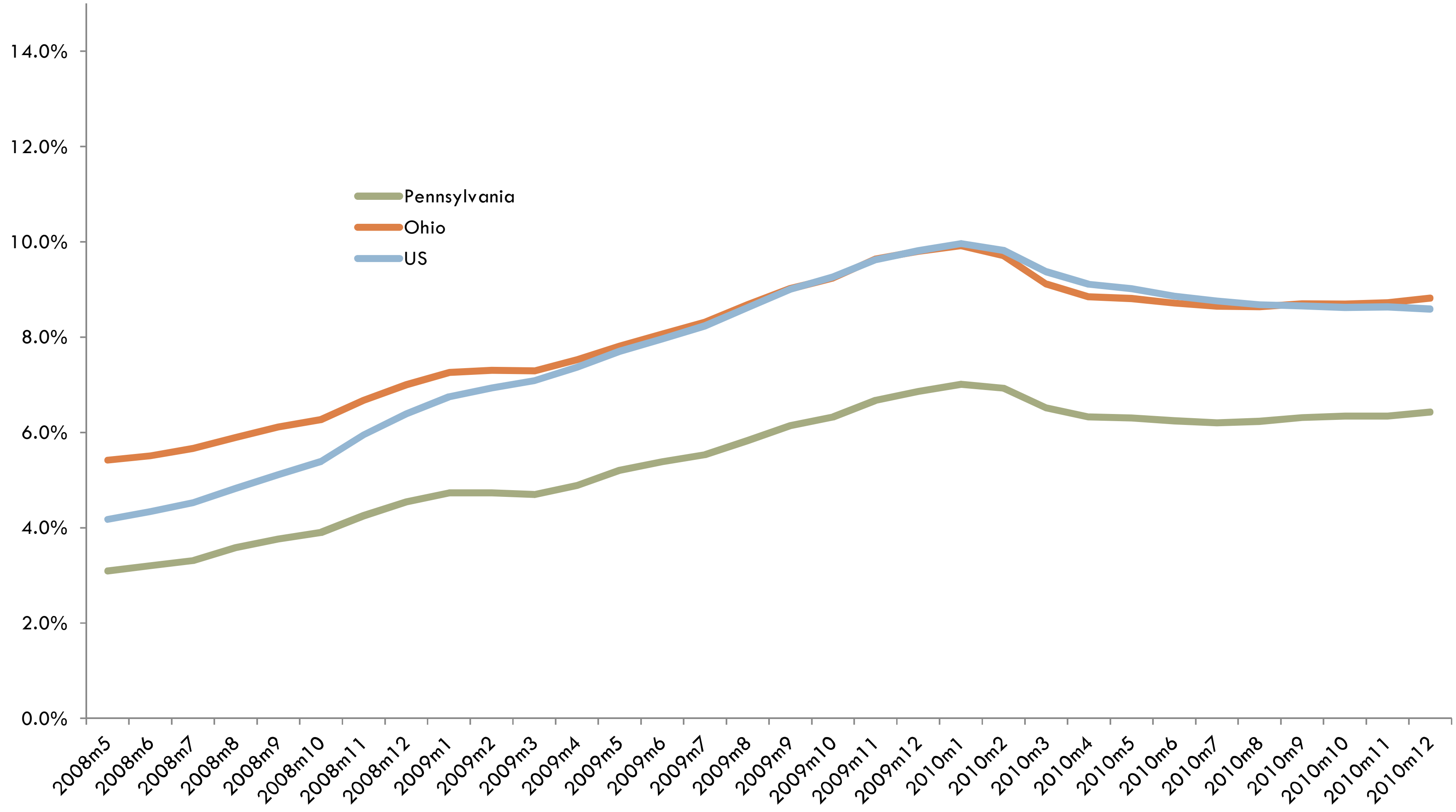
Top10 residential mortgage servicers

Analysis includes first lien loans originated between 2003 and December 2010

Seriously delinquent 60 or more days delinquent

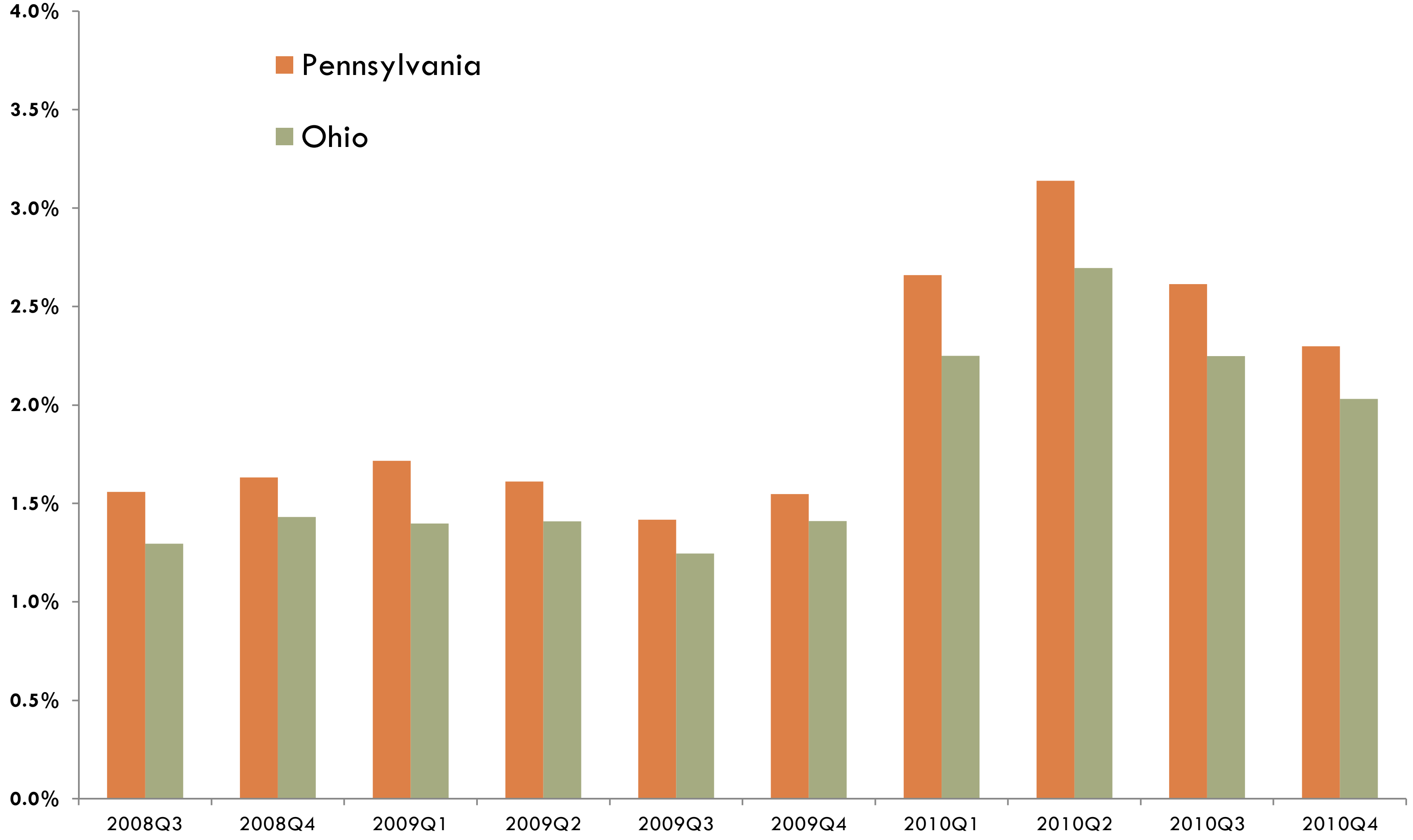
Algorithm provided by researchers at Atlanta and Boston Feds used to identify changes in the terms of loans (flags for possible modifications). Thanks!

