DEPARTMENT OF CORPORATIONS

California's Investment and Financing Authority

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As part of an effort to monitor reactions to the serious decline in the California housing market, the Department of Corporations began, in 2007, to collect and publish mortgage data from a voluntary survey of major mortgage lenders and servicers doing business in California.

Survey results have been posted on a monthly basis for all of 2007, continuing into 2008. The survey was refined beginning in January of 2008 to reveal more detailed information about loan workouts at the servicers. The new detail, for example, breaks down loan modifications into sub-categories that indicate the characteristics of the modification of terms (freezing interest rate, reducing interest rate, reducing principal, etc.).

Loan Modifications at the Highest Level Since Survey Began

The mortgage servicer survey results for 2008 have been posted on the accompanying table. The table provides a complete dataset for the year.

The fourth quarter results show a number of things, including continued success of the Governor's Subprime Mortgage Agreement. That agreement, announced in Fresno on November 20, 2007, originally included four of the largest state-licensed mortgage lenders and servicers in California and later expanded to include ten major servicers. The survey now includes reports from more than the ten parties to the Governor's agreement; nevertheless the survey results provide a broader account of the progress made by the servicers in implementing loan modification programs to avoid foreclosures and help keep families in their homes.

The fourth quarter results show that both the total number of loan workouts initiated and the number of loan workouts closed have increased. Especially important is that the total number of loan modifications – the type of workout most beneficial to consumers – rose significantly to 18,140 in December, the highest monthly count since reporting began. Also important is that modifications as a share of total workouts passed 50% for the first time in September and rose to 58% in December.

When the monthly numbers are combined as quarterly figures, the count of loan modifications rose from 20,567 in first quarter 2008 to 30,825 in the second quarter, to 39,016 in the third quarter, and to 46,377 in the fourth quarter. Although the largest percentage increase was in the second quarter (nearly 50%), the fourth quarter total represents a 125% increase since the first quarter of this year.

A Welcome Decline in Foreclosures

In Governor Schwarzenegger's 2008 State of the State address, he set a goal of keeping more than 100,000 Californians in their homes through the pursuit of loan modifications through his Subprime Mortgage Agreement. Since then, for the year 2008, the Department of Corporations' mortgage servicer survey shows a total of 136,785 loan modifications completed. This far surpasses the Governor's goal.

Also worth noting is that the number of foreclosures reported in October and November (9,578) was the lowest monthly rate since the beginning of 2008. December was only slightly higher at 10,321. On a quarterly basis, the number of foreclosures reported in the fourth quarter (29,477) dropped after rising in each of the first three quarters (34,345 for the first quarter, 39,978 for the second quarter, and 45,128 for the third). The number of foreclosures for the fourth quarter was lower than any of the prior quarters in 2008.

Meeting the Ongoing Challenges

Since the Governor announced his original Subprime Mortgage Agreement, the Federal Reserve has repeatedly and significantly reduced interest rates; as of December 16, 2008, the prime rate is now the lowest it has been since the decade of the 1950's. Six-month LIBOR has also been reduced to the lowest level since September 2004. This has resulted in fewer and/or less drastic resets to variable rate loans and to scheduled resets on loans with teaser rates. Still, the global economic recession, and the corollary effect in California, has caused income curtailment for many families, further jeopardizing their ability to make their mortgage payments.

We have always stated that no single step would provide a silver bullet in the mortgage crisis. New plans at the State and federal level should help provide further help to homeowners who need such assistance.

California has been at the forefront of addressing this issue, being the first state in the union to implement a statewide loan modification agreement and the first to collect relevant mortgage statistics to monitor the marketplace and gauge the effectiveness of our efforts at foreclosure prevention. We will continue to work with all the stakeholders and state and federal legislative and regulatory leaders to help minimize the negative impacts of the languid housing market.

For further information, please contact the Office of Public Affairs at the California Department of Corporations at (916) 322-7180.