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

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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)

Top 10 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.
Source: Calculations based on loan modification flagging algorithm on LPS data.

Modifications by investor type in Pennsylvania

Share of delinquencies by investor type

Pct modifications with payment decrease

Median % monthly payment decrease
Ratio of delinquent loans to active loans

Pennsylvania

Source: Calculations based on loan modification flagging algorithm on LPS data.
Ratio of modified loans to delinquent loans

Pennsylvania

Source: Calculations based on loan modification flagging algorithm on LPS data.
Status of delinquent loans at 6 months

Not modified

Modified

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

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Jan-June 2010</th>
</tr>
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<tbody>
<tr>
<td>FICO origination</td>
<td>610</td>
<td>620</td>
<td>635</td>
</tr>
<tr>
<td>Loan-to-value ratio</td>
<td>85</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Origination amount</td>
<td>$116,000</td>
<td>$130,000</td>
<td>$148,000</td>
</tr>
</tbody>
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- Modified loans are more affordable (/month)
Loan modifications by change in monthly payment in Pennsylvania

![Graph showing loan modifications]

Concessionary modification (monthly payment decrease)
Nonconcessionary modification (monthly payment increase or no payment change)

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.
% 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?

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