Ratio of delinquent loans to active loans



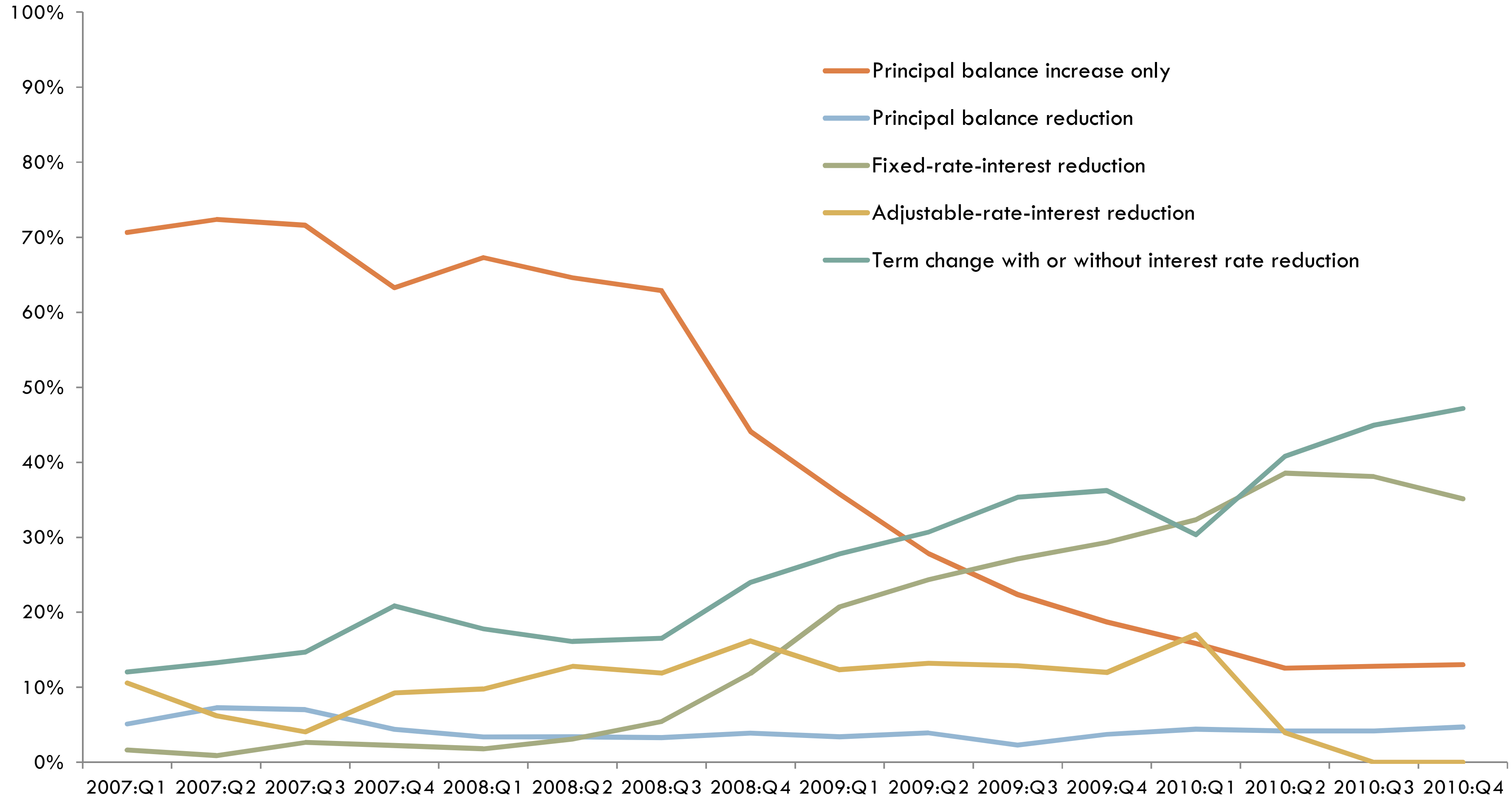
Source: Calculations based on loan modification flagging algorithm on LPS data.

Ratio of modified loans to delinquent loans



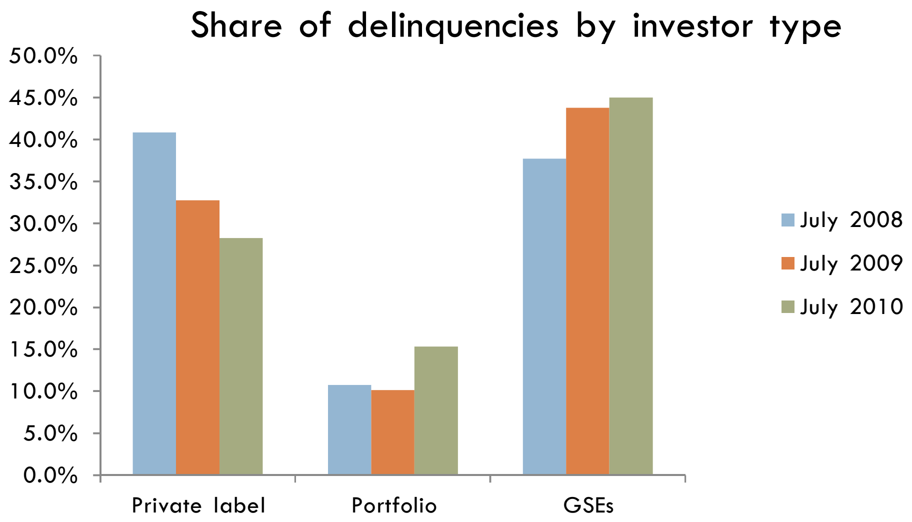
Source: Calculations based on loan modification flagging algorithm on LPS data.

