



Loan Modifications as a Response to the Foreclosure Crisis: An Examination of Subprime Loan Outcomes in Maryland

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The Future of Homeownership in Maryland: Avoiding the Next Crisis

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From Insight to Impact – Worldwide



Study Overview

- Goal of this study is to examine experience with loan modifications in Maryland compared to surrounding states
- One focus is to evaluate whether there is evidence of an impact from Maryland's servicer reporting requirements and voluntary servicer agreements from 2008 on the use of loan modifications
- Another focus is to simply document trends in modifications over time, how these modified loans have fared, and which borrowers are most likely to obtain a modification

Source of Data

- Trends in delinquencies, workouts, and foreclosures at National and State level rely on data from OCC/OTS and Hope Now
- Borrower level analysis for Maryland and surrounding states uses unique, publically available data on more than 3 million subprime loans – Columbia Collateral File – from the Corporate Trust Services (CTS) Group of Wells Fargo
 - Provides loan level information on loans in mortgage backed securities for which Wells Fargo serves as the Trustee –covers a broad swath of the subprime market with more than 100 lenders/servicers represented

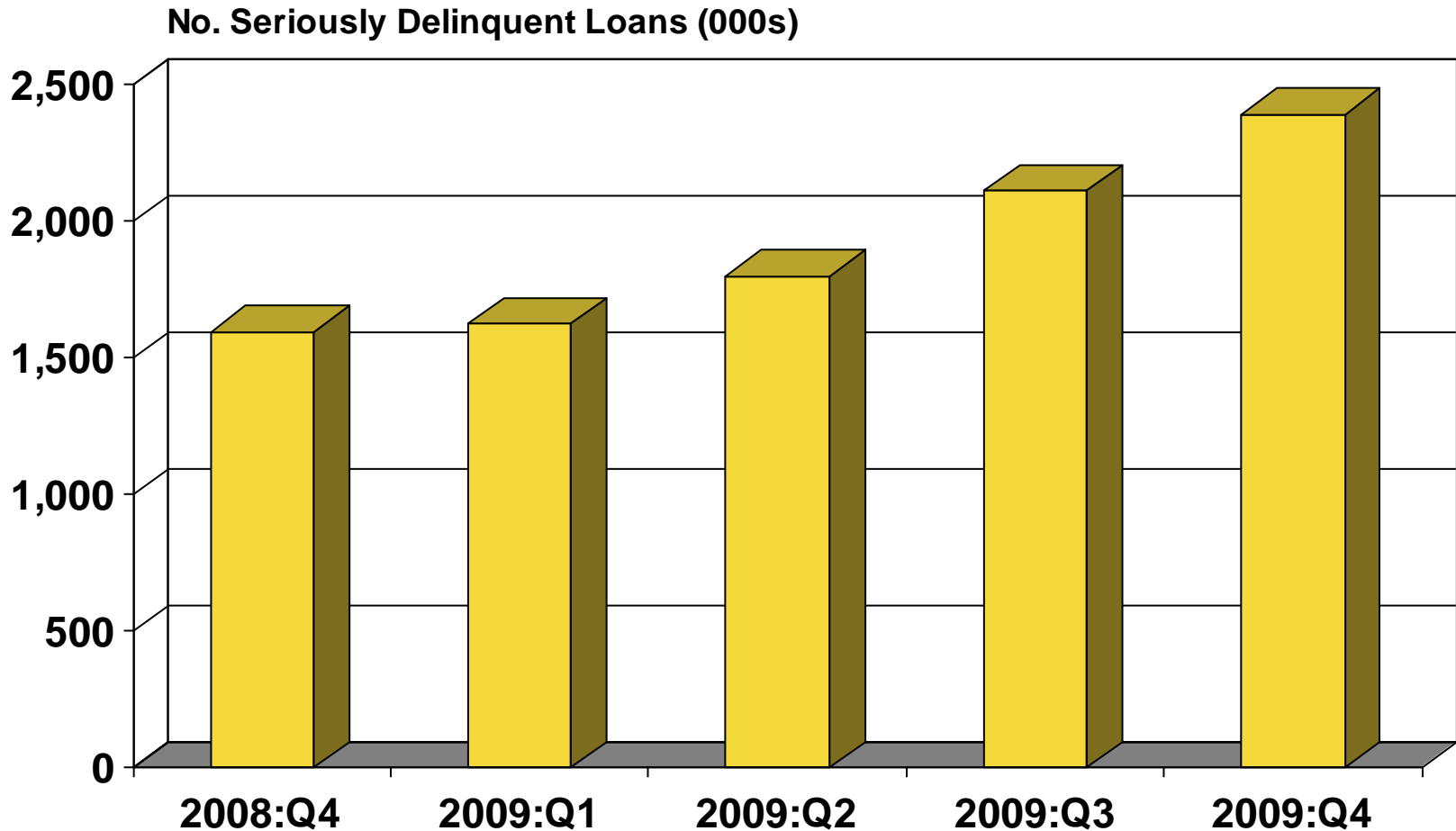
Study Context: Federal Efforts

- Initial federal response to foreclosure crisis was to support voluntary efforts by lenders to pursue workouts—led by Hope Now Alliance beginning in October 2007
- Federal government also attempted in 2007 and 2008 to use FHA insurance to support refinance of distressed loans—but these programs were largely unused
- In 2009 the Treasury Department launched the Making Home Affordable Program to create strong incentives/mandates for servicers to modify loans

