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Half of U.S. Home Loan Modifications Default Again (Update1)

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By John Gittelsohn



March 25 (Bloomberg) -- More than half of U.S. borrowers who received loan modifications on **delinquent** mortgages defaulted again after nine months, according to a federal report.

The re-default rate of loans modified in the first quarter of 2009 was 51.5 percent by the end of the year, the Office of the Comptroller of the Currency and the Office of Thrift Supervision said in a joint **report** today. The figure, which measures payments at least 30 days late, climbed to 57.9 percent for changes made in the prior 12 months.

U.S. homeowners are struggling to make payments as depressed housing prices leave them owing more than their properties are worth.

About 24 percent of properties with a mortgage were underwater in the fourth quarter, First American CoreLogic said last month. The **median price** of a U.S. home was \$165,100 in February, down 28 percent from its peak in July 2006, according to the National Association of Realtors.

Modifications are "clearly not working well and it's not a surprise," said **Sam Khater**, a senior economist at First American CoreLogic in Tysons Corner, Virginia. "It's pointless to rewrite these loans because they're underwater."

The number of homes with mortgage payments at least 60 days late climbed 2.39 million in the fourth quarter, up 13.1 percent from the prior three months and 49.6 percent from the year earlier period, the quarterly Mortgage Metrics report said.

Obama Program

President **Barack Obama**'s administration is pressuring lenders to alter loans to reduce the number of properties lost to foreclosure. About 4.5 million foreclosures filings are expected in 2010, according to RealtyTrac Inc., an Irvine, California-based seller of default data.

A government watchdog report released today criticized the government's main foreclosure prevention effort, the Home Affordable Modification Program, or HAMP, for "spreading out the foreclosure crisis" over several years by failing to help enough troubled borrowers.

"The program will not be a long-term success if large amounts of borrowers simply re-default and end up facing foreclosure anyway," said the report by the Special Inspector General for the Troubled Asset Relief Program, prepared for a Congressional hearing today.

Assistant Treasury Secretary **Herb Allison** defended the program at the Congressional hearing, saying it has shown signs of stabilizing the housing market.

Before HAMP

The Mortgage Metrics data are based mostly on modifications made before HAMP, **Joe Evers**, deputy for large bank supervision at the Comptroller of the Currency, said in a phone interview today. Permanent loan changes under the government program accounted for only 21,000 of the total 594,000 modification plans initiated during the fourth quarter of 2009, making it too soon to evaluate the effectiveness of that plan, Evers said.

There were 168,708 delinquent loans permanently modified under HAMP as of the end of February, according to a Treasury Department report March 12.

Borrowers were more likely to default when their monthly payments aren't reduced enough in modifications to make staying in a home affordable, Evers said.

"Our data show that when you reduce payments by 20 percent or more you have a tendency for lower re-default rates," he said from Washington.

Bank Modifications

The Mortgage Metrics report tracks 34 million mortgages with an outstanding balance of \$6 trillion and is based on data from nine national banks and three thrifts. The data represent more than 64 percent of all first-lien mortgages.

Modified loans in the portfolio of banks -- as opposed to loans owned by investors or government-sponsored enterprises such as **Fannie Mae** and Freddie Mac -- had the best record of avoiding re-default, the Mortgage Metrics report said.

The banks are free to design modification plans for individual borrowers, Bruce Krueger, a mortgage banking expert with the Office of the Comptroller, said in a phone interview. The HAMP program requires lenders to follow a path of concessions to modify loans, beginning with interest rate reductions, extended loan terms and principal forbearance.

"It's a very rigid process," Krueger said of the HAMP program. "If the loan is on the bank's books itself, the servicer can do whatever the bank might allow."

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