

Examining Resolution of Mortgage Forbearances and Delinquencies

From the RADAR Group, Federal Reserve Bank of Philadelphia¹

By our projections, some 2.65 million mortgages are past due; about 0.88 million of those are in Coronavirus Aid, Relief, and Economic Security (CARES) Act forbearance plans. With many of these plans reaching their maximum terms by year-end and safeguards for borrowers against servicers starting foreclosure expiring at year-end, examining how these mortgages are resolved is critically important. This monthly report examines the very latest figures on mortgage forbearances, evaluates home-retention options for federally insured mortgages in forbearance, examines delinquency and foreclosure trends, and adds demographic and income information on past due mortgages.

Mortgage Forbearances

As shown in Table 1, as of December 7, we estimate that about 0.88 million mortgage loans remain in forbearance. These include mortgages from the Federal Housing Administration (FHA), Veterans Administration (VA), and the two government-sponsored enterprises (GSEs) — Fannie Mae and Freddie Mac — comprising most of the federally insured mortgages, along with the major private-sector mortgages from private-label mortgage-backed securities (PLMBS) and portfolio loans, mainly held at banks.

Figure 1 highlights the immediacy of the challenges facing mortgage servicers and policymakers. Recent executive and regulatory actions have extended CARES Act forbearances for most mortgages to 18 months, so the projected exits are RADAR’s estimates of when forbearances will expire if taken to their full terms by investor type.² Figure 1 shows that about 15 percent of loans in forbearance will expire in the fourth quarter, just ahead of the January 1, 2022, expiration of additional safeguards against foreclosures provided by the Consumer Financial Protection Bureau (CFPB); another 48 percent will expire in the first quarter next year. Unless mortgage servicers can successfully execute home-retention options, millions of borrowers face the prospect of selling their homes or losing them to foreclosure.³

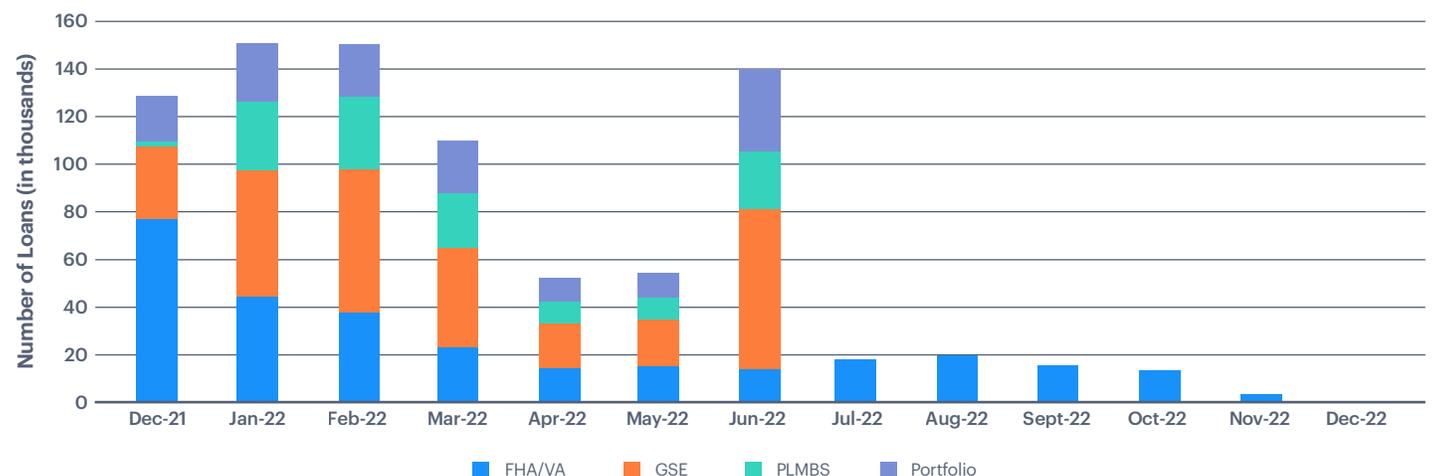
Figure 1 also includes breaks by the investor categories in **Table 1**. At 60 percent, FHA/VA mortgages have by far the largest share of forbearances expiring in 2021. FHA/VA mortgages are targeted at low- to moderate-income borrowers, who have higher shares of minorities. We will discuss the demographic and income characteristics of borrowers past due on their mortgages later in this report.