Study Context: Maryland Efforts

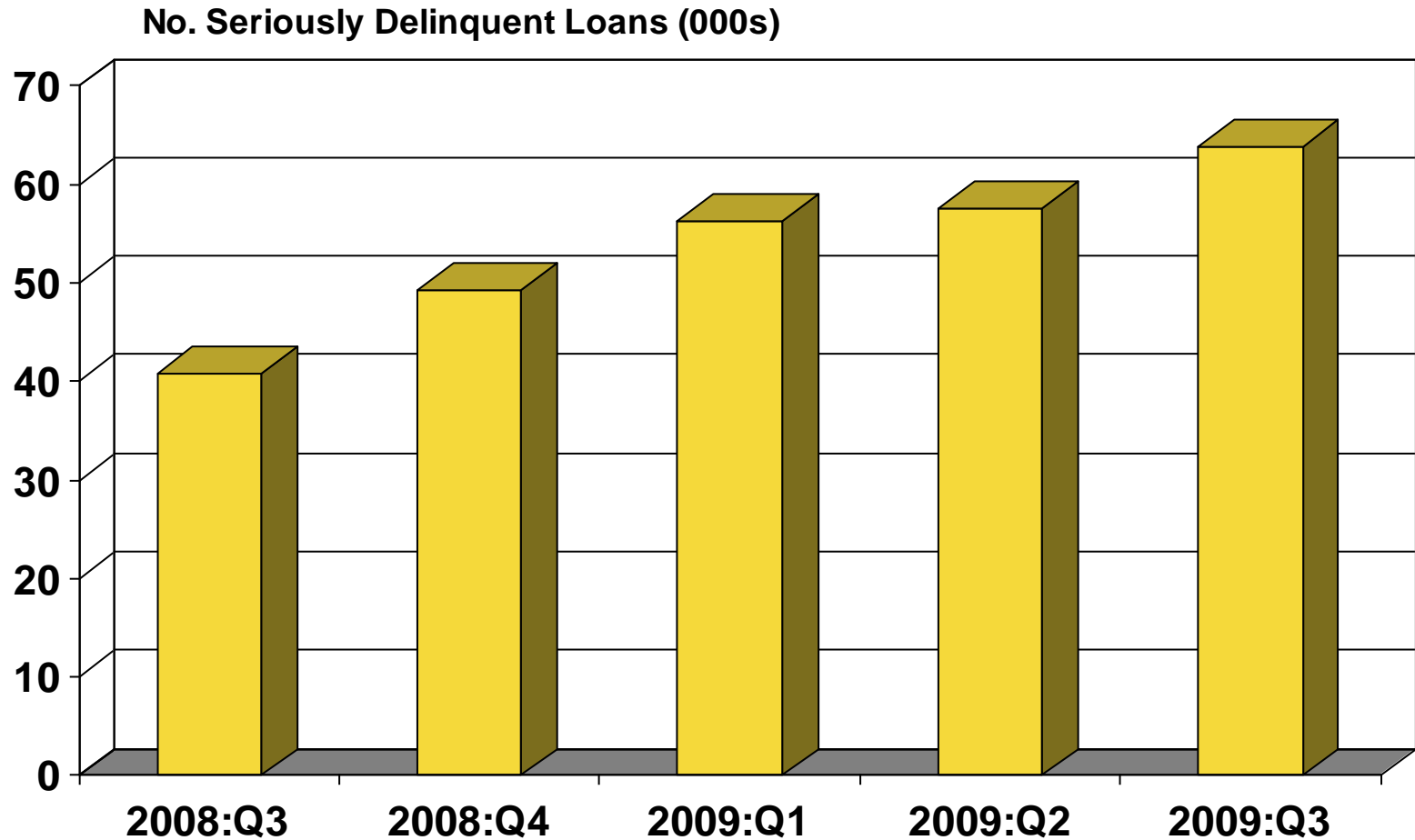
- The State of Maryland has also been aggressive in efforts to help owners avoid foreclosure over this period:
 - Conducting a multipronged borrower outreach effort and providing support for counseling and legal assistance
 - Enacting changes in April 2008 in the legal process governing foreclosures to give borrowers additional time to seek resolution
 - Instituting the Emergency Servicer Reporting Regulation in January 2008 to require state-regulated servicers to submit monthly reports on delinquencies and loss mitigation activities
 - Entering into voluntary agreements with six large servicers in November 2008 to create a more streamlined and transparent loss mitigation process

Nationally, the Number of Troubled Loans Increased by Roughly 50% Over Course of 2009



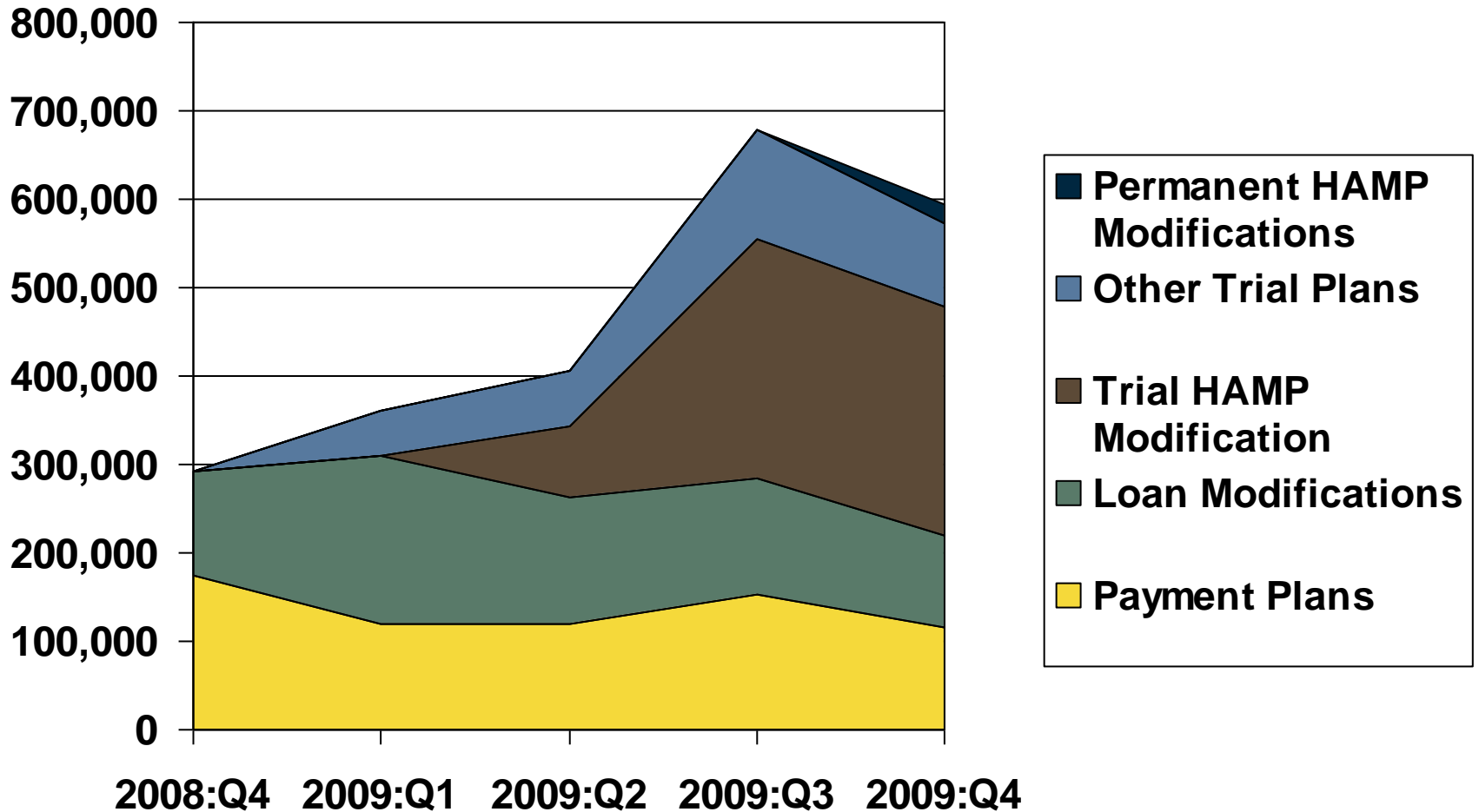
Source: OCC and OTS Mortgage Metrics Report, March 2010

