Delinquencies Double on Least-Risky Loans, U.S. Says

By Margaret Chadbourn

June 30 (Bloomberg) -- Delinquency rates on the least-risky mortgages more than doubled in the first quarter from a year earlier as U.S. efforts to help homeowners failed to keep pace with job losses that pushed more borrowers toward foreclosure.

Prime mortgages 60 days or more past due climbed to 2.9 percent of such loans through March 31 from 1.1 percent at the same point in 2008, the Office of the Comptroller of the Currency and the Office of Thrift Supervision said today in a report. First-time foreclosure filings on the loans rose 22 percent from the fourth quarter, the report said.

"I'm very concerned about the rise in delinquent mortgages and foreclosure actions," Comptroller of the Currency John Dugan said in a statement with the report. President Barack Obama's plan to create "sustainable, payment-reducing modifications is a positive step that should show significant benefits in the coming months," Dugan said.

Obama's program, unveiled Feb. 18, aims to help as many as 4 million homeowners by modifying loans and calls for Fannie Mae and Freddie Mac to refinance mortgages for as many as 5 million borrowers who owe more than their houses are worth. Foreclosure filings surpassed 300,000 for a third straight month in May, according to RealtyTrac Inc., and the U.S. economy has shed about 6 million jobs since the recession began in 2007.

"Job losses have mounted and even those with good credit that were able to get a prime mortgage are having a harder time making monthly payments with a loss of income," said Celia Chen, an economist at Moody's Economy.com in West Chester, Pennsylvania.

Serious Delinquencies

Serious delinquencies on prime loans, which account for two-thirds of all U.S. mortgages, rose to 661,914 in the first quarter from 250,986 a year earlier, according to the report. Overall, mortgages 60 days or more past due rose 88 percent from last year, the report said.

Mortgages modified to help struggling borrowers stay in their homes fail within nine months more than half the time, the report said. About 53 percent of mortgages modified in the first quarter of 2008 were 30 or more days delinquent after six months; 63 percent were in default after a year.

As lines of credit deteriorate, home prices are moderating. The S&P/Case-Shiller home-price index for 20 major U.S. metropolitan areas fell 18 percent in April from a year earlier, the smallest decline in six months.

"When home prices are down, many homeowners have negative equity, not just subprime borrowers have trouble but prime borrowers do as well, and foreclosures are more likely," Chen said.

Missed Payments Added

About two-thirds of mortgage modifications by servicers used two or more techniques to make loan payments more sustainable, the agencies said in the report. About 70 percent of the workouts added missed payments and penalties to the outstanding balance. About 63 percent involved interest-rate reductions and about 25 percent extended the life of the loan.

Only 13 percent of modifications froze interest rates, and about 2 percent included a principal writedown.

"Serious delinquencies are a leading indicator of increased foreclosure actions in the future," the report said.

Fannie Mae and Freddie Mac, the government-controlled mortgage-finance companies, lagged behind private industry in the quarter, the report shows, as the U.S. spent February and March retooling underutilized anti-foreclosure programs.

About 14 percent of loans modified were initiated by Washington-based Fannie Mae and McLean, Virginia-based Freddie Mac, the data shows. Private investors accounted for 55 percent, while loans held by national banks made up 31 percent, according to the data, which includes residential mortgages serviced by national banks and federally regulated thrifts.

The data shows 5.9 percent of the 21.8 million Fannie Mae and Freddie Mac loans serviced by national banks or thrifts were at least days 30 days late, in foreclosure or subject to bankruptcy, compared with 3.2 percent a year earlier.

The report covers the performance of 34 million loans totaling $6 trillion, the agencies said.

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