Table 1: Mortgage Loans in Forbearance by Investor Type as of December 7, 2021

Counts and Balances	FHA/VA	GSEs	PLMBS	Portfolio	Total
Active Loan Count (Mil)	12.1	27.9	2.5	10.5	53.0
Loans in Forbearance – Counts	314,189	295,865	126,485	146,908	883,447
UPB of Loan Balances in Forbearance – UPB (\$Bil)	65	63	24	18	170
Share of Loans in Forbearance	2.6%	1.1%	5.1%	1.4%	1.7%

Sources: Black Knight Data & Analytics, LLC, and RADAR

Figure 1: Projected Forbearance Exits as of December 7, 2021

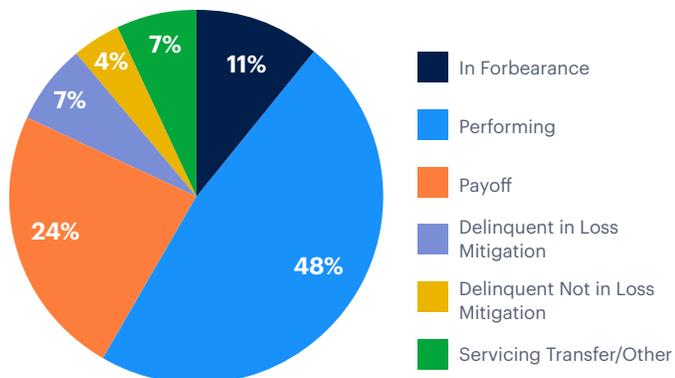


Sources: Black Knight Data & Analytics, LLC, and RADAR

Examining Home-Retention Options

As shown in **Figure 2**, since the onset of the COVID-19 pandemic, of the 8.2 million mortgages that entered forbearance, 79 percent are performing, have voluntarily paid off, or are on a loss mitigation plan.⁴

Figure 2: Status of Loans Ever in a COVID-19 Forbearance as of December 7, 2021



Sources: Black Knight Data & Analytics, LLC, and RADAR

For mortgage borrowers who remain in forbearance, the U.S. Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA) are offering two main home-retention options for borrowers working with their servicers:⁵

1. For borrowers who can resume regular payments, missed payments can be paid back in a lump sum, with a repayment plan or with a deferral or *partial claim*, in which missed payments are put into a noninterest-bearing subordinate lien to be paid when the mortgage is refinanced or the home is sold.

2. For borrowers who cannot resume regular payments, loan modifications to reduce monthly payments are available with plans announced by the FHFA for GSE loans and HUD for FHA and VA loans.

Note that for all borrowers who can achieve the first option and resume regular payments, their loans will appear as *Performing* in Figure 2.⁶ Some borrowers will be unable — or choose not — to resume their regular mortgage payments. For these borrowers, a loan modification is another home-retention option available. To achieve this, the FHFA and HUD adopted payment-reduction targets of 20 percent and 25 percent, respectively, with special features for each summarized in Appendix 1.

To assess the effectiveness of the FHFA and HUD plans for FHA loans meeting their targets,⁷ we calculate the average declines in principal and interest (P&I) payments and for the full mortgage payments that include escrows, generally made up of principal, interest, taxes, and insurance (PITI).⁸

The three major federally insured programs are the GSE Flex Mod and the two FHA COVID-19 Recovery Modifications, starting with a 30-year mortgage, to be followed by one with a 40-year mortgage.⁹ Each plan meets its targets differently. For conservatism, we project all borrowers will forbear to their full terms.