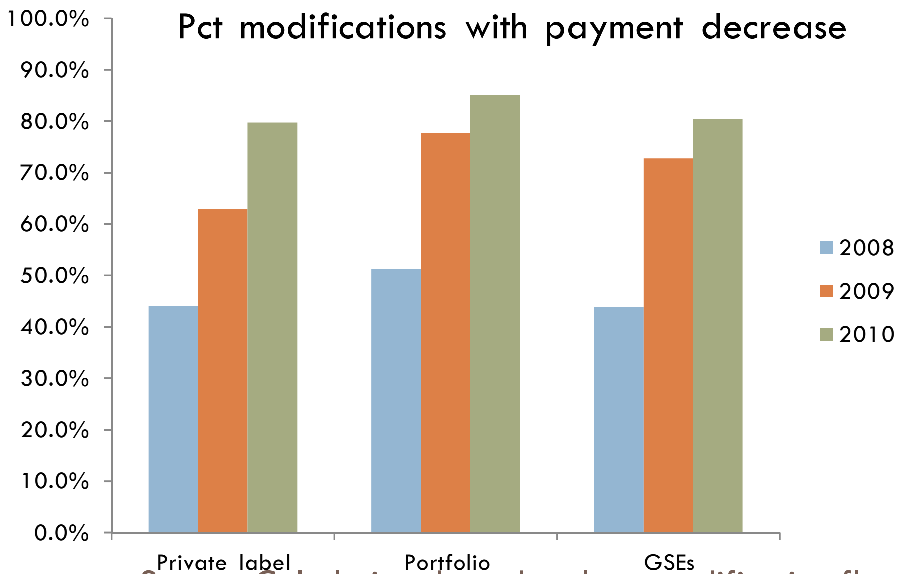
Loan modifications by type in Pennsylvania

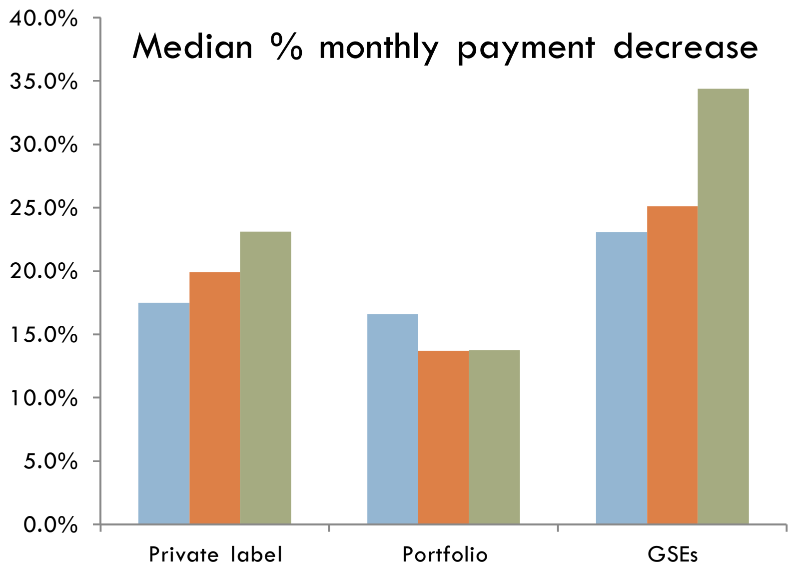


Source: Calculations based on loan modification flagging algorithm on LPS data.

