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Recent Data on Mortgage Forbearance: Borrower Uptake and Understanding of Lender Accommodations

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This research brief examines data relating to mortgage forbearance using responses to the January 2021 *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute. We study a national sample of 1,172 homeowners with mortgages, who reported the current and past forbearance status of their mortgage and other household credit accounts, discussed their familiarity with and understanding of lender accommodations that might be available to them, and provided their demographic characteristics. Respondents characterize their current employment and loan characteristics, as well as past difficulty making payments or disruptions in employment experienced during the COVID-19 pandemic.

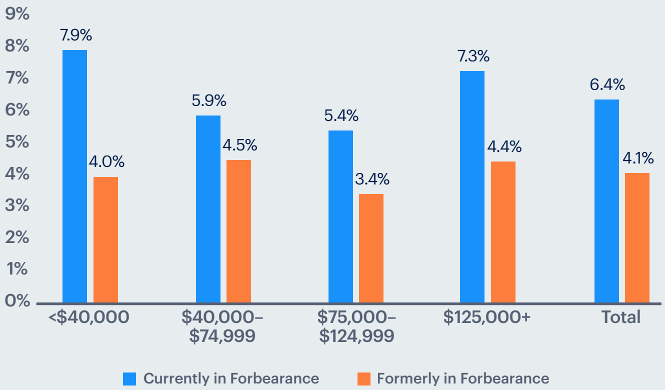
We highlight four main findings:

- Over 10 percent of respondents had entered into a mortgage forbearance plan at some point during the pandemic, with consumers living in urban areas and those working in hard-hit industries such as leisure, hospitality, arts, and entertainment having greater rates of forbearance use.
- About three-quarters of those using forbearance had personally experienced a job disruption or income loss during the pandemic. This is a lower bound on the role of employment and earnings disruptions, since income losses may also have impacted other household members who normally contribute toward mortgage payments.
- Most borrowers who had not used forbearance during the pandemic reported that it was because they simply did not need it. However, among the remainder, a lack of understanding about available accommodations may also be playing a role. Around 2 out of 3 in this group reported not seeking forbearance because they were unsure or pessimistic about whether they would qualify — even though a high fraction of borrowers are eligible for forbearance under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- Homeowners in mortgage forbearance were more likely to have payments deferred on credit cards or auto loans.

Who Has Used Mortgage Forbearance?

As of January 2021, 6.4 percent of respondents were currently in a mortgage forbearance plan, meaning that their servicer had agreed to a temporary suspension of their mortgage payments. Another 4.1 percent had previously been in forbearance earlier in the pandemic (since March 1, 2020).[2] The median scheduled mortgage payment for borrowers currently in forbearance is $1,750 per month. Use of forbearance during the pandemic has been widespread across the income distribution, as shown in Figure 1, which displays forbearance status by the respondent's personal (that is, individual, rather than household) income prior to the pandemic. Within each group, more than half of borrowers who entered forbearance during the pandemic were still receiving payment accommodations in January.

Figure 1 – Mortgage Forbearance Status in January 2021 by Respondent Income



Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

[1] The views expressed in this research brief are those of the authors and do not necessarily reflect the opinions of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Philadelphia Fed publications relating to the COVID-19 pandemic are free to download at https://www.philadelphiafed.org/the-economy/covid19.

[2] The rate of forbearance observed in the survey sample is comparable with national forbearance rates reported by other sources for a similar time frame. For example, the Mortgage Bankers Association reported a 5.5 percent foreclosure rate in early January 2021, and using a different dataset, Black Knight Financial Services reported a 5.2 percent forbearance rate in December 2020. Black Knight also reported that 6.7 million borrowers (or about 12.6 percent) have been in forbearance at some point since the pandemic began — similar to the 10.5 percent reported in the CFI survey. Note that some borrowers in forbearance plans continued to make some or all of their mortgage payments during the pandemic; conversely, not all borrowers who became delinquent entered forbearance.

