More prime mortgages default in 3rd quarter

Also: Many homeowners with modified mortgages fall behind again. And the number of homes in foreclosure rises, though new foreclosures are steady, report shows.

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Troubled home loans continued to mount in the nation's banks in the third quarter as even once-solid borrowers increasingly fell behind on their mortgage payments.

For the first quarter ever, the number of homes in foreclosure with mortgages serviced by U.S. national banks and savings and loans topped the 1-million mark, according to figures released Monday by the Office of Thrift Supervision and the Office of the Comptroller of the Currency.

The percentage of prime borrowers whose loans were 60 or more days past due doubled from the July-to-September period a year earlier. And more than half of all homeowners whose payments had been lowered through modification plans defaulted again.

The report, which covers about 34 million loans, or about 65% of all U.S. mortgages, underscores the obstacles to strengthening the nation's rickety housing market. Stubborn unemployment is making it tough for millions of homeowners to pay their debts. In addition, many people whose monthly installments have been lowered still are unable to keep up with their payments.

Of the mortgages serviced by national banks and thrifts, only 87.2% were current and performing. It was the sixth straight quarter that the quality of those home loan portfolios had slipped.

"Mortgage performance continued to decline as a result of continuing adverse economic conditions including rising unemployment and loss in home values," the report said.

Seriously delinquent mortgages -- loans 60 or more days past due and loans to delinquent borrowers who have filed for bankruptcy -- rose to 6.2% of the servicing portfolio. That's a 16.7% increase over the second quarter and a 73.8% increase from a year earlier, the report said.

Of those seriously delinquent loans, the number of homes in the foreclosure process reached 1.09 million, about 3.2% of all the loans surveyed.

The report highlighted some troubling trends as the housing market continues to struggle despite increasing sales and prices in many areas. Difficulties increased for holders of prime mortgages, with the percentage of those loans that were 60 days or more past due increasing to 3.2%, up almost 20% from the second quarter and more than double the rate of a year earlier.

In addition, holders of mortgages whose payments had been lowered through government or private modification plans re-defaulted at high rates. More than half of all homeowners with modified loans fell 60 days or more behind in their payments within six months of the modification taking place.

But Bruce Krueger, a mortgage analyst for the Office of the Comptroller of the Currency, noted that homeowners with more-recent modifications were doing better at keeping up with their new payments, reflecting a push by the Obama administration to get mortgage servicers to come up with better plans.

About 35% of homeowners who received modifications in the third quarter of 2008 fell 60 days or more behind on their payments within three months of the modification, the report said. That figure decreased to about 19% of homeowners who received a modification in the second quarter of this year.

Still, the report's data could add pressure on Congress to give financially strapped homeowners additional help by allowing judges to lower mortgage principle as part of bankruptcy, said Jaret Seiberg, a financial policy analyst with Concept Capital's Washington Research Group.

"While the re-default rate seems to be getting better, it's still very high and it's high enough to continue causing a political problem for the industry," he said.

Mortgage modifications increased in the third quarter as the Obama administration pushed servicers to participate in its Making Home Affordable modification program. The report said servicers modified 680,000 loans through that program or their own efforts. Overall, mortgage servicers started almost twice as many modifications as new foreclosures.

Oddly, the increased attempt to keep people in their homes with lower payments contributed to the rise in the number of homes in the foreclosure process. The pace of homes beginning foreclosure proceedings remained about the same in the third quarter as it was earlier this year. But fewer of those proceedings were finished, as mortgage servicers worked with homeowners to modify some of those loans.

Monday's report comes on the heels of a private report last week that said there were 1.7?million homes headed for the market because of foreclosures or delinquency. That backlog of "shadow inventory" increased 55% in the year that ended Sept. 30, said the report by First American CoreLogic, a Santa Ana research firm.

The Obama administration has been trying to reduce foreclosures through its mortgage modification program, but reported this month that few of the three-month trial modifications were being made permanent. Of the more than 700,000 trial modifications offered by mortgage servicers, just 31,382 had been made permanent as of Nov. 30. Administration officials have increased pressure on mortgage servicers to improve that figure.

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