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Six Facts You Should Know about Current Mortgage Forbearances

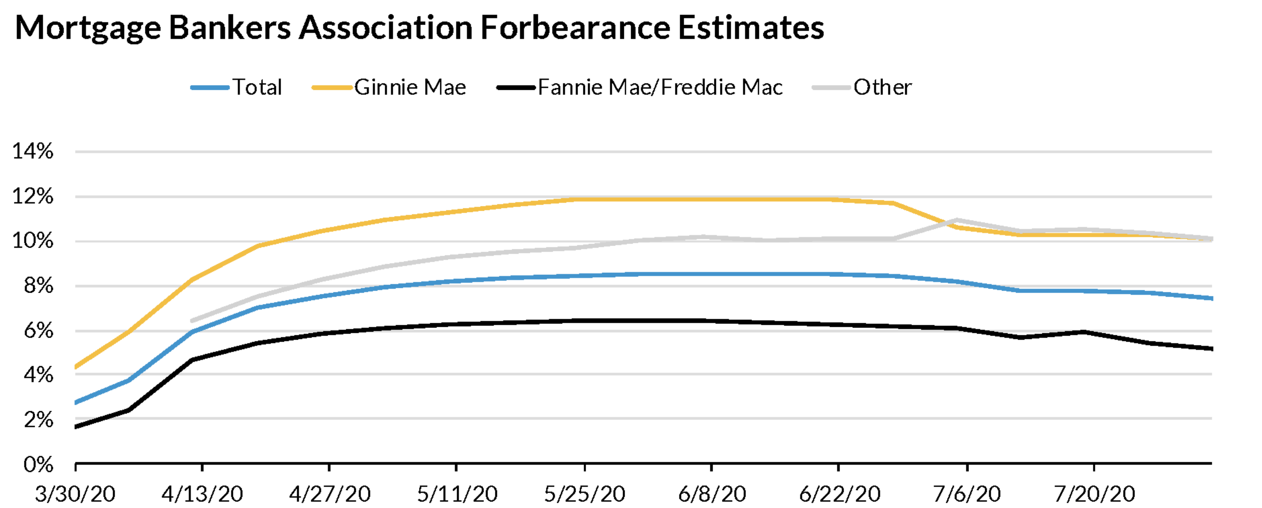
Jung Hyun Choi, Daniel Pang | *August 18, 2020*

The mortgage forbearance option offered in the March 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act (PDF) has provided enormous relief to many homeowners during the pandemic. The 33.4 million homeowners with federally backed mortgages can ask their servicers for a forbearance, without documenting financial hardship, and delay their mortgage payments for up to 180 days, with another 180-day extension available upon request when the first forbearance period ends.

The 14.6 million borrowers whose mortgages are in bank portfolios or private-label securities (PLS) are not covered by the CARES Act, but these borrowers have the highest share of loans in forbearance. A survey of PLS servicers conducted by the Structured Finance Association found each servicer was offering initial forbearance requests with minimal documentation requirements and without burdensome repayment plans, such as lump-sum payments, immediately following forbearance expiration.

Timely data on forbearance since the pandemic began, provided by the Mortgage Bankers Association (MBA), Black Knight, and the US Census Bureau, reveal six important facts but suggest a need for more data to allow policymakers to better understand how to support homeowners during this crisis.

As of August 2, the MBA data showed 7.44 percent of mortgages in forbearance. The share of loans in forbearance was the highest for loans in PLS and portfolio loans (10.12 percent), followed by Ginnie Mae loans (10.06 percent) and government-sponsored enterprise loans (5.19 percent).



Source: Mortgage Bankers Association Weekly Forbearance and Call Center Volume Survey.
Note: "Other" includes private-label securities and loans held in portfolio.

2. Forbearance and delinquency rates have dropped since June

Inearly June, the share of loans in forbearance was 8.6 percent according to MBA's survey of servicers and 8.9 percent according to Black Knight's loan-level dataset. The share has dropped continuously since June as some homeowners in 90-day forbearance plans have come out of their plans without asking for an extension.