For the FHFA and HUD programs, **Table 2** reports average declines in P&I and PITI monthly payments. Since tax rates vary widely across states and municipalities, the full distribution of declines in PITI are shown alongside the averages.¹⁰

Table 2: Reductions in Payments Under Federally Insured Mortgage Programs as of December 7, 2021

Program	Market Counts	Average P&I Reduction	Average PITI Reduction	Distribution of PITI Reductions						
				1st	5th	25th	Median	75th	95th	99th
GSE Flex Mod	230,867	27%	19%	1%	7%	13%	17%	23%	37%	50%
FHA COVID-19 Recovery Mod & 30-Year Term	215,423	28%	17%	5%	11%	14%	16%	18%	30%	44%
FHA COVID-19 Recovery Mod & 40-Year Term	215,423	33%	21%	10%	13%	16%	19%	23%	36%	48%

Notes: This table provides statistics on the reduction in principal and interest (P&I) and principal, interest, taxes, and insurance (PITI) fees under the various programs implemented for government-insured programs described in Appendix 1. Market counts represent sample counts extrapolated to the market in the manner described in An et al. (2021, (see Endnote 1) Appendix Table A4).

Sources: Black Knight Data & Analytics, LLC, *Inside Mortgage Finance*, and RADAR

Mortgage Delinquencies Not in Forbearance and Foreclosure Activity

As of December 7, we estimate that 1.16 million mortgage loans are seriously delinquent and not in forbearance, with 51 percent of these in some stage of loss mitigation, many having come out of forbearance.¹¹ The figures are summarized in **Table 3**.

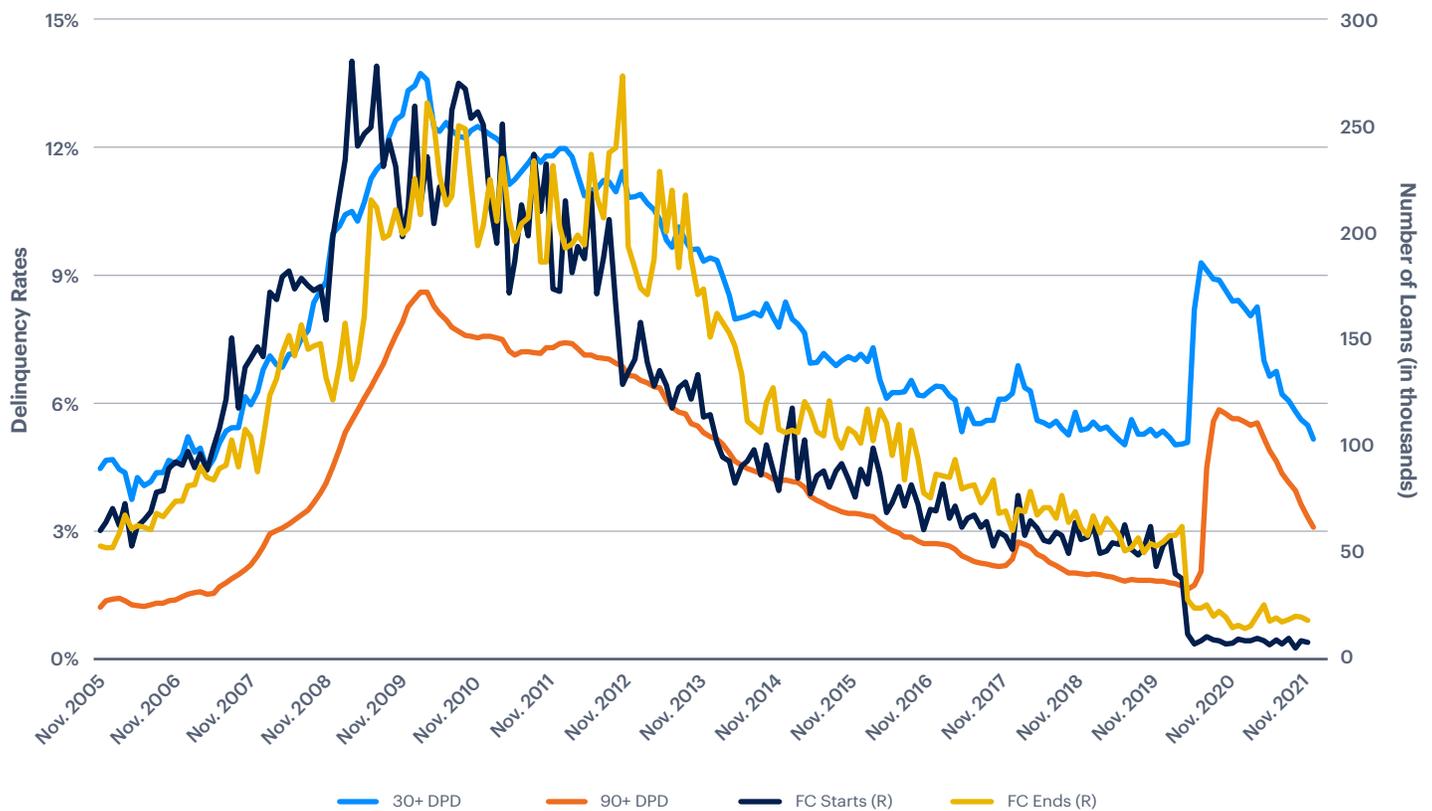
As shown in **Figure 3**, foreclosure activity stopped abruptly in March 2020 for all but vacant or abandoned properties. This low level of foreclosure activity is unprecedented in recent history. Since the federal foreclosure moratorium expired on July 31, we haven't observed foreclosures picking up yet in the last four months; foreclosures could move faster once CFPB safeguards expire on January 1, 2022.

