Fall 2008 Residential Mortgage Survey Results

On January 2, 2009 the Department of Financial Institutions (DFI) sent a residential mortgage survey to all bank and credit union licensees detailing information on conventional and non-traditional mortgage products as of September 30, 2008. The DFI contacted 415 licensees and achieved a 92% response rate. The survey requested information on conventional mortgages and non-traditional mortgages, with the latter based on a definition provided by the FDIC Interagency Guidance issued in October 2006(Attachment A).

The purpose of the special survey was to improve the DFI's understanding of licensee involvement and level of risk in conventional and non-traditional mortgage lending and to assess the potential affects of any proposed regulatory or statutory changes at the federal and/or state level on DFI licensees.

It is estimated that the total outstanding balance of residential mortgages in California is approximately $2 trillion on approximately six million loans held or serviced*. Results of the residential mortgage survey show DFI chartered banks' and credit unions' total conventional and non-traditional mortgage portfolio balances held or serviced to be approximately $37.6 billion on approximately 160,000 loans, which account for approximately 2.7% of all residential mortgage loan balances and approximately 1.9% of the total number of residential mortgage loans held or serviced in California.

Overall state-chartered banks and credit unions reported approximately $24.7 billion in outstanding conventional first mortgages and approximately $7 billion in outstanding non-traditional mortgages. In addition, licensees reported servicing approximately 31,000 residential mortgage loans with an overall balance of approximately $5.8 billion.

					Delinquency							
					31 - 89 Days				90 + Days			
Loan Type	**$ Balance (In Thousands)**	**% of Total**	**# of Loans**	**% of Total**	**$ Balance (In Thousands)**	**% of Total**	**# of Loans**	**% of Total**	**$ Balance (In Thousands)**	**% of Total**	**# of Loans**	**% of Total**
Interest-Only	$3,749,324	11.8%	7,574	5.9%	$44,675	16.5%	102	10.6%	$45,250	20.9%	111	15.5%
Payment Option ARM	$131,797	0.4%	344	0.3%	$238	0.1%	1	0.1%	$1,185	0.5%	4	0.6%
Reduced Documentation	$1,645,114	5.2%	6,205	4.8%	$25,787	9.5%	71	7.3%	$24,516	11.3%	70	9.8%
Simultaneous Second-lien	$440,035	1.4%	2,985	2.3%	$5,880	2.2%	48	5.0%	$3,072	1.4%	26	3.6%
Other	$1,090,581	3.4%	9,322	7.2%	$4,458	1.6%	31	3.2%	$2,598	1.2%	14	2.0%
Non-Traditional Total	*$7,056,852*	22.2%	*26,430*	20.5%	*$81,038*	*29.9%*	*253*	*26.2%*	*$76,621*	*35.4%*	*225*	*31.5%*
Conventional Mortgage	$24,731,296	77.8%	102,522	79.5%	$189,971	70.1%	713	73.8%	$139,696	64.6%	489	68.5%
Total	**$31,788,148**	100.0%	**128,952**	100.0%	**$271,009**	100.0%	**966**	100.0%	**$216,317**	100.0%	**714**	100.0%

California State-Chartered Bank & Credit Union Residential Mortgage Losses and Modifications

Loan Type	Foreclosures and Short-Sales		Modifications	
	Number of Loans	% of Total	Number of Loans	% of Total
Interest-Only	18	8.0%	221	28.4%
Payment Option ARM	1	0.4%	0	0.0%
Reduced Documentation	8	3.6%	14	1.8%
Simultaneous Second-lien	9	4.0%	16	2.1%
Other	12	5.4%	17	2.2%
Non-Traditional Total	*48*	*21.4%*	*268*	*34.5%*
Conventional Mortgage	176	78.6%	509	65.5%
Total	**224**	100.0%	**777**	100.0%

Predictably, non-traditional mortgages represent the greatest concentration of delinquencies and modifications when compared to conventional first mortgages. Delinquencies (31 – 89 days combined with 90 + days) account for 2.2% of the non-traditional mortgage balances, with the greatest concentration occurring on Interest-Only mortgages. Delinquencies on conventional mortgages account for 1.2% of the conventional mortgages. The foreclosure rate during the first three quarters of 2008 was approximately 0.2% for both conventional and non-traditional mortgages held. The modification rate overall during the first three quarters of 2008 was 0.6% of all conventional and non-traditional mortgages held. The number of conventional mortgages modified is 509, which accounts for 0.5% of all held conventional mortgages. The number of non-traditional mortgages modified is 268, which accounts for 1% of all held non-traditional mortgages.

The DFI also compiled survey data on the number of licensees holding or servicing fewer than 500 mortgages as of the third quarter of 2008. The table below illustrates the findings.

Licensees Holding or Servicing Fewer than 500 Mortgages

Licensee Type	Number of Licensees	% of Licensee Type
All	324	84.6%
Banks	191	91.4%
Credit Unions	133	76.4%
Loan Category	**Number of Loans**	**Balance (In Thousands)**
Outstanding	16,288	$5,074,191
Foreclosure/Short-sale	36	$10,977
Modification	91	$684,464

While non-traditional mortgage products represent only a nominal amount of our licensees' loan portfolio, the DFI continues to monitor banks and credit unions for concentrations in non-traditional mortgage loans.

* *This estimation was provided by the California Department of Corporations and is based on data from 2001 – 2007.*

Attachment A – Residential Mortgage Report Loan Category Definitions

Conventional Mortgage Loan	A conventional mortgage loan is a fully amortizing loan with a fixed or adjustable interest rate and equal monthly payments that are established when the mortgage is created and is secured by a first lien.
Interest-only Mortgage Loans	A nontraditional mortgage on which, for a specified number of years (e.g., three or five years) the borrower is required to pay only the interest due on the loan during which time the rate may fluctuate or may be fixed. After the interest-only period, the rate may be fixed or fluctuate based on the prescribed index and payments include both principal and interest.
Payment Option ARM	A nontraditional mortgage that allows the borrower to choose from a number of different payment options. For example, each month, the borrower may choose a minimum payment option based on a “start” or introductory interest rate, an interest-only payment option based on the fully indexed interest rate, or a fully amortizing principal and interest payment option based on a 15-year or 30-year loan term, plus any required escrow payments. The minimum payment option can be less than the interest accruing on the loan, resulting in negative amortization. The interest-only option avoids negative amortization but does not provide for principal amortization. After a specified number of years, or if the loan reaches a certain negative amortization cap, the required monthly payment amount is recast to require payments that will fully amortize the outstanding balance over the remaining loan term.
Reduced Documentation	A loan feature that is commonly referred to as “low doc/no doc,” “no income/no asset,” “stated income” or “stated assets.” For mortgage loans with this feature, an institution sets reduced or minimal documentation standards to substantiate the borrower’s income and assets.
Simultaneous Second-lien Loan	A lending arrangement where either a closed-end second-lien or a home equity line of credit (HELOC) is originated simultaneously with the first lien mortgage loan, typically in lieu of a higher down payment.
Other	Non-traditional mortgage that does not conform to the definitions in categories (a) through (d). Please provide a brief description in the space provided.
** Include only those foreclosures that were subsequently sold and a gain/loss was recorded.	
*** Would include refinancing into a more affordable mortgage, loan modifications that change one or more of the loan terms, such as interest rate reduction, reduction of the outstanding principal balance, extension of the loan term or adding delinquent interest to the unpaid principal balance.	