Modifications by investor type in Pennsylvania

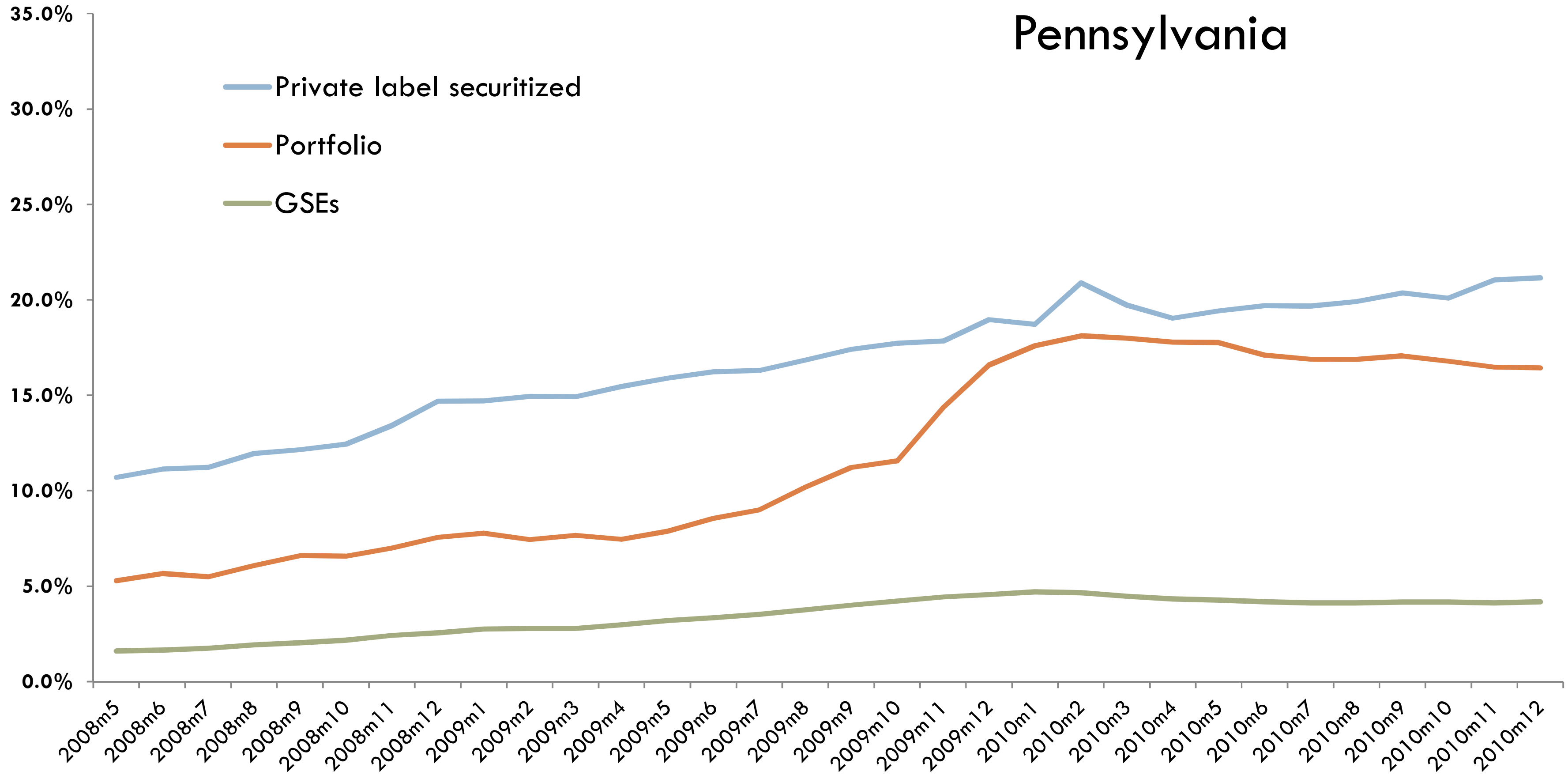






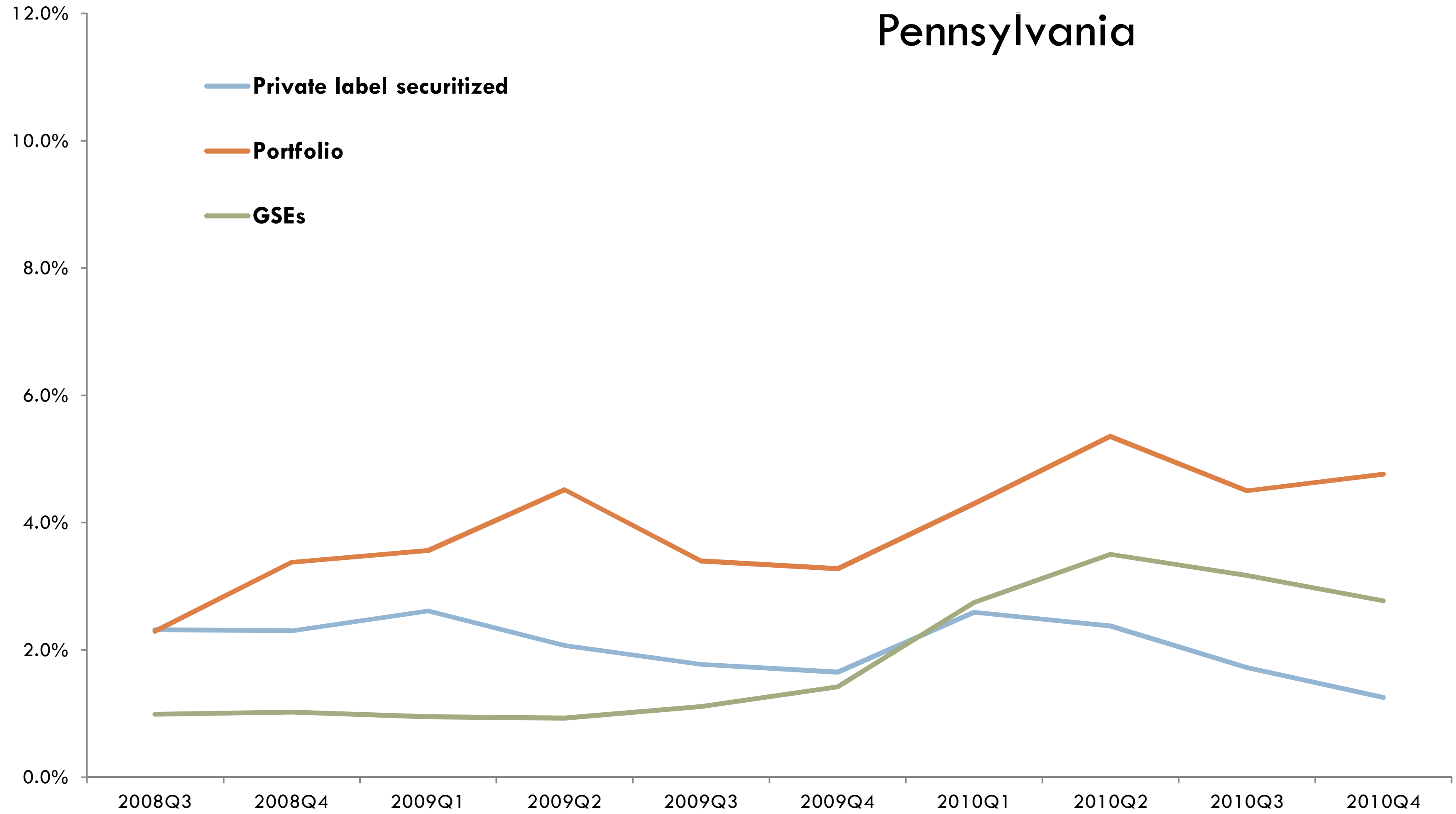
Source: Calculations based on loan modification flagging algorithm on LPS data.

