

Statement of
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Chairman Frank, Ranking Member Bachus, and members of the Committee, on behalf of the Comptroller of the Currency, I appreciate the opportunity to discuss the state of national bank residential mortgage modification efforts.

I am the Senior Deputy Comptroller for Large Bank Supervision at the OCC. Many of the large banks supervised by the OCC are major mortgage servicers, so we have direct supervisory experience with the actions they have taken and the issues that present challenges to sustainable mortgage modifications.

In 2008, as part of our oversight, we initiated the Mortgage Metrics project to gain comprehensive, reliable, and comparable data on the performance of mortgages serviced by major national banks. Our Mortgage Metrics Report, which is based on validated data from 34 million loans, assesses the performance of mortgages and various foreclosure mitigation strategies, including detailed information regarding loan modification efforts. It is a valuable tool that helps us focus our supervisory actions based on validated data.

For example, in March 2009 in response to high re-default rates on modifications, we directed the largest national bank servicers to review their modifications and policies for future modifications to improve their sustainability. Subsequent to that direction, we have seen both

the volume and quality of loan modifications and payment plans improve. During the second quarter, home retention actions—payment plans and loan modifications—increased by more than 20 percent. We are still finalizing our next report, but we expect an even greater increase of nearly 70 percent in the third quarter. Actions taken under the Administration’s “Home Affordable Modification Program” represent a portion of homeowner assistance provided today. National banks also help homeowners through programs that do not require taxpayer-supported incentives. Between January 1, 2008, and June 30, 2009, national banks and thrifts implemented more than 1.8 million home retention actions. Of these, less than 115,000 were made under HAMP. HAMP numbers increased in the summer and fall of 2009, but still represent only a portion of national banks’ homeowner assistance efforts.

In addition to the increasing volume, the character of home retention actions is changing. More than 78 percent of modifications made in the second quarter of 2009 reduced borrowers’ monthly principal and interest payments. As a result, delinquency rates subsequent to modification are improving in more recent vintages. Improving sustainability of modifications and returning borrowers to a positive cash flow reduce eventual foreclosures, provide homeowners an opportunity to keep their homes, and minimize losses to banks and investors.

The OCC fully supports servicer participation in HAMP and the Administration’s Second Lien Modification program. But regardless of the types of programs implemented, national banks have an obligation to ensure that their regulatory reports and financial statements accurately and fairly represent their financial condition. On Monday, we issued guidance to our examiners stating that we expect banks to follow generally accepted accounting principles and maintain adequate allowance for loan and lease losses regardless of whether a loan is modified. Adherence to sound underwriting practices, including adequate documentation of borrowers’ qualifications for, and ability to repay, a modified mortgage is also essential.

While home retention actions are improving, we hear too many consumer complaints of lost paperwork, bad guidance, long waits, and difficulty in simply contacting servicers. The volume of complaints is unacceptable. We have directed national banks to improve operational efficiency to keep up with volume, improve their internal processes, and answer their customers' concerns accurately and promptly. As part of our ongoing supervision, our examiners assess banks' complaint resolution processes and require corrective action for identified deficiencies.

At the same time servicers need to improve operations, other factors contribute to the low number of HAMP trial plans being converted to permanent modifications. Servicers report consumers often fail to provide necessary and verifiable documentation of ability and willingness to repay their debt. In some cases, loans are already considered affordable under HAMP's 31 percent debt-to-income guideline, and in other cases borrowers cannot demonstrate a valid financial hardship. Increasingly, the financial condition of many borrowers has deteriorated so far that it is not possible to modify a loan and meet HAMP's net present value requirement.

While HAMP and other programs show progress, we must be realistic about the continuing effects of high unemployment and depreciated home values. These macro-economic factors weigh on the performance of the residential mortgage portfolio, and they drive delinquencies and foreclosures. In these difficult economic conditions, effective loan modifications will be an important tool to help responsible homeowners avoid preventable foreclosures, but they will not help everyone. As a result, we will see further deterioration in loan performance in the months ahead.

My written testimony provides additional detail on these issues. Again, I appreciate the opportunity to discuss these issues and look forward to your questions.