Maryland Had a Similar Increase in Delinquent Loans Over this Period



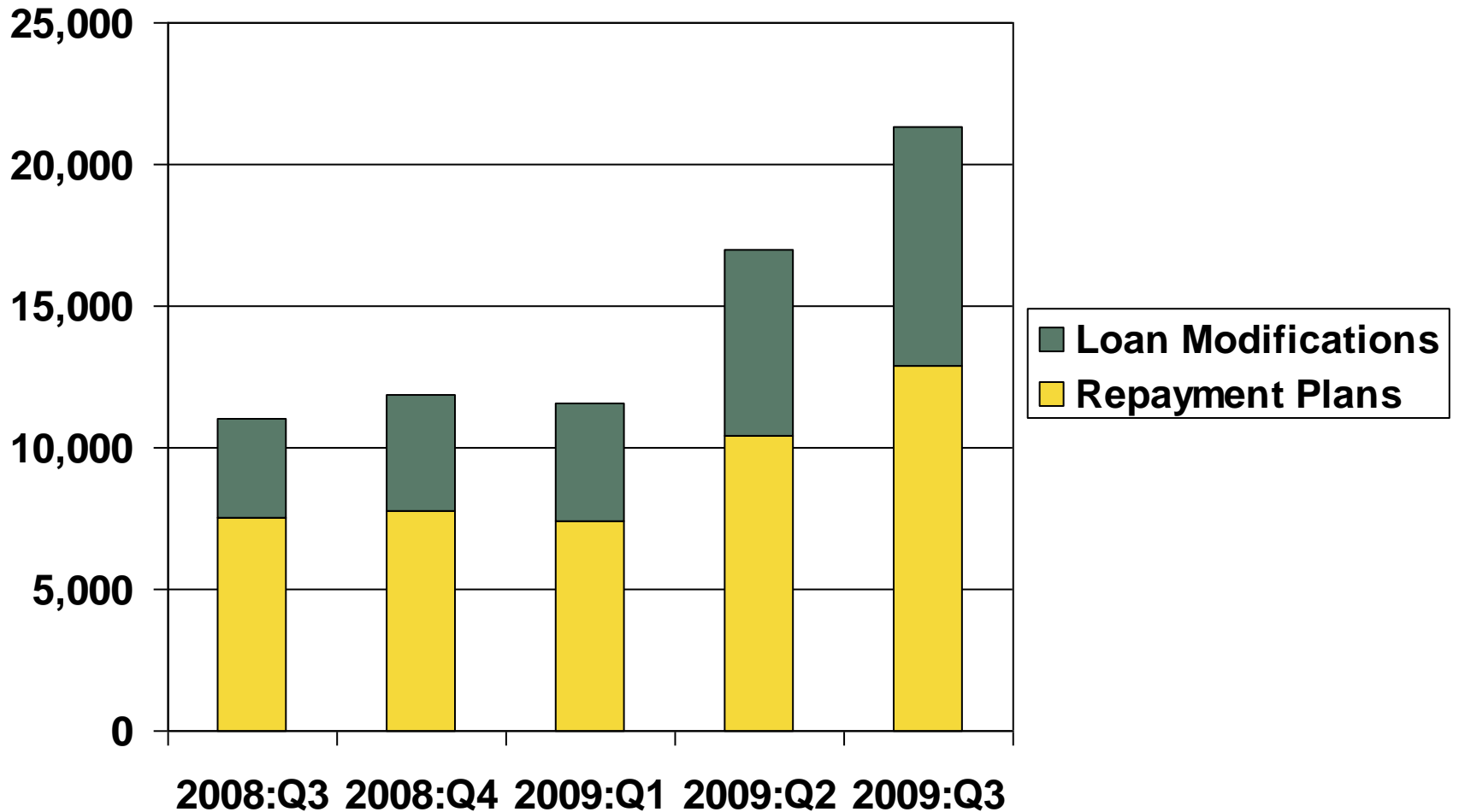
Source: Hope Now

Nationally, The Number of Workouts Did Increase Sharply With Enactment of HAMP



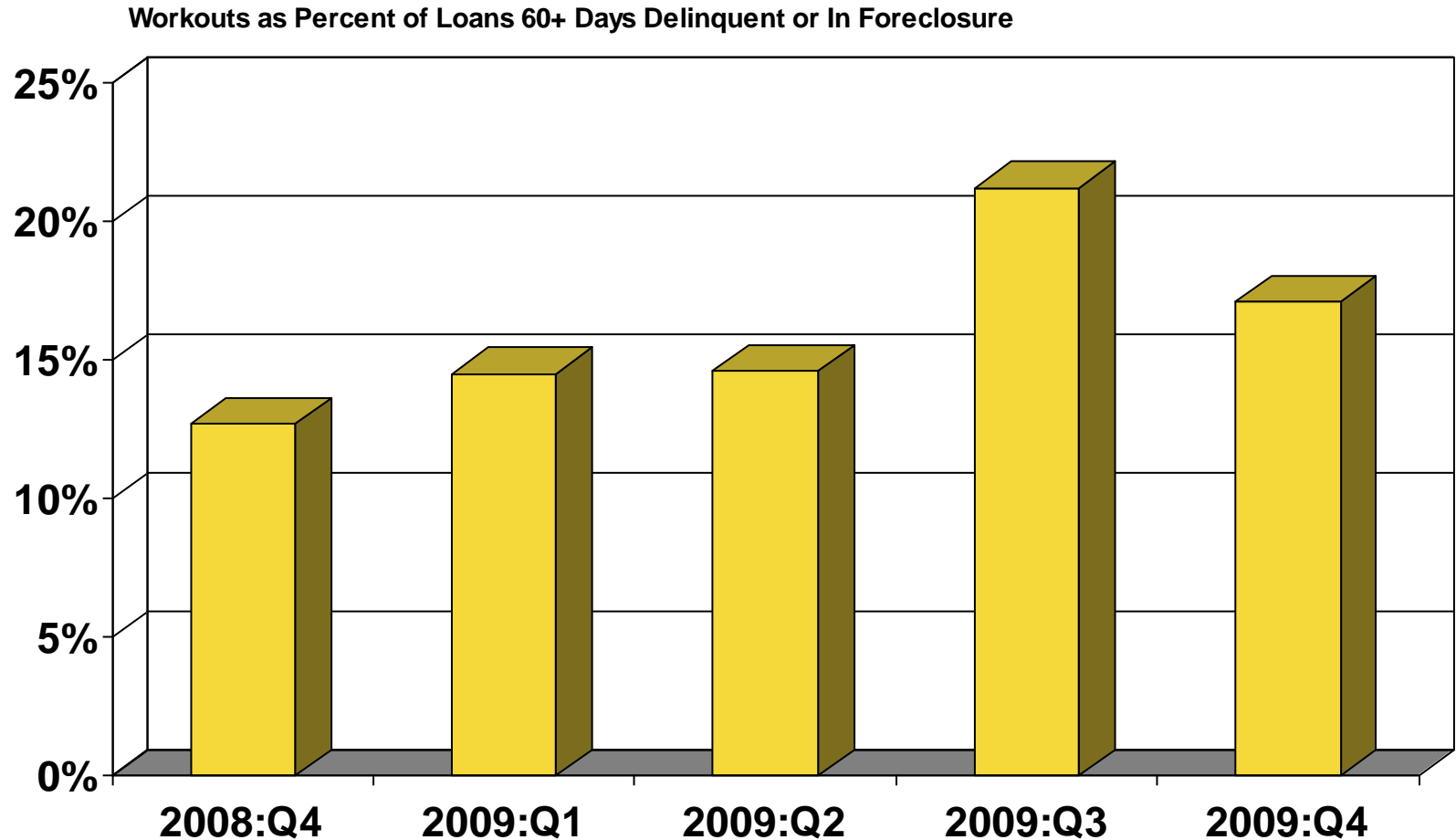
Source: OCC and OTS Mortgage Metrics Report, March 2010