Table 3: Mortgage Loans Delinquent, Not in Forbearance by Investor Type as of December 7, 2021

Counts of Serious Delinquencies Not in Forbearance	FHA/VA	GSEs	PLMBS	Portfolio	Total
90+DPD	471,356	156,741	131,648	401,131	1,160,877
In Loss Mitigation	329,433	98,482	26,013	139,936	593,864
Not in Loss Mitigation	141,923	58,259	105,636	261,195	567,013

Sources: Black Knight Data & Analytics, LLC, and RADAR

Figure 3: Delinquency Rates and Foreclosure Flows as of November 2021
(Delinquencies as percent of balances, foreclosures (FC) in thousands)



Notes: These delinquency figures reflect investor reporting and will not match reporting to the credit bureaus, which the CARES Act prohibits reporting as delinquent if the mortgage was current on March 1, 2020, is past due, and in a CARES Act forbearance.

Sources: Black Knight McDash Data and Black Knight Data & Analytics, LLC

Demographic Characteristics of Past Due Mortgages

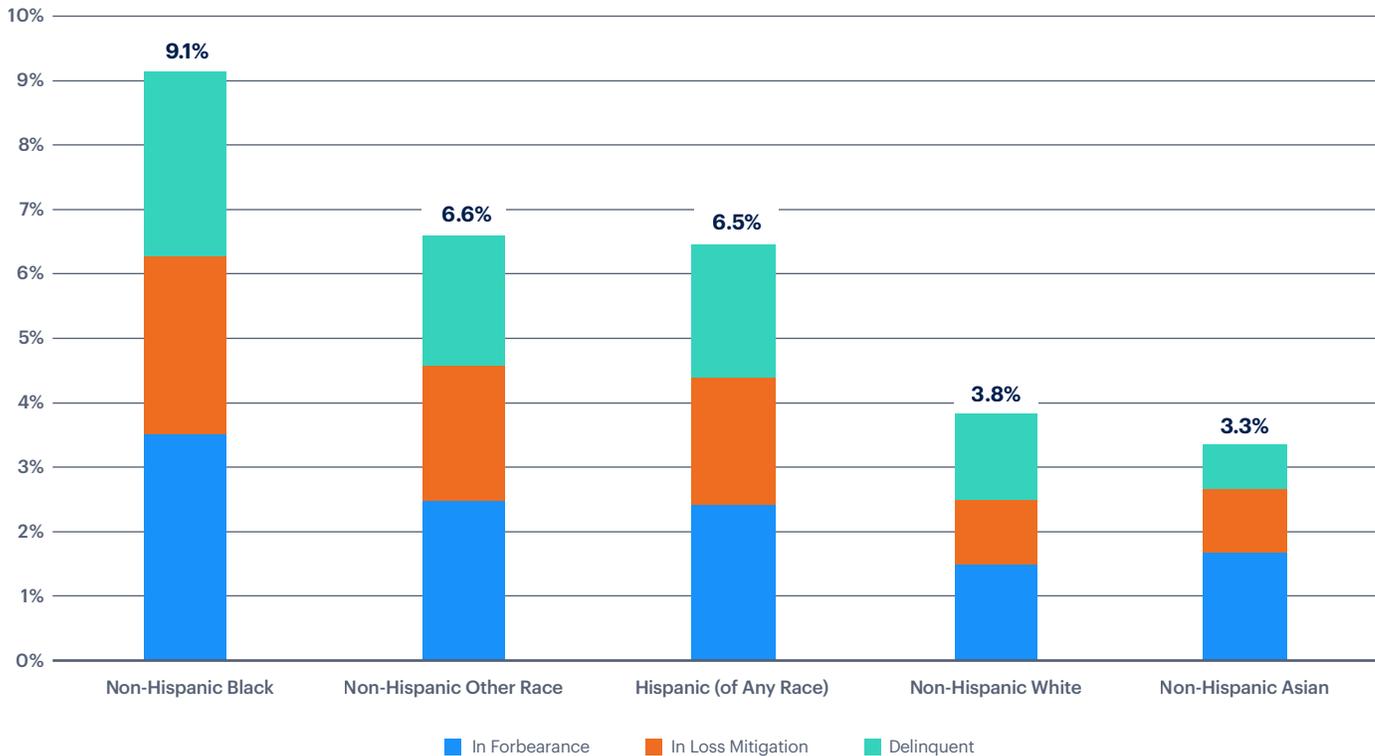
An important aspect of the pandemic is its uneven impact on different racial and ethnic groups. To examine these effects, we merged a sample of our servicing data from Black Knight Analytics with confidential Home Mortgage Disclosure Act (HMDA) data, where borrower race and household income are collected at application. As shown in **Figure 4**, 9.1 percent of Black borrowers are in some past due state, the highest of any group.

These states include borrowers in forbearance,¹² borrowers not in forbearance but in some stage of loss mitigation,¹³ and borrowers delinquent but neither in forbearance nor in loss mitigation.

For further details on Figure 4, see **Appendix 2**, which includes further breakouts for loans in different states of delinquency. Appendix 2 also includes past due rates by income quartile and our four major investor groups described in Table 1.

Demographic Shares of Past Due Mortgages

Figure 4: Past Due Rates by Race and Ethnicity



Sources: Black Knight Data & Analytics, LLC; Home Mortgage Disclosure Act (HMDA); and RADAR

