



# K A N S A S

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**BULLETIN:** 2009-KDCU-CUB-11

**TO:** Management of Kansas chartered credit unions

**SUBJECT:** Evaluating Residential Real Estate Mortgage Loan Modification Programs

Due to economic conditions, increased levels of mortgage loan defaults and foreclosures are occurring nationwide. Kansas credit unions, while generally less affected, should identify and assist members whose financial stress may lead to future impairment in mortgage loan performance. By proactively identifying potential at risk loans, credit unions can measure the potential impact of borrower default on net worth, assess internal liquidity available to help borrowers through loan modifications and closely monitor the performance of mortgage loans. Identifying and assisting at risk members before delinquency occurs may increase chances for a successful loan modification and reduce losses.

NCUA recently issued Letter No.: 09-CU-19 at <http://ncua.gov/> to all federally insured credit unions providing guidance in evaluating the safety and soundness of residential mortgage loan modification programs. The Letter discusses the objectives of a loan modification program and provides credit unions information on implementation of a loan modification program. The Letter also provides examiner staff with guidance for evaluating whether credit union management has made a realistic assessment of risk and exercised the proper due diligence in developing, implementing, and monitoring a loan modification program. The letter has been reviewed with KDCU examiners. We are in agreement with the contents of the Letter.

Some of the key points in the Letter include:

- Loan modification programs will vary in sophistication depending on the size and complexity of the loan portfolio and the risk level.
- The objectives of a residential real estate loan modification are to help members who are struggling financially to maintain ownership of their homes and to minimize the credit union's default and foreclosure costs.
- Studies suggest that lowering the monthly payment sufficiently to make it affordable in the long term and reducing the principal balance to create greater borrower equity, may result in a more sustainable loan modification.
- Credit union management should be able to quantify how much of the mortgage portfolio is at risk of default and have a prudent strategy for managing or reducing the risk.
- Full and fair financial disclosure warrants separate analysis in the allowance for loan and lease losses (ALLL) for loan modifications as the risk of default is high, even when policies and procedures are sound.

/s/ John P. Smith

John P. Smith, Administrator

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