Maryland Also Had a Sharp Increase in Workouts Beginning in 2009:Q2



Source: Hope Now

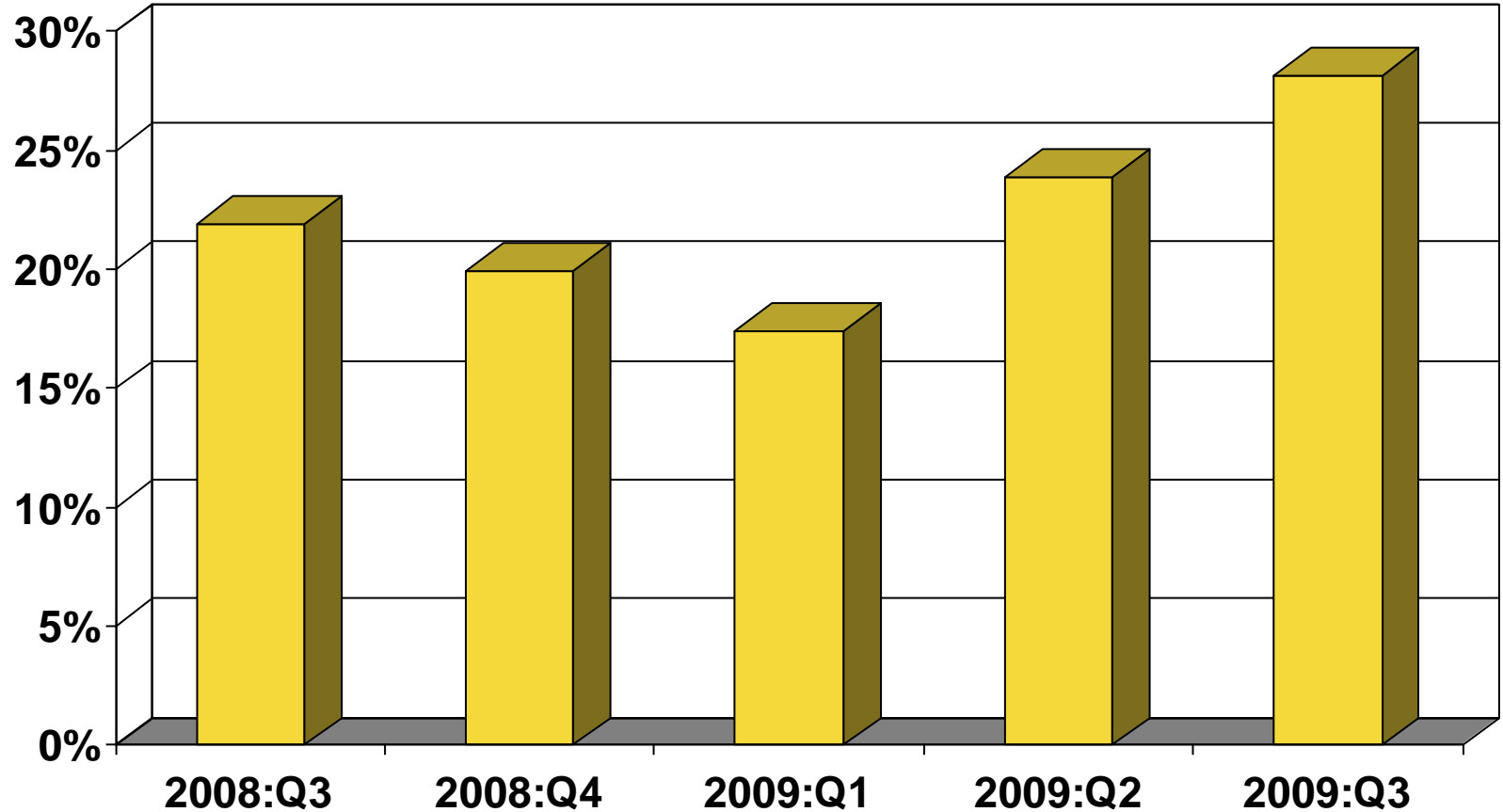
But There Has Not Been a Substantial Increase Nationally in Workouts as Share of Troubled Loans



Source: OCC and OTS Mortgage Metrics Report, March 2010

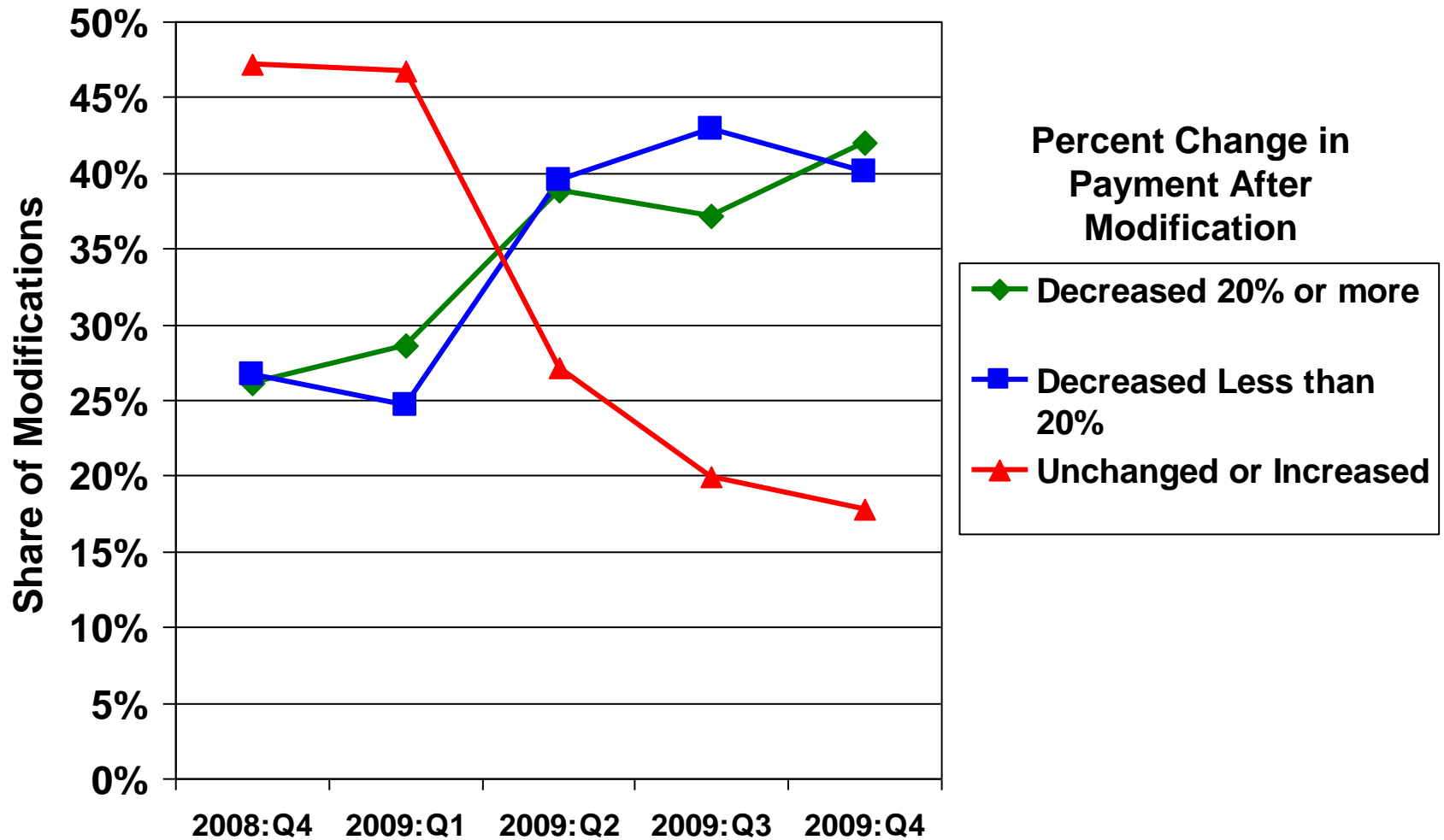
Maryland Has Had a Higher Workout Ratio for Troubled Loans