Ratio of delinquent loans to active loans



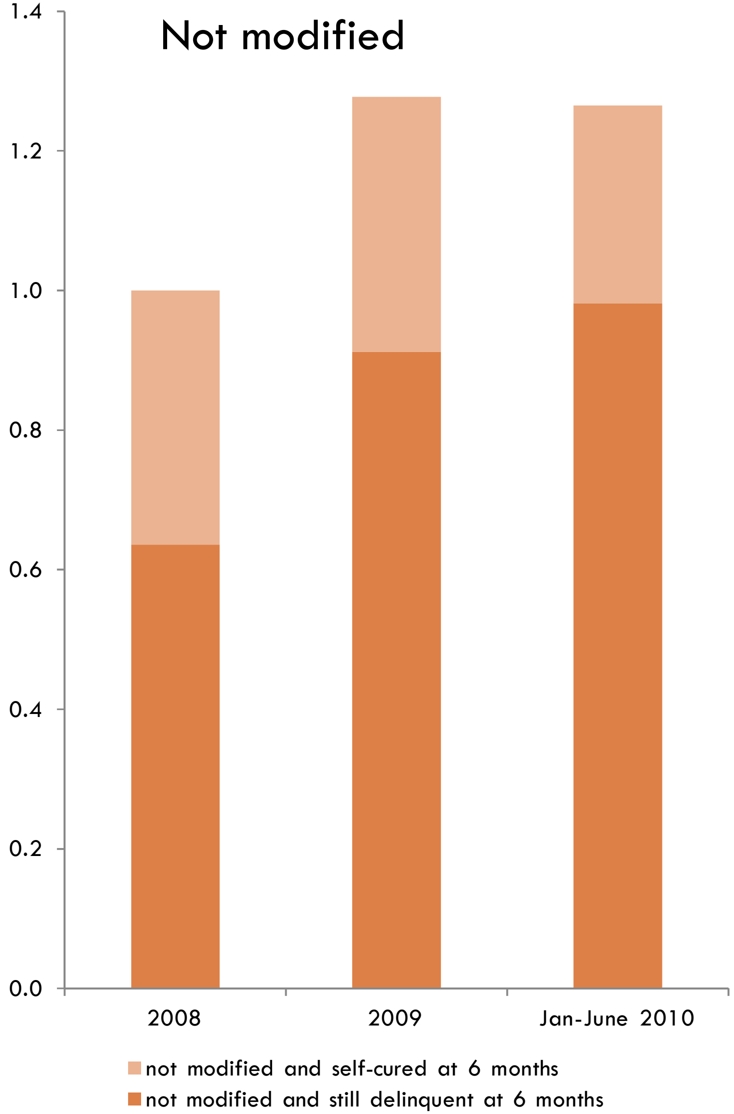
Source: Calculations based on loan modification flagging algorithm on LPS data.

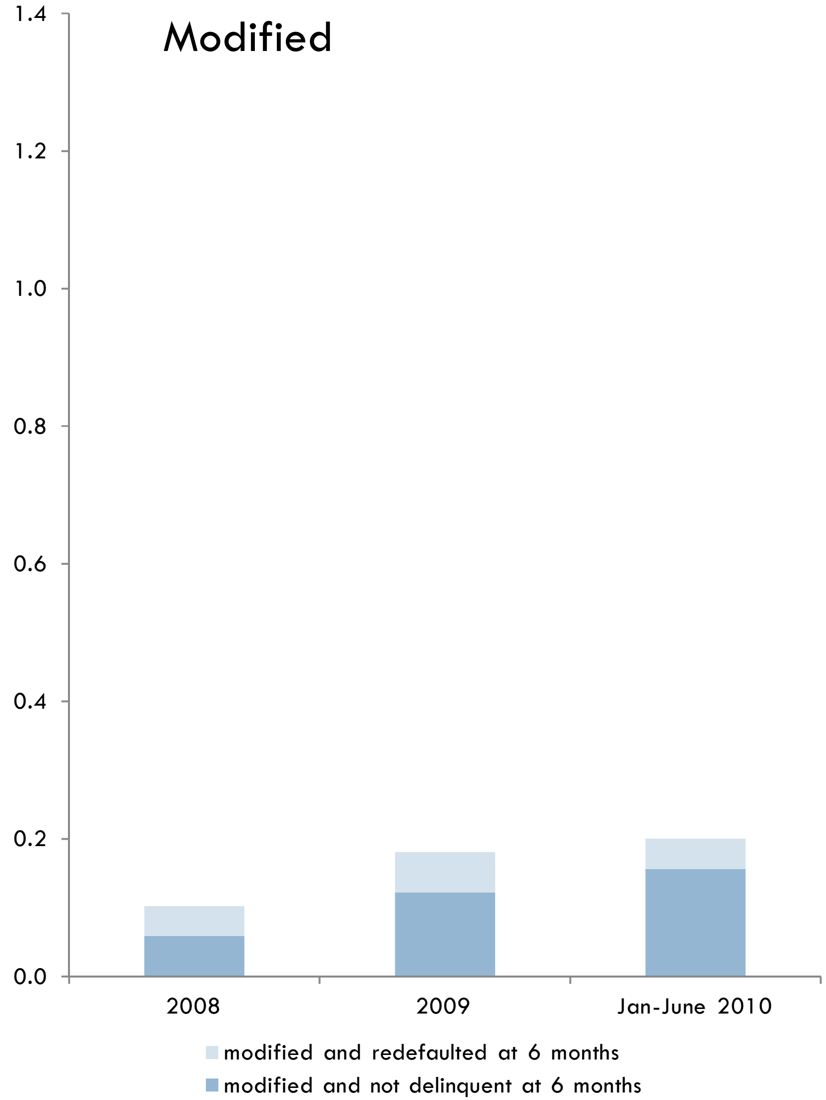
Ratio of modified loans to delinquent loans



Source: Calculations based on loan modification flagging algorithm on LPS data.

Status of delinquent loans at 6 months





Source: Calculations based on loan modification flagging algorithm on LPS data.