Use of forbearance has been similar across levels of educational attainment, as shown in Table 1. Forbearance was also common across a range of different racial and ethnic groups, although Black borrowers reported the highest rate, with 13.4 percent being in forbearance at some point during the pandemic.

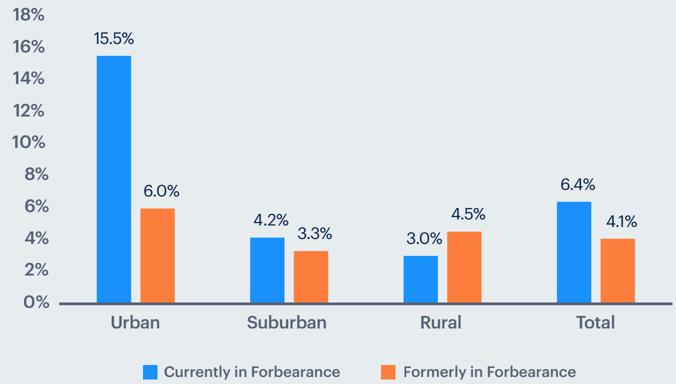
Table 1 – Mortgage Forbearance Status by Educational Attainment and Homeowner Race and Ethnicity

	Currently in Forbearance	Formerly in Forbearance	Ever in Forbearance
Highest Educational Attainment			
High School or Less	5.4%	5.0%	10.3%
Associate's or Bachelor's Degree	6.5%	3.9%	10.4%
Graduate Degree	7.0%	3.8%	10.8%
Race/Ethnicity			
White	6.3%	3.7%	9.9%
Black	7.2%	6.2%	13.4%
Hispanic (any race)	5.0%	3.3%	8.3%
Other	5.0%	3.3%	8.3%
All Borrowers	6.4%	4.1%	10.5%

Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

Forbearance uptake does vary starkly by the type of community in which the borrower lives (Figure 2). Urban residents were four times as likely as those in nonurban areas to be currently in forbearance and 1.7 times as likely to have previously used forbearance.[3]

Figure 2 – Mortgage Forbearance Status in January 2021 by Location Type

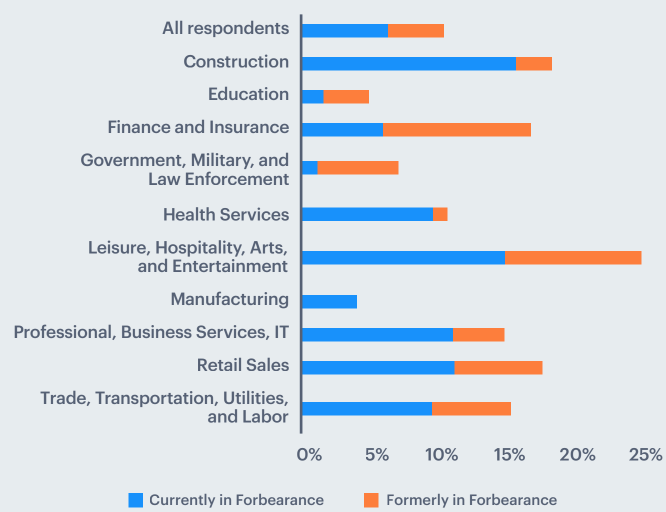


Note: Location type is selected by the respondent and is based on his/her primary residence.

Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

Given that pandemic-related job losses hit some geographic areas and industries significantly harder than others, it is intuitive that survey respondents' use of forbearance differed significantly by the industry in which the respondent had been employed as of March 1, 2020. Figure 3 shows forbearance rates by industry (for industries with at least 30 observations), along with a total for the entire sample. One-quarter of respondents in leisure, hospitality, arts, and entertainment reported using forbearance, consistent with significant employment losses in that industry. Construction and retail sales employees were also heavily impacted at 18 percent ever in forbearance, with most construction workers who had used forbearance reporting still receiving loan accommodations.