Workouts as Percent of Loans 60+ Days Delinquent or In Foreclosure



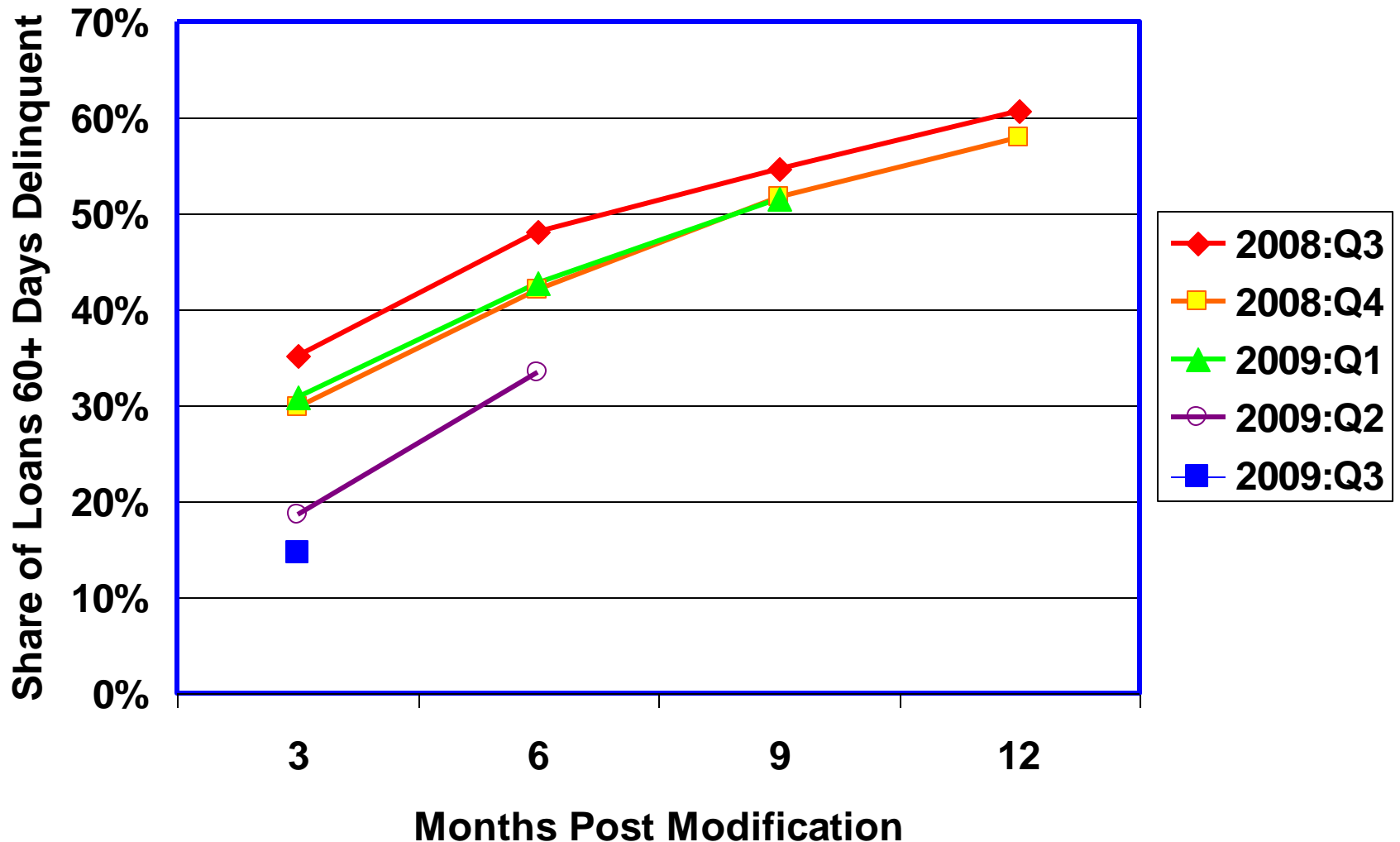
Source: Hope Now

Loan Modifications Increasingly Result in Lower Mortgage Payments



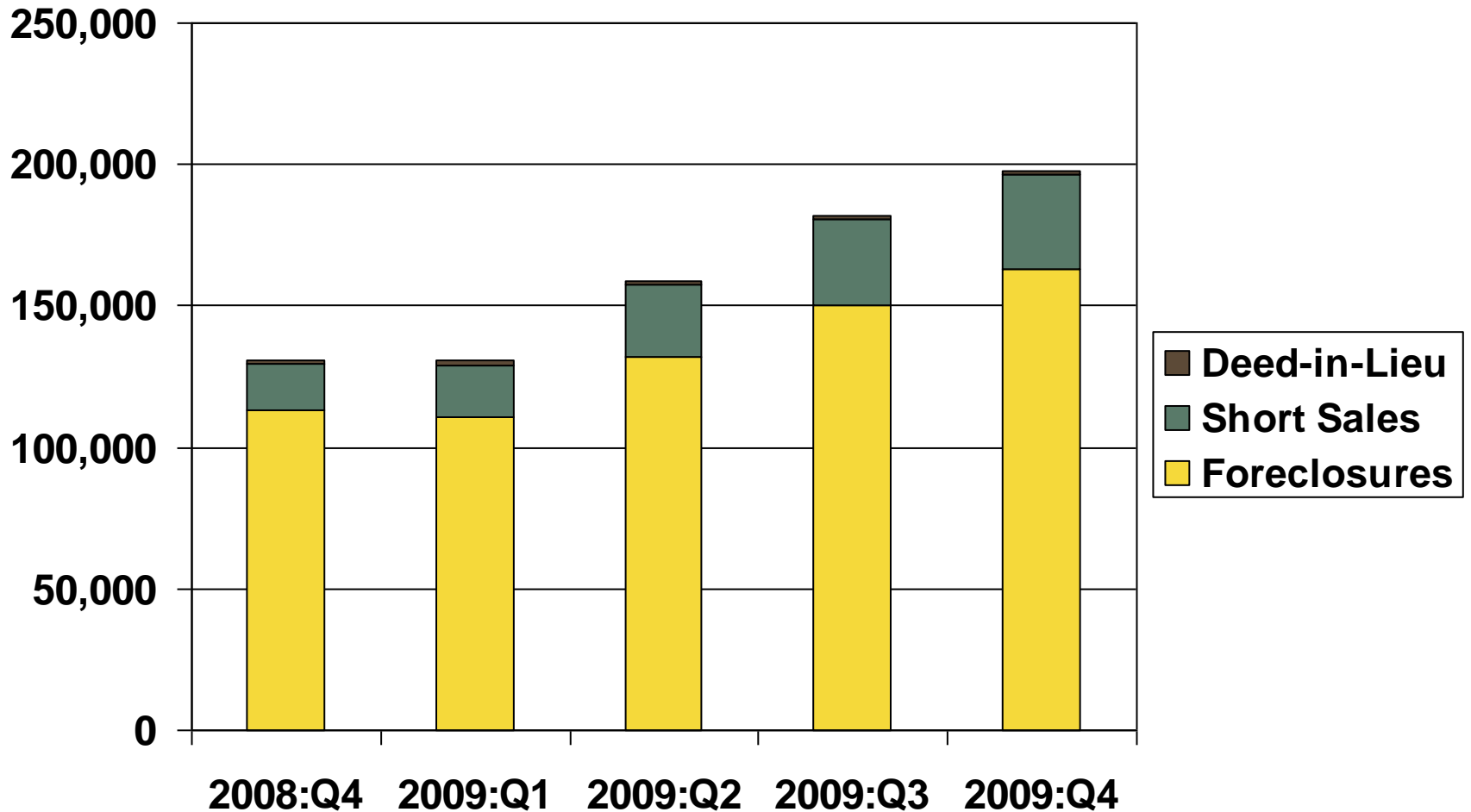
Source: OCC and OTS Mortgage Metrics Report, March 2010