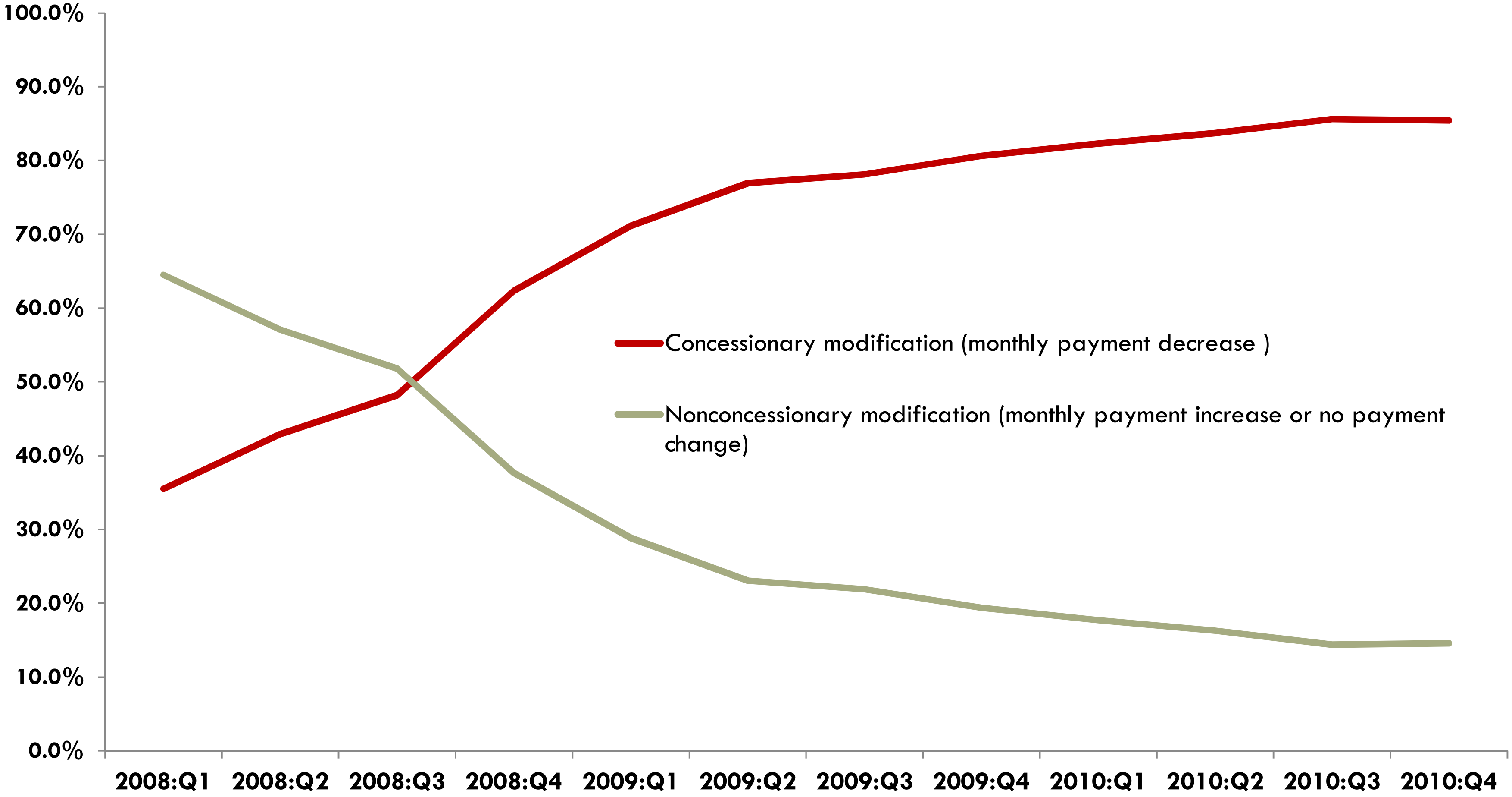
A Look into the Improved Performance of More Recently Modified Loans

- Less hardships affecting borrowers
  - Lower self-cure rates
  - Survey suggests not
- Riskier loans have left the pool

	2008	2009	Jan-June 2010
FICO origination	610	620	635
Loan-to-value ratio	85	85	85
Origination amount	$ 116,000	$130,00	$148,000

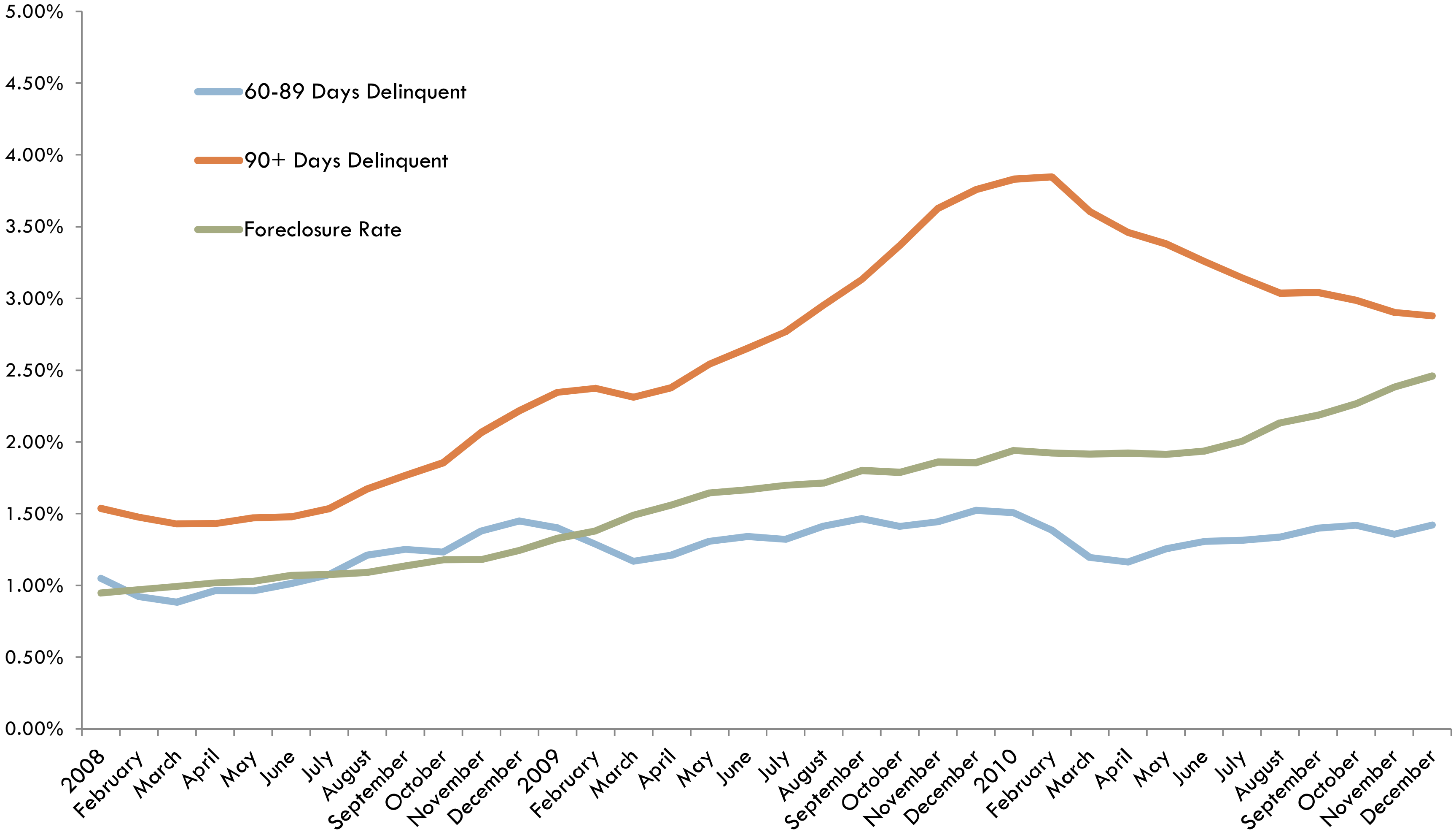
- Modified loans are more affordable (/month)

