Oral Statement of

Joseph H. Evers

Deputy Comptroller for Large Bank Supervision

Office of the Comptroller of the Currency

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Chairman Kaufman and members of the Congressional Oversight Panel, my name is Joe Evers and I am a deputy comptroller and national bank examiner in the Large Bank Supervision division at the Office of the Comptroller of the Currency. In this role, I oversee the collection, analysis, and reporting of data we collect from national banks relating to the performance of first lien residential mortgages. I appreciate the opportunity to share insights that this data provides us on mortgage modification activities.

Consistent with the panel's letter of invitation, my written testimony includes data and charts from the most recent mortgage metrics report that demonstrate the trends we are seeing pertaining to loan modifications and delinquencies on loan modifications for mortgages serviced by the largest national banks and federally regulated thrifts.

Beginning in 2008, the OCC began collecting mortgage loan level data from the largest banks it supervises, and publishing this information in quarterly Mortgage Metrics Reports. The most recent report, published last month, reflects data at the end of June 2010 and represents almost 34 million first lien mortgage loans – or 65 percent of all first lien mortgages outstanding in the country -- totaling nearly $6 trillion in outstanding balances.

Early in the mortgage crisis, servicers generally relied on traditional methods to assist borrowers who were facing financial hardship – typically various informal payment plans that allowed a borrower to defer his or her mortgage payment for a period of time. These types of plans, which were successful in normal economic times, gave delinquent borrowers experiencing temporary financial problems a chance to catch-up on making their loan payments. However, as the mortgage crisis deepened and the number of delinquent borrowers increased to unprecedented levels, it became clear that more formal and permanent modifications would be needed. The OCC's mortgage metrics data provided factual evidence that loan modifications completed in 2008 were experiencing high re-default rates. As a result of those high re-default rates, the OCC directed the largest national banks to implement programs designed to achieve more sustainable modifications.

Today, servicers are using a combination of actions to achieve more affordable and sustainable modifications. When taking these actions, mortgage servicers must take into account both the needs of borrowers and the rights and interests of investors. To balance these objectives, servicers are making modifications that emphasize payment affordability and sustainability through lower monthly payments that are based on verification of income and an affordable housing debt to income ratio. Generally, payment affordability and sustainability is achieved through some combination of rate reduction and loan term extension.

Our mortgage metrics reports provide data on how the modification affects the borrowers' monthly payment, and how the modification performs over time. This data allows us to evaluate the effects that certain modification actions may have on long-term sustainability.

Over the past several quarters, we have seen the servicers offering more sustainable modifications. Modifications that lowered monthly principal and interest payments now represent over 90 percent of all modifications provided. Modifications made during the second quarter of 2010 reduced monthly payments by an average of $427. This resulted in a 62 percent reduction in the average monthly payment from a year ago. Further, 56 percent of the modifications made during the second quarter reduced the borrower's monthly payment by 20 percent or more, representing an average savings to the consumer of $698 a month.

Our data also illustrate the rate at which previously-modified loans become delinquent, or re-default. This is a useful metric to gauge the payment sustainability of loan modifications, identify unsafe and unsound loan mitigation practice such as loss deferral, and determine loan loss reserves. Our data show that while modifications experience significant re-defaults, more recent modifications have performed better than earlier ones. As well, modifications that result in lower monthly payments consistently perform better over time than those that increase payments or leave payments unchanged, and the better performance directly correlates to the amount of the payment reduction.

In conclusion, following our directive to the large national bank servicers to make more sustainable modifications, our data show that servicers have adjusted their programs to provide meaningful reductions in borrower's monthly mortgage payments. These actions are resulting in more sustainable modifications and fewer re-defaults. Thank you for the opportunity to appear today, I will be happy to answer questions.