Which Has Contributed to More Recently Modified Loans Performing Better Over Time



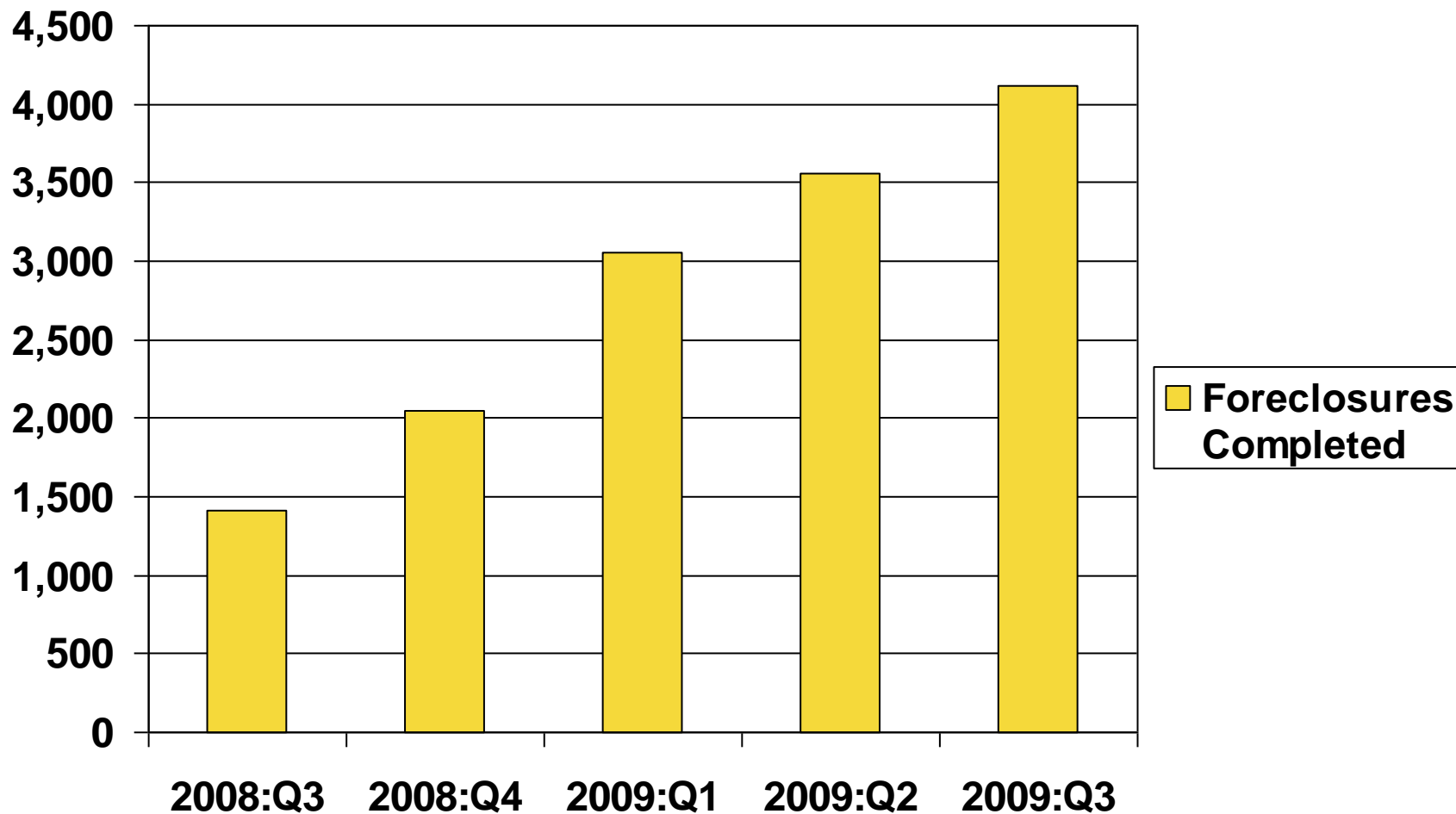
Source: OCC and OTS Mortgage Metrics Report, March 2010