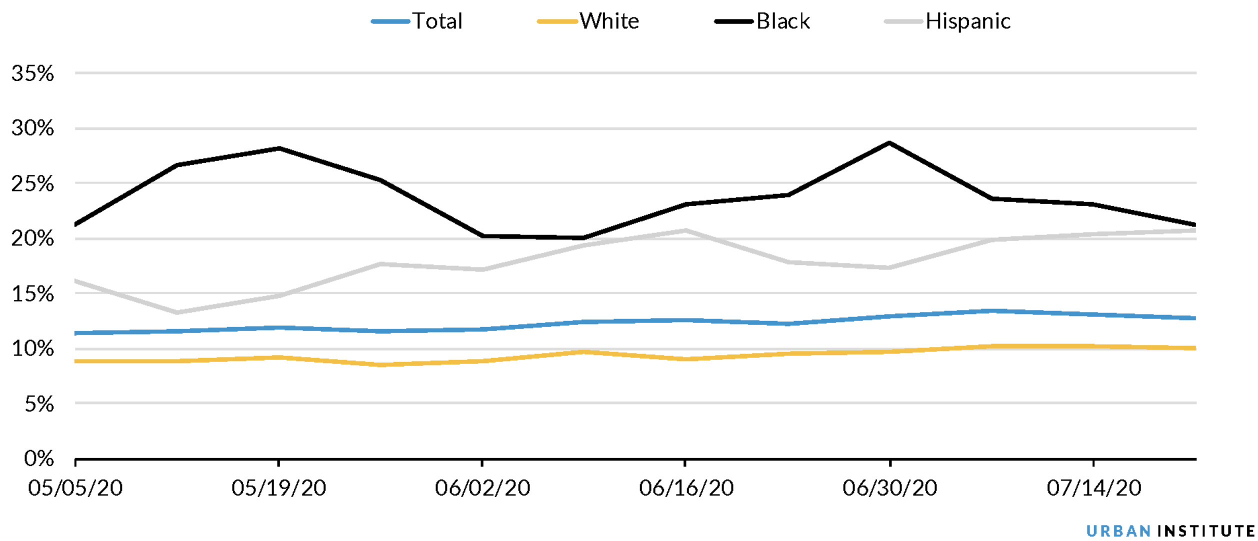
Black Knight's loan delinquency rates, which include loans in forbearance and not in forbearance, show a slight drop in the 30-day delinquency rate, from 7.8 percent in May to 7.6 percent in June.

3. Black and Hispanic homeowners have been hit harder than white homeowners

The US Census Bureau's Household Pulse Survey reveals large differences by race and ethnicity, with Black and Hispanic households significantly more likely to miss or defer monthly mortgage payments and experience uncertainty about making next month's payment than white households.

According to the most recent survey, conducted from July 16 to 21, nearly 21 percent of both Black and Hispanic homeowners missed or deferred the previous month's mortgage payment, compared with 10 percent of white homeowners and about 13 percent of all homeowners with payments due. This gap persisted over the duration of all survey weeks, as Black and Hispanic homeowners continue to be disproportionately burdened by the pandemic's impact on employment and financial stability.

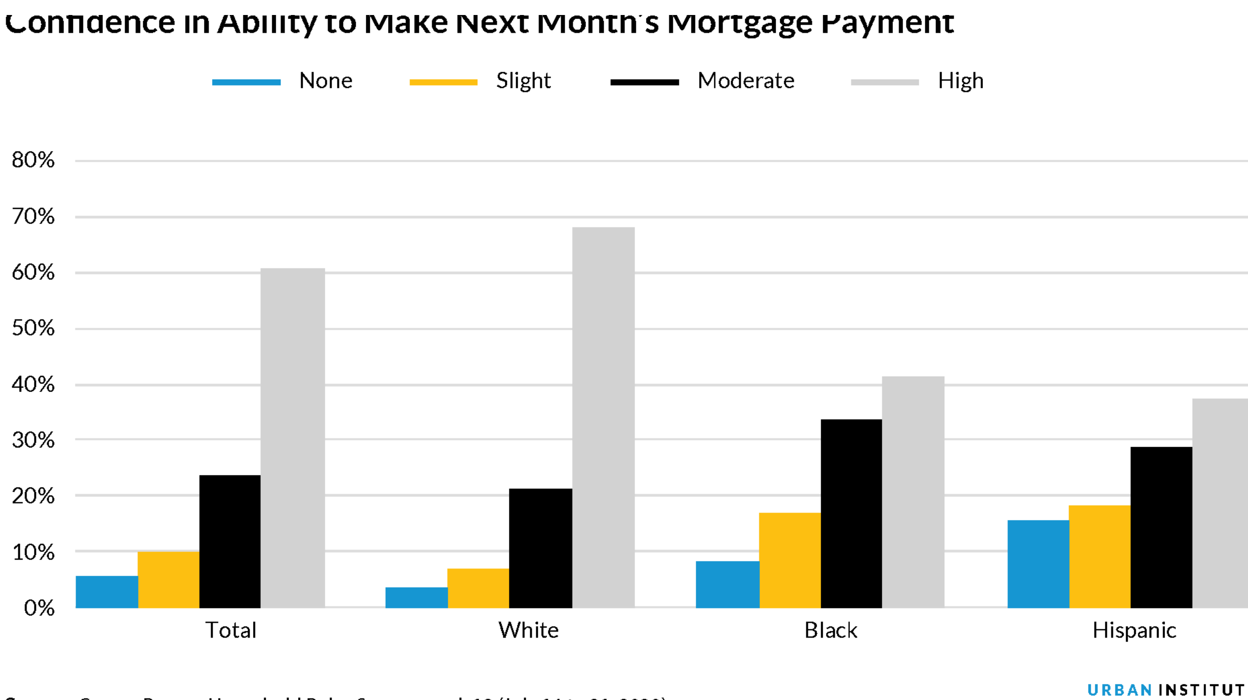
Households That Missed or Deferred Last Month's Mortgage Payment