Loan modifications by change in monthly payment in Pennsylvania

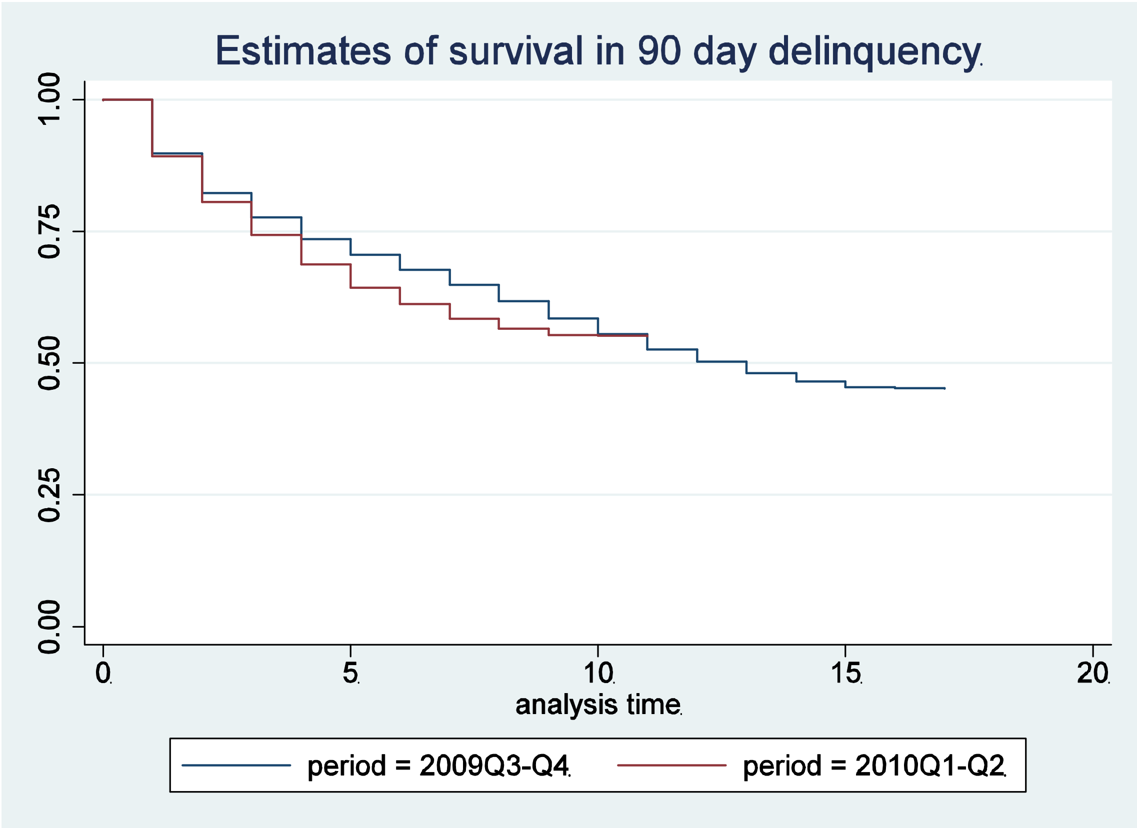


Source: Calculations based on loan modification flagging algorithm on LPS data.