Yet, the Number of Homes Forfeited Has Continued to Rise Nationally



Source: OCC and OTS Mortgage Metrics Report, March 2010

In Maryland, the Increase in Foreclosures Has Been Even Sharper



Source: Hope Now

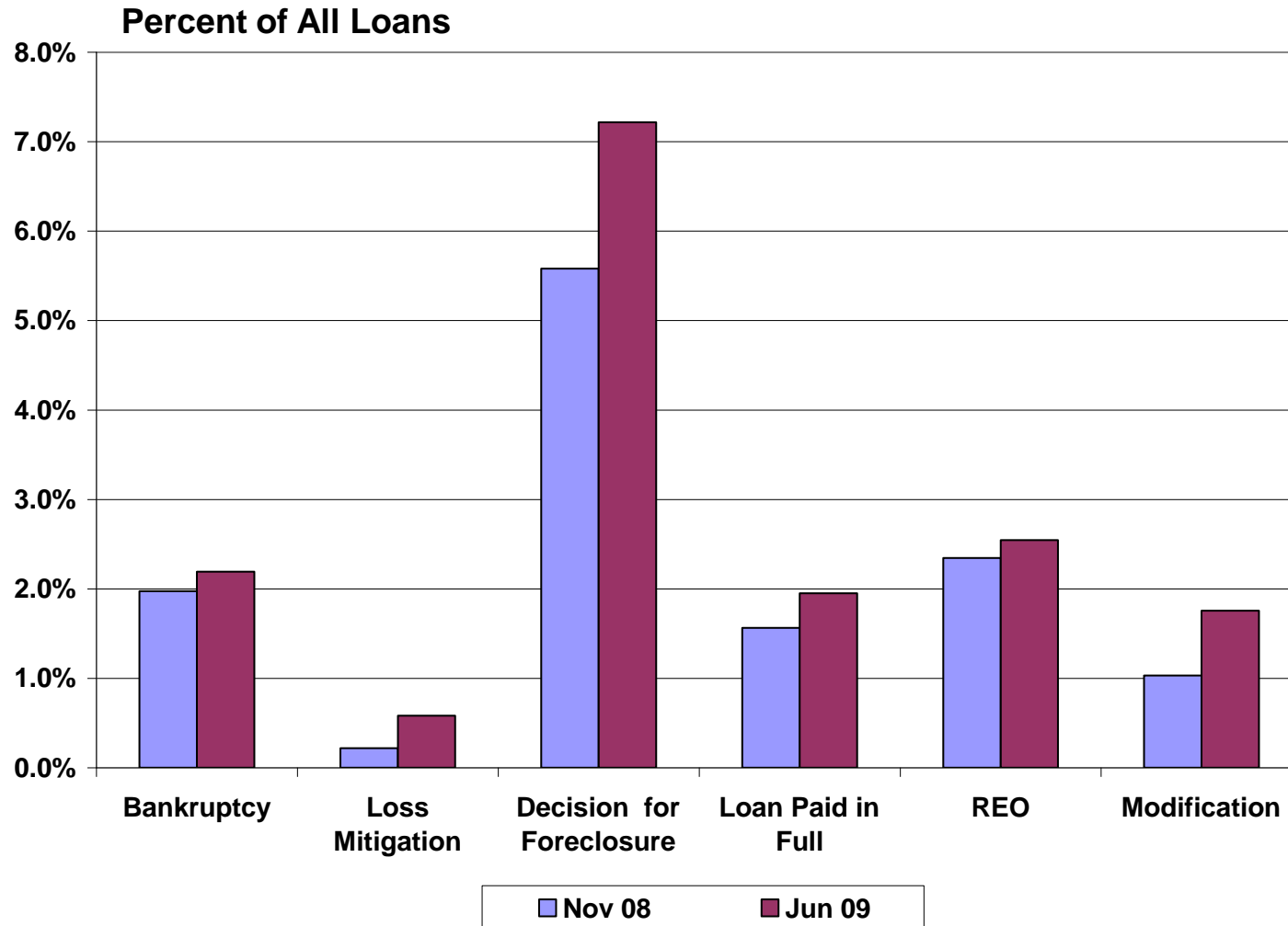
Loan Level Analysis

- Study examines data on 385,000 subprime loans from Maryland and surrounding states, including Virginia, Delaware, Washington DC, Pennsylvania, and New Jersey
- Data is from two discrete points in time:
 - November 2008
 - June 2009
- Time period designed to capture trend since Maryland signed servicer agreements and before Federal Home Affordable Modification Program (HAMP) was fully implemented
- Data provides an opportunity to analyze which loans are modified—and whether servicers participating in Maryland servicer efforts are more likely to modify loans or less likely to foreclose in this state

State Comparisons of Loan Characteristics

State	Interest Rate	Original Loan Balance	FICO Score	Loan to Value	% Second Lien	% ARM	% Modified as of June 09	# Total Loans
DC	6.5	\$ 414,786	701	76.7	3.9%	53.1%	0.9%	11,112
DE	7.1	\$ 230,868	666	81.9	8.6%	44.3%	1.8%	8,761
MD	6.9	\$ 310,877	678	82.5	8.4%	50.1%	1.9%	90,767
NJ	7.0	\$ 335,280	674	78.8	6.2%	51.5%	1.9%	88,796
PA	7.8	\$ 161,704	649	82.4	7.8%	40.2%	2.0%	82,092
VA	6.6	\$ 329,025	692	81.4	5.3%	52.8%	1.5%	103,902
Total	7.0	\$ 292,427	676	81.2	6.7%	49.2%	1.8%	385,430

Modifications was a Relatively Rare Event among these Loans



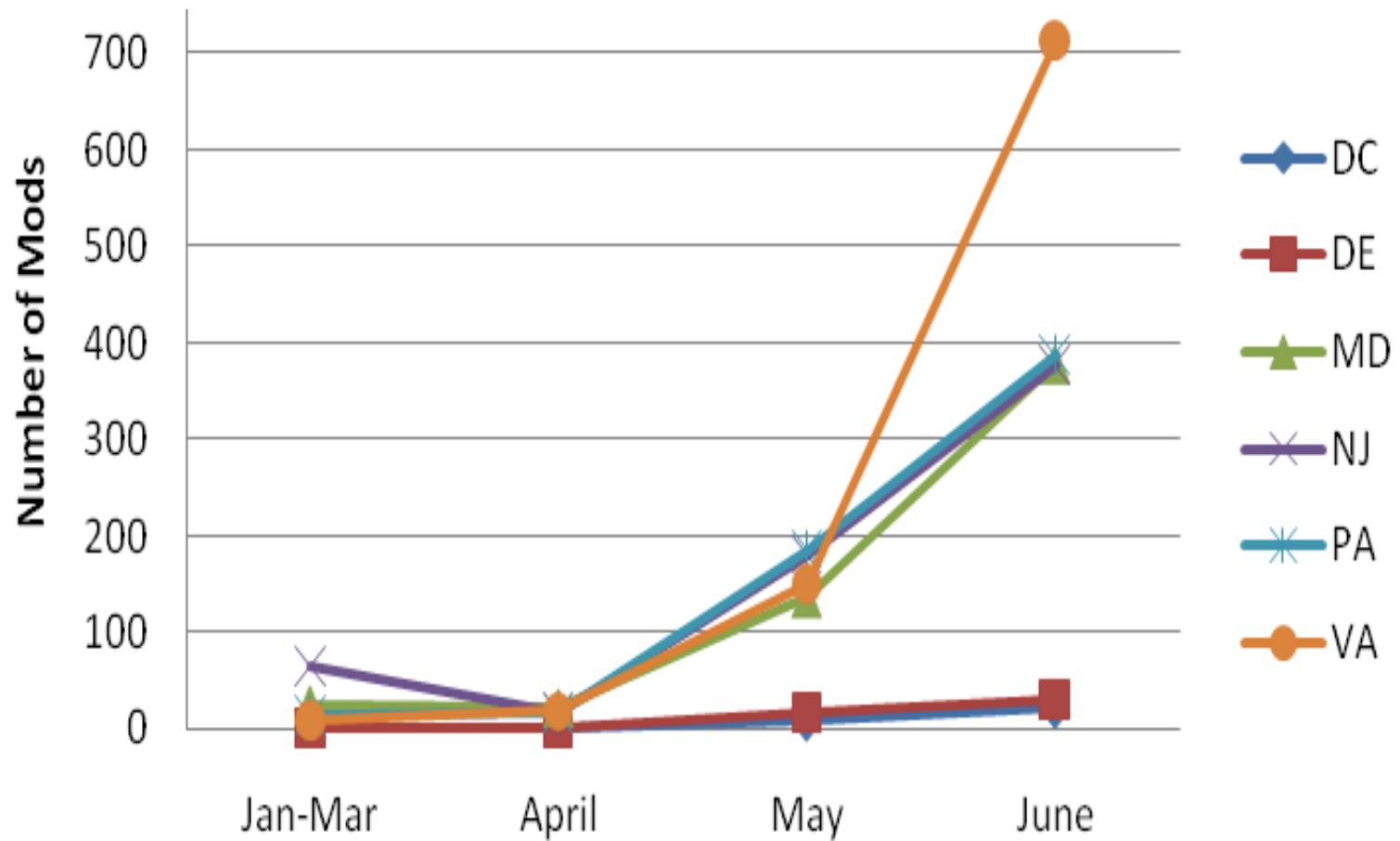
Modification Details by State



	Original Balance	Current Balance	Total Capitalized Amount	% w/ Cap Amt	% Payment Down	Mean Interest rate	
						Payment Down	Payment Up/ Unchanged
DC	\$ 308,878	\$ 314,028	\$ 15,362	32%	81%	5.1	5.6
DE	\$ 182,075	\$ 187,348	\$ 10,412	60%	72%	5.8	8.4
MD	\$ 269,541	\$ 276,423	\$ 13,237	49%	75%	5.0	7.8
NJ	\$ 280,722	\$ 291,205	\$ 20,657	54%	65%	5.6	8.5
PA	\$ 134,596	\$ 140,312	\$ 10,432	59%	65%	6.3	9.0
VA	\$ 245,923	\$ 249,713	\$ 9,368	47%	84%	4.6	7.9
All	\$ 232,837	\$ 239,713	\$ 13,138	52%	73%	5.2	8.3
<i>2,780 loan mods in first half of 2009</i>							