Figure 3 – Forbearance Status as of January 2021 by Industry of Employment in March 2020



Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

[3] The Federal Reserve Bank of Atlanta offers a Mortgage Analytics and Performance Dashboard for visualizing forbearance and delinquency rates across time and space.

Indeed, the majority of respondents who used forbearance had suffered an income loss or job disruption during the pandemic: 75 percent of those currently in forbearance had experienced a negative employment shock, as well as 71 percent of those who had used forbearance earlier in the pandemic. In contrast, 35 percent of borrowers who did not use forbearance experienced a job disruption or income shock. This is consistent with findings by the JPMorgan Chase Institute that borrowers in forbearance during the pandemic were more likely to have lost labor income and received unemployment benefits than those not in forbearance.

Reasons for Not Using Forbearance

Most borrowers (83 percent) who had not used forbearance in the pandemic reported that it was because they simply did not need it. These rates were similar across income and education groups and when comparing White with non-White or Hispanic borrowers. However, women who didn't use forbearance were slightly less likely to report that they didn't use forbearance because they didn't need it (75 percent).

The remaining respondents reported a mix of reasons for not using forbearance, as shown in Table 2. Common factors included a lack of understanding about how forbearance plans work and/or whether the borrower would qualify, or a lack of understanding about how to request forbearance. Borrowers also reported being concerned about how they would make up the payments when forbearance ended, how forbearance might affect their credit, and whether forbearance could ultimately cost them in terms of fees, interest, or larger monthly payments in the future.

Relatedly, households in forbearance had diverse expectations about what would happen at the end of their forbearance period and whether they would be required to immediately start repaying their deferred payments. Of those in forbearance as of January 2021, 31 percent expected that, "Skipped payments are added to the end of my loan term. As a result I will not have to repay them until I pay off my mortgage or sell the home"; 13 percent expected that, "Repayment of skipped payments will be delayed for a period of time (e.g., a year, two years), but are due before the end of my loan term"; 23 percent expected to "Start repaying skipped payments immediately after the forbearance ends, but I will be allowed to make the payments over time," while 17 percent expected that "All skipped payments are due in a lump sum immediately after forbearance ends." Another 13 percent simply answered that they did not know. In general, the servicer and borrower will not decide on a firm repayment plan until near the end of the forbearance period, as described by the Consumer Financial Protection Bureau.

Interestingly, the least common reason cited by borrowers was requesting forbearance but being denied. This is consistent with the fact that nearly all federally backed mortgages are eligible for forbearance under the CARES Act, although presumably some of the borrowers in the sample have mortgages not covered under CARES (i.e., loans held in portfolio by financial institutions or loans held in private-label mortgage-backed securities).

Table 2 – Reasons Borrowers Did Not Use Forbearance

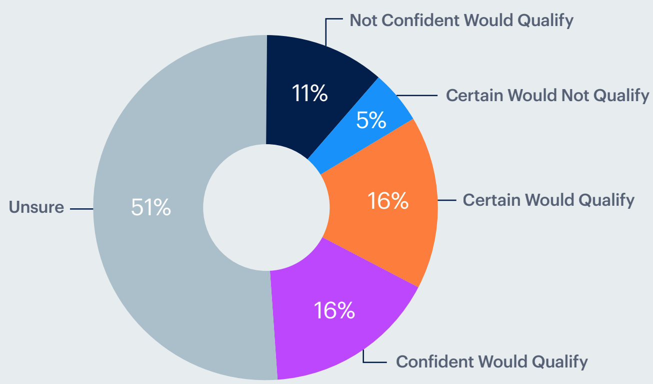
	Total	Income <$75,000	Less Than Bachelor's	Female	Non-White or Hispanic
Do not need forbearance	82.8%	79.1%	81.3%	75.0%	82.4%
Need forbearance ***(may select multiple reasons)***					
Concerned about making up payments	4.2%	4.6%	4.3%	4.4%	7.5%
Concerned that forbearance will damage credit	3.7%	3.8%	1.0%	3.3%	5.4%
Concerned that forbearance may be costly*	4.6%	5.9%	3.9%	4.6%	6.7%
Don't understand how to request	2.8%	3.8%	4.3%	2.9%	6.3%
Don't understand how plans work and/or whether I would qualify	5.2%	7.9%	6.9%	6.4%	7.9%
Requested forbearance but was denied	0.5%	0.5%	0.7%	0.4%	0.4%
Other reason	2.0%	2.6%	2.6%	2.1%	1.3%