Appendix 1

Modification Programs Offered by the GSEs, FHA, and VA

Target/Steps	GSE Flex Mod	FHA Advance Loan Mod (ALM)	FHA COVID-19 Recovery Modification	VA COVID-19 Refund Modification
Target	Minimum 20% reduction in P&I payment	Minimum 25% reduction in P&I payment	Minimum 25% reduction in P&I payment	Minimum 20% but not more than 25% P&I reduction
Step 1	Capitalize arrears in loan balance	Capitalize arrears in loan balance	Apply arrears to a partial claim up to 25% of current loan balance	VA purchases arrearages and deferrals up to 30% of balance, refunds proceeds to servicer for pulling loan from pool
Step 2	Set interest rate to lower of contractual rate or modification interest rate*	Set interest rate to lower of contractual rate or PMMS rate,** rounded to nearest one-eighth	Set interest rate to lower of contractual rate or PMMS rate, rounded to nearest one-eighth	Set interest rate at PMMS rate plus 50 basis points but no more than 1% higher than existing rate
Step 3	Extend maturity to 480 months from mod effective date	Extend maturity to 360 months from mod effective date	Extend maturity to 360 months from mod effective date, 480 months later in this year	Extend loan terms to 360 months from mod effective date or 120 months past remaining loan maturity
Step 4	If post-mod MTMLTV > 100%, forbear principal until MTMLTV = 100% up to 30% of post-capitalized loan cap		If 25% P&I reduction not met, apply principal deferral until 25% reduction reached up to 25% of current loan cap; place additional arrearages above cap into loan	If PITIA payment exceeds 31% of gross income, servicer contacts VA to consider additional assistance
Step 5	If 20% P&I reduction and PMHTI ratio ≤ 40% not met, forbear principal until met or 80% MTMLTV is met up to 30% post-capitalized balance		If 25% payment reduction not met, offer borrower the terms from Step 4	

Note: COVID-19 Flex Modification Terms were put in effect on June 30, 2021, for the GSEs; June 25, 2021, for the FHA ALM; and July 23, 2021, for the FHA COVID-19 Recovery Modifications. P&I = principal & interest; MTMLTV = mark-to-market loan-to-value ratio; PMHTI = post-modification payment-to-income ratio; PITIA = principal, interest, property taxes, insurance, and association fees; PMMS = Primary Mortgage Market Survey.

Sources: FHFA, [FHFA Expands Use of Interest Rate Reduction to Help Borrowers with a COVID-19 Hardship Reduce Their Monthly Mortgage Payment | Federal Housing Finance Agency](#);

FHA: HUD [Mortgagee Letter 21-18, Mortgagee Letters | HUD.gov / U.S. Department of Housing and Urban Development \(HUD\)](#); and VA: Circular 26-21-13 [26_21_13.pdf \(va.gov\)](#).

*The current modification interest rate is found at [Freddie Mac Modification Interest Rate — Freddie Mac Single-Family](#).

**The current Freddie Mac PMMS rate is found at [Mortgage Rates — Freddie Mac](#).

Appendix 2

Mortgage Shares in Different States of Nonpayment by Demographic/Investor Groups as of December 7, 2021

Demographic/Investor Classifications	In Forbearance	Delinquent, No Forbearance			Total
		In Loss Mitigation	Not in Loss Mitigation		
			30-60DPD	90+DPD	
Race and Ethnicity					
White, Non-Hispanic	1.5%	1.0%	1.0%	0.4%	3.8%
Black, Non-Hispanic	3.5%	2.8%	2.0%	0.8%	9.1%
Asian, Non-Hispanic	1.7%	1.0%	0.5%	0.2%	3.3%
Other Race, Non-Hispanic	2.5%	2.1%	1.4%	0.7%	6.6%
Hispanic (of Any Race)	2.4%	2.0%	1.5%	0.5%	6.5%
Income at Origination					
1st Quartile (Lowest)	2.3%	1.6%	1.5%	0.6%	6.0%
2nd Quartile	2.1%	1.5%	1.2%	0.5%	5.2%
3rd Quartile	1.7%	1.1%	0.8%	0.3%	3.9%
4th Quartile (Highest)	1.2%	0.6%	0.4%	0.2%	2.4%
Investor Type					
GSE	1.4%	0.4%	0.4%	0.1%	2.4%
FHA/VA	2.6%	3.0%	2.0%	0.8%	8.4%
PLMBS	4.3%	1.5%	5.4%	1.8%	13.0%
Portfolio	1.3%	0.8%	0.9%	0.5%	3.5%
Servicer Type					
Bank	1.4%	1.1%	0.8%	0.4%	3.7%
Non-Bank	3.1%	1.9%	1.8%	0.7%	7.6%

Notes: Figures are from a 20 percent random sample of data from Black Knight Data & Analytics originated in 2019 and prior matched with confidential Home Mortgage Disclosure Act (HMDA) data.