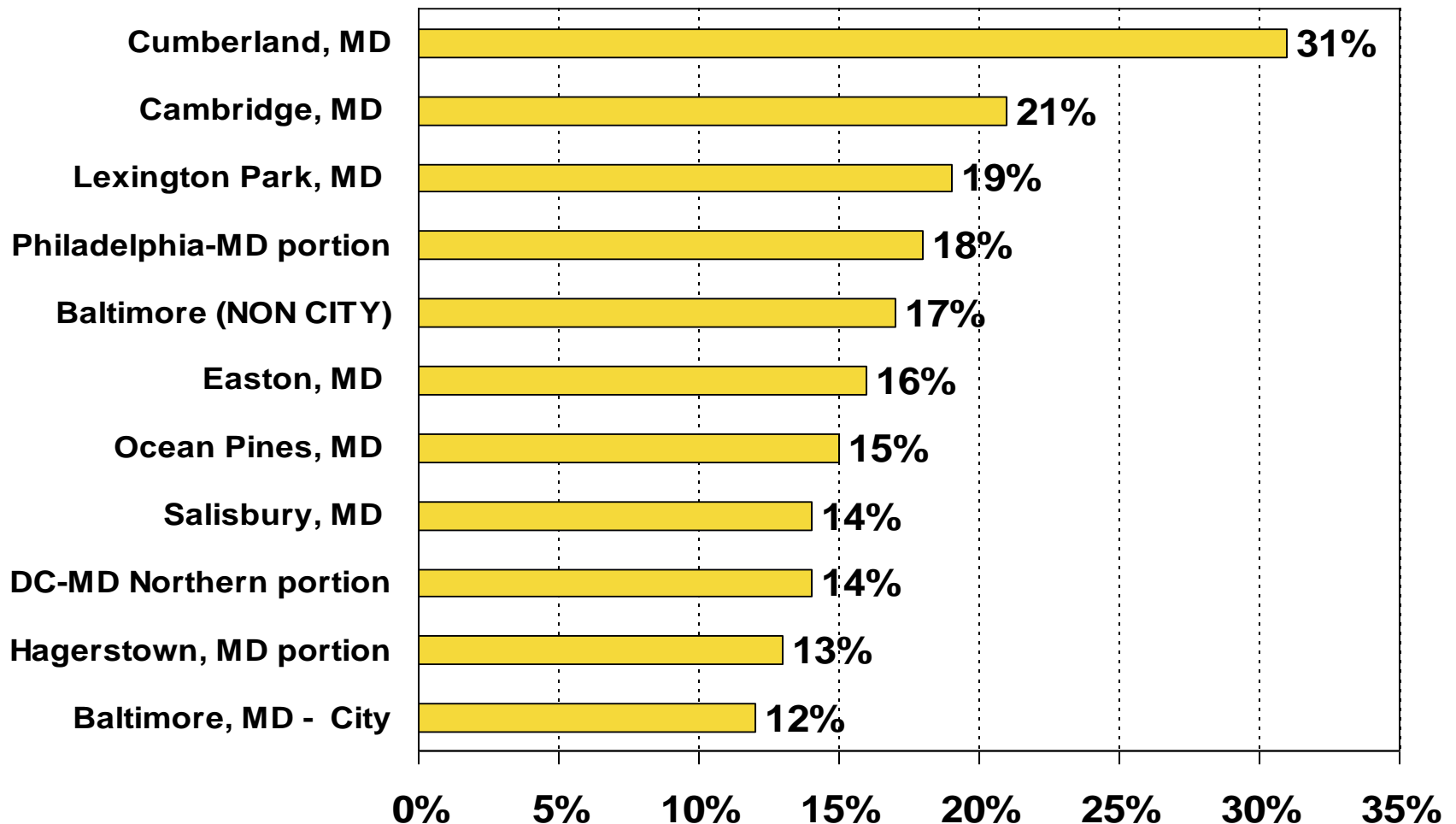


Trends in Modified Loans by State



Variance in Incidence of Loan Modifications Across Markets in Maryland

Modifications as Share of Loans 90+ Days Delinquent



Significant Variation in Incidence of Loan Modifications Across Twenty Largest Servicers in the Database

Servicer	60 Day Del +	Mod June 09	Ratio of Modifications as a % of Delinquencies
s-1	14,745	864	6%
s-2	9,020	265	3%
s-3	7,730	1,157	15%
s-4	7,109	398	6%
s-5	6,388	1,152	18%
s-6	5,752	1,260	22%
s-7	4,600	374	8%
s-8	3,154	382	12%
s-9	2,710	94	3%
s-10	2174	95	4%

Servicer	60 Day Del +	Mod June 09	Ratio of Modifications as a % of Delinquencies
s-11	1,911	19	1%
s-12	1,569	18	1%
s-13	1,464	368	25%
s-14	1,133	51	5%
s-15	1,094	71	6%
s-16	1,003	296	30%
s-17	806	96	12%
s-18	786	8	1%
s-19	587	2	0%
s-20	575	3	1%

Regression Analysis of Incidence of Foreclosure or Modification

- Predict the probability of foreclosure or loan modification in June 2009 as function of:
 - Delinquency Status in November 2008
 - Year of Origination
 - Loan Characteristics (ARM, LTV, FICO, Loan Balance, 2nd Lien)
 - Market conditions (MSA FHFA price index change 2008-2009, zip code employment change 2006-2007, and zip code neighborhood characteristics in 2000)
 - State
- Key policy measures are whether servicer is subject to Maryland servicer reporting requirements or entered in voluntary servicer agreement – compare these servicers behavior in Maryland compared to other states

Regression Results

- Overall, predictions of loan modifications was much less accurate than predictions of foreclosures
- Factors predicting foreclosures and loan modifications were quite similar – with exception of ARMs which were more likely to experience a foreclosure but less likely to be modified
- Both modifications and foreclosures were more common for borrowers with low FICO scores, lower loan balances, and second liens
- Neighborhood racial composition was not associated with differences in foreclosure or modification rates

Effect of Maryland Servicer Efforts

- Results do find that Maryland's servicer reporting requirements and the voluntary servicer agreements were associated with a reduction in the likelihood of foreclosure
 - Reporting requirements associated with a 1.4 percentage point lower foreclosure risk
 - Servicer agreements associated with a 3.6 percentage point lower foreclosure risk
- However, also find that these efforts are associated with a slightly lower likelihood of modification
 - May indicate that servicers were providing more time for workouts to occur