*Concerned that forbearance may be costly (fees, interest, or larger monthly payments in the future)

Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

We separately asked respondents who had not used forbearance during the pandemic how confident they felt that they would receive forbearance if they did request it. Excluding borrowers who reported that they did not need forbearance, we found a great deal of uncertainty — just over half of the respondents reported being unsure if they would qualify, and another 16 percent were not confident they would qualify or felt certain they would not (Figure 4).

Figure 4 – Confidence About Forbearance Eligibility Among Those Not Using but Potentially Needing Forbearance



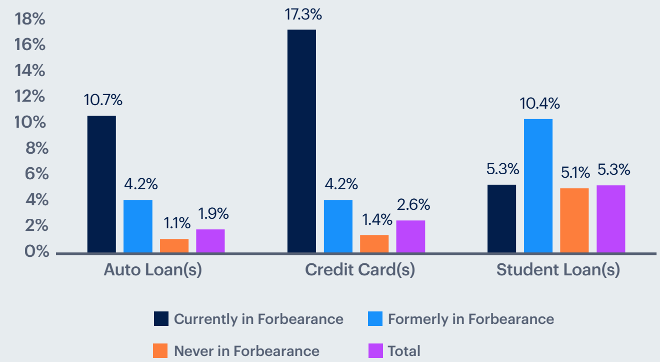
Note: Percentages do not sum to 100 due to rounding; based on 106 observations of borrowers who had not used forbearance and did not report that they did not need it

Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

Ability to Pay Other Debts

Challenges in making mortgage payments during the pandemic also affect other forms of household credit. The CFI's COVID-19 survey inquires whether households have secured forbearance or other forms of payment deferral for nonmortgage loans. As shown in Figure 5, borrowers currently in mortgage forbearance were more likely to have payments deferred on one or more credit cards (17 percent of respondents in forbearance) or on their auto loan (11 percent). For credit cards and auto loans, forbearance was also more common among those formerly in forbearance than those who had not used forbearance at all in the pandemic. In contrast, there was little correlation between being in forbearance on a student loan and the mortgage's forbearance status. This is expected, as student loan forbearance was automatic for federal student loan borrowers, whose loans make up over 90 percent of the student loan market.[4]

Figure 5 – Payment Deferral on Other Types of Household Debt as of January 2021 by Mortgage Forbearance Status



Source: *COVID-19 Survey of Consumers* conducted by the Federal Reserve Bank of Philadelphia's Consumer Finance Institute

Looking Forward

Earlier this month, the allowable forbearance period on federally backed mortgages was extended to 15 months, or through June 30, 2021, with the administration citing persistently high rates of forbearance need.[5] Likewise, automatic forbearance on federal student loans has been extended through September 30, 2021. These accommodations may offer critical support for American households still struggling from employment and income disruptions during the pandemic, which have affected lower-wage and minority consumers disproportionately.[6]

[4] See Darolia and Ritter (2020).

[5] See Thomas and Ackerman (2021), "Biden Administration Extends Covid-19 Mortgage Relief."

[6] Abel and Deitz (2021) summarize disparities in job losses during the pandemic, highlighting striking differences between racial and income groups.