Remarks by
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Let me begin by expressing a special thanks to John Reich for convening this third annual Housing Forum. I think each of these events has been thoughtfully organized and conceived, and each has made a significant contribution to this critically important subject. On behalf of the OCC, I am very pleased to participate.

In the brief time we've been allotted for opening remarks, let me focus on one aspect of the mortgage issue where the OCC and OTS have been especially active. That is the major data collection effort we launched earlier this year that we call "Mortgage Metrics," which results in quarterly reports on the performance of mortgages serviced by the very largest national banks and thrifts. This has been an enormous undertaking, because these institutions service more than 60 percent of all first mortgages outstanding in the United States – both on balance sheet and for third parties – totaling nearly 35 million loans valued at more than $6 trillion. What makes these quarterly reports unique is that they are not merely surveys, but instead consist of validated, loan level data using standardized definitions for prime, Alt-A, and subprime mortgages, and standardized definitions for loan modifications. We believe the reports include the most accurate and reliable data on mortgage performance that is available today. And in addition to providing more clarity about mortgage performance generally, the data have proven to be exceptionally valuable for supervisory purposes.

I raise all this today because we are nearing completion of our Mortgage Metrics report for the third quarter of 2008, which we hope will be available sometime next week. Although the data are not yet final, I would like to provide a "sneak preview" of some of the results, focusing in particular on a new data element that we will be releasing for the first time – that is, the re-default rate on loans that have been modified. (Let me clarify that, when I refer to "loan modifications," I am excluding so-called "payment plans," which are a less aggressive form of loss mitigation.)

In general, the third quarter report will show many of the same disturbing trends as other recent mortgage reports. Credit quality continued to decline across the board, with delinquencies increasing for subprime, alt-A, and prime mortgages – and the greatest increase in percentage terms was in prime mortgages. Similarly, total foreclosures in process increased, as did foreclosure sales, just as they had done in the previous quarter.

Not all the news is bad, however. Foreclosure starts actually decreased in the third quarter, by 2.6 percent. And not coincidentally, mortgage modifications increased: the total in the third quarter was nearly double what it was in the first quarter.

Of course, it stands to reason that the more mortgages that are modified, the fewer should result in foreclosure starts. But how true is that statement? In an attempt to shed light on this question, we collected a new data element in our Mortgage Metrics for the third quarter. Specifically, we asked our servicers to track the extent to which mortgage modifications earlier in the year were successful, in this sense: what percentage of borrowers re-defaulted on their mortgages after the modification was completed, and how quickly did they do so?

The results, I confess, were somewhat surprising, and not in a good way. Take the loans that were modified in the first quarter of this year. After three months, nearly 36 percent of the borrowers had re-defaulted by being more than 30 days past due. After six months, the rate was nearly 53 percent, and after eight months, 58 percent. The data is similar for mortgages modified in the second quarter: the re-default rate after three months was 39 percent, and after six months, 51 percent.

I have a basic chart illustrating these numbers that we will post on our website with these remarks, and its upwardly sloping lines vividly demonstrate the monthly increases in re-default rates. Put simply, it shows that over half of mortgage modifications seemed not to be working after six months.

Now, I recognize that we have to be careful as we look at this data. Not all re-defaulted mortgages go to foreclosure, and some have suggested that 60 days past due is a better indicator of ultimate failure to pay than 30 days – but even using that measure, the rate of increase in re-defaults was remarkably high, exceeding 35 percent after six months.

The question is, why is the number of re-defaults so high? Is it because the modifications did not reduce monthly payments enough to be truly affordable to the borrowers? Is it because consumers replaced lower mortgage payments with increased credit card debt? Is it because the mortgages were so badly underwritten that the borrowers simply could not afford them, even with reduced monthly payments? Or is it a combination of these and other factors?

We don't know the answers yet, but these are the types of questions that we have begun asking our servicers in detail. The answers are important, because they have

important ramifications for the foreclosure crisis and how policymakers should address loan modifications, as they surely will in the coming weeks and months. As that debate unfolds, we hope and expect that the data we glean from our Mortgage Metrics will provide a significant contribution towards finding solutions that will avoid needless foreclosures and help stabilize the housing market.

Thank you very much.