Trends in delinquency and foreclosure in Pennsylvania

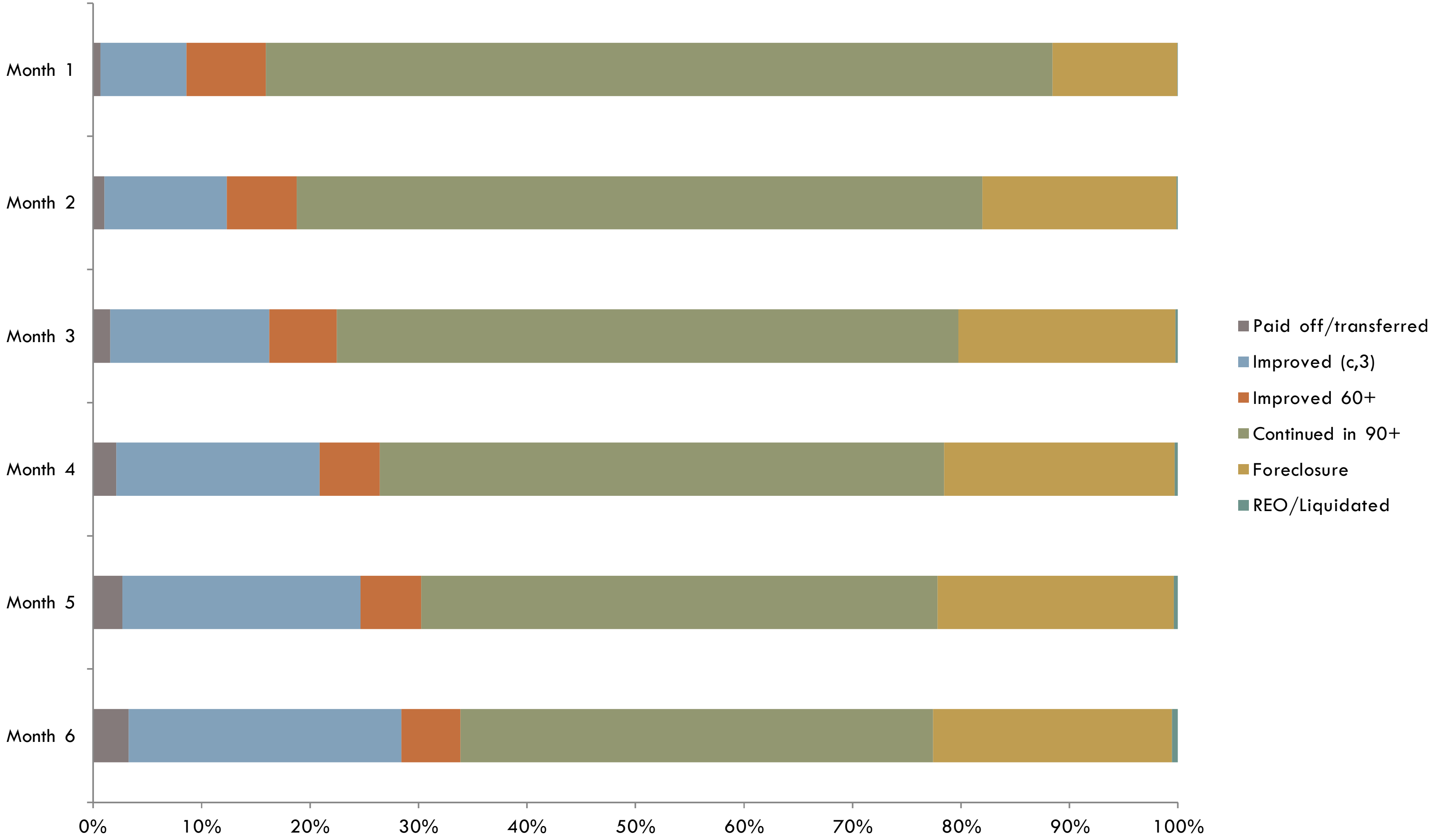


Survival analysis of loans entering 90 day delinquency



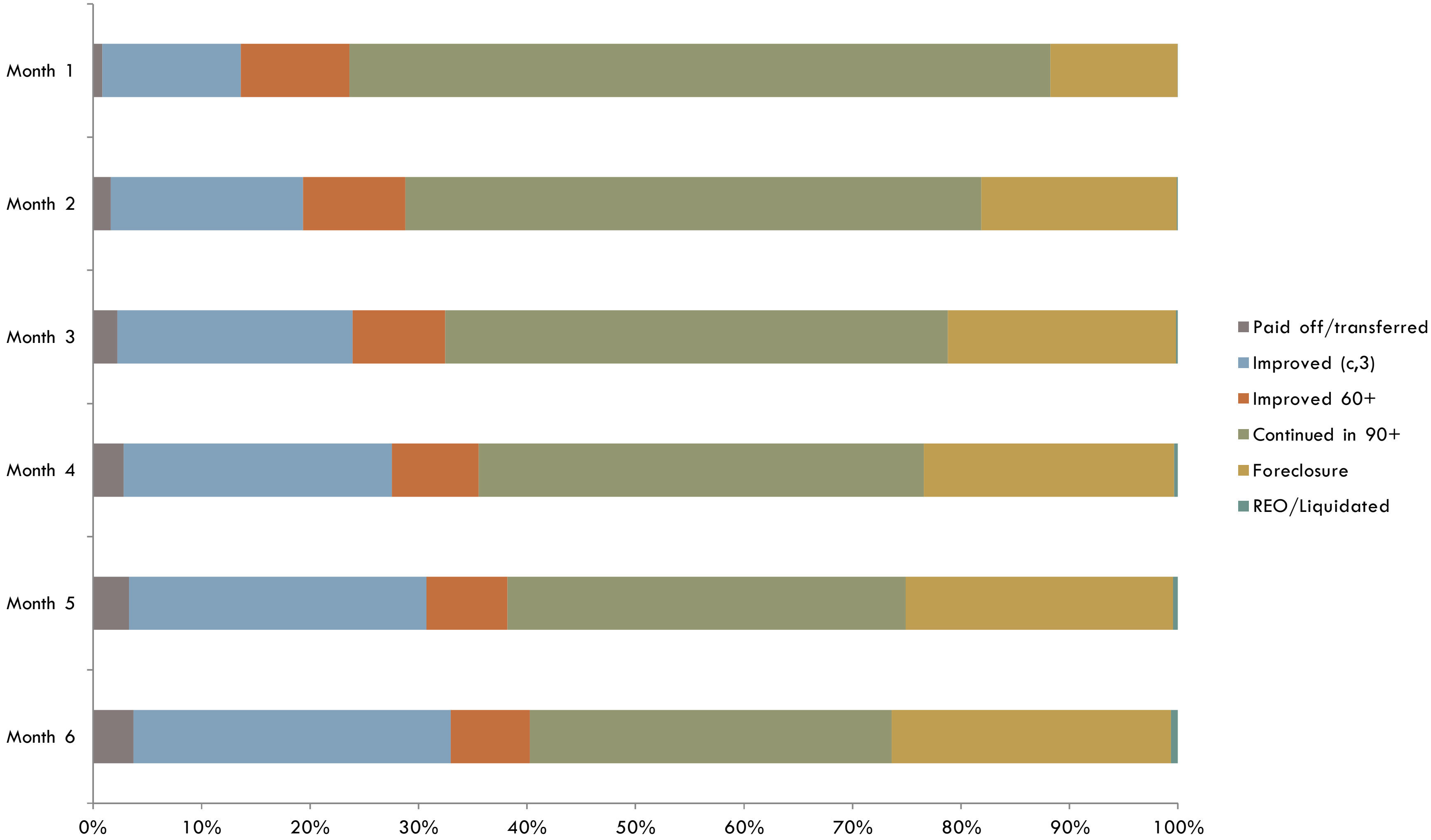
Source: Calculations based on loan modification flagging algorithm on LPS data.

Loans entering 90 day delinquency 2009Q3 & 2009Q4



Source: Calculations based on loan modification flagging algorithm on LPS data.

Loans entering 90 day delinquency 2010Q1 & 2010Q2



Source: Calculations based on loan modification flagging algorithm on LPS data.

Overview

- % of loan mods with reduced monthly payments more than doubled from 2008 to end 2010, reaching more than 80%. Affordability consideration was in large part responsible for improved performance of modified loans
- Loans entering delinquency (90+) are exiting not only through foreclosure but increasingly into an improved status
- For every modified loan in our data, there were about 7 to 8 seriously delinquent loans that were not modified

Questions or comments?

Lisa Nelson
lisa.a.nelson@clev.frb.org
www.clevelandfed.org