Source: Census Bureau Household Pulse Survey, weeks 1 through 12.
Note: Percentages should be interpreted as the share of adults in households who pay mortgages.
"Hispanic" includes respondents who identified as "Hispanic or Latino" of any race.

4. Homeowners' fears are growing

As federal unemployment insurance payments established by the CARES Act were set to expire at the end of July, the share of households expressing "no confidence" in their ability to make their August mortgage payment reached almost 6 percent, its highest since the Household Pulse Survey began. That 6 percent includes 16 percent of Hispanic households and 8 percent of Black households but just 3 percent of white households.



Source: Census Bureau Household Pulse Survey, week 12 (July 14 to 21, 2020).
Note: "Hispanic" includes respondents who identified as "Hispanic or Latino" of any race.

5. More than 1 million households in forbearance are still paying their mortgages

Both MBA and Black Knight (PDF) show that about a quarter of households in active forbearance plans are still making their mortgage payments. We don't know much about these households, including why they are still paying their mortgages despite their forbearance status, but more information could help policymakers.

The Household Pulse Survey collects household-level demographic and socioeconomic variables, but it doesn't allow researchers to identify who is in forbearance. When asked about mortgage payment status, survey participants who are in forbearance and have paid their mortgages can answer whether they have made or deferred mortgage payments.

6. 735,000 homeowners went delinquent despite the forbearance option

Of greater concern, 530,000 homeowners who became delinquent after the pandemic began did not take advantage of forbearance, despite being eligible to ask for the plan. According to a recent National Housing Resource Center survey (PDF) of housing counselors, the two most common reasons are as follows:

- fear of making a lump-sum payment at the end of the period (69.9 percent)
- not knowing about the program (56.6 percent)

These responses reflect a need to provide better information to all homeowners. (Lump-sum payment is not the only repayment option.) Although these survey results are valuable, they don't reveal who these people are, which makes it difficult to develop outreach strategies.

Additionally, 205,000 homeowners who did not extend their forbearance after its term ended in June or July became delinquent on their loans. We need to examine who these people are and why are they not extending their option.

Although several entities are tracking near-real-time data on forbearance, we need more information to develop policies that support homeowners in forbearance and those not taking advantage of forbearance and becoming delinquent on their mortgages.

Additionally, in the long term, we need to prepare for what will happen when the forbearance period ends. It is too early to predict what decisions households will make once the forbearance period expires.

In addition to tracking labor market conditions, we need more information on the financial and demographic characteristics of those who are in forbearance, by loan channel, to develop and implement adequate policies to help homeowners choose their best option to pay back their deferred mortgage payments according to their financial circumstances once they come out of forbearance.

Obtaining these data will be challenging but not impossible. Servicers could provide some of this information, and the Census Bureau could add a question that asks whether households were or are in a forbearance plan when the Household Pulse Survey restarts later this year. Together with the variables about households' housing payments and demographic and financial characteristics, the additional question could help us understand households who are not taking advantage of the forbearance option and give decisionmakers including policymakers, banks, servicers, housing counselors, community workers, and advocacy groups a better sense of what supports could best meet their needs.

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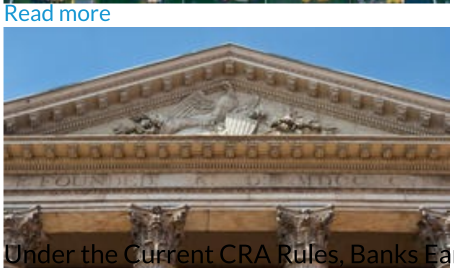

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