Sources: Black Knight Data & Analytics, LLC; HMDA; and RADAR

In this table, we further break past due loans not in forbearance or loss mitigation between those 30- to 60-days past due (DPD) and those 90 or more DPD, which includes loans in foreclosure.

For borrowers' household income data, we divide them by metropolitan statistical areas (MSA) median income (also in HMDA), then categorize into quartiles. We categorize borrowers relative to median income in their MSAs in the application year to make household purchasing power at application comparable across MSAs and time.

For our four major investor groups described in Table 1, consistent with these demographic trends, FHA/VA loans have significantly higher shares in nonpayment, as their business is targeted at low- to moderate-income borrowers, who have higher shares of minorities. PLMBS loans have the highest nonpayment rates; they primarily hold nonagency nonconforming mortgages.¹⁴

Endnotes

- ¹ For a more thorough treatment of issues raised in this report, see [Inequality in the Time of COVID-19: Evidence from Mortgage Delinquency and Forbearance](#) (philadelphiafed.org) by An, Cordell, Geng, and Lee (2021), who are the primary authors of this report from the Risk Assessment, Data Analysis, and Research (RADAR) Group. The views expressed in this report are solely those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.
- ² CARES Act forbearance terms were first extended by the Biden administration, then further refined by regulators. For the latest terms for federally insured mortgages, see [Extending Your Mortgage Forbearance | Consumer Financial Protection Bureau](#) (consumerfinance.gov).
- ³ Federal foreclosure moratoria expired on July 31, 2021. The CFPB amended Regulation X to provide “temporary special COVID-19 procedural safeguards” on most mortgages before servicers can start foreclosure, inclusive of all in forbearance, effective on August 31, 2021. For details, see [Protections for Borrowers Affected by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act \(RESPA\), Regulation X | Consumer Financial Protection Bureau](#) (consumerfinance.gov).
- ⁴ Around 6 percent of forbearances are servicing transfers, generally when mortgage servicing rights (MSRs) are sold to other investors, some of which will reappear in our sample.
- ⁵ More details are provided by the CFPB at [Repay Your Forbearance | Consumer Financial Protection Bureau](#) (consumerfinance.gov).
- ⁶ At this time, we cannot distinguish among borrowers who come current through a lump sum payment or repayment plan versus those who have their past due payments deferred or placed into a partial claim with the FHA.
- ⁷ Due to special features of VA loans, we cannot assess them. See Appendix 1 for a description of the VA plan.
- ⁸ Some borrowers pay their own escrows, so they are not included in their PITIs.
- ⁹ Ginnie Mae announced the creation of a new single family, fixed-rate MBS pool type to provide for securitization of modified loans with terms greater than or equal to 361 but not more than 480 months. The new Extended Term (ET) pool is available for pool issuance in December 2021. See [All Participant Memorandum \(APM\)](#) (ginniemae.gov). The GSEs offer a 40-year mortgage in their Flex Mod Program.
- ¹⁰ Loan counts vary from those reported in Table 1 in that we only include in Table 2 mortgages in forbearance that are 90 or more days delinquent.
- ¹¹ We estimate an additional 767,000 mortgages are 30- and 60-days past due and not in forbearance, making the total past due mortgage count about 2.8 million.
- ¹² We exclude the small number of borrowers in forbearance who are current on their mortgages.
- ¹³ Borrowers in loss mitigation and not in forbearance include borrowers in a “trial” loan modification, where borrowers are offered lower payments and the servicer requires several consecutive payments to be made before these more favorable loan terms are made permanent and borrowers are brought current on their mortgages.
- ¹⁴ PLMBS loans include loans that do not meet the qualified mortgage (QM) test, generally nonagency higher debt-to-income loans and those with nonstandard product terms. They also include some legacy subprime loans from the 2006–2008 period and jumbo loans, those with loan amounts that exceed those eligible for purchase by the GSEs or FHA. However, PLMBS are a very small share of the overall market, holding \$389 billion of mortgages in the \$12 trillion mortgage market (3.2 percent), according to *Inside Mortgage Finance*.