FEDERAL RESERVE BANK PHILADELPHIA
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Examining Resolution of Mortgage Forbearances and Delinquencies

From the RADAR Group, Federal Reserve Bank of Philadelphia[1]

By our projections, more than 3 million mortgages are past due, most in Coronavirus Aid, Relief, and Economic Security (CARES) Act forbearance plans. With a federal foreclosure moratorium having expired on July 31, 2021, borrowers' forbearance plans reaching their maximum terms, and additional safeguards for borrowers against servicers starting foreclosure expiring on January 1, 2022, 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, and examines delinquency and foreclosure trends in the broader market.

Mortgage Forbearances

As shown in **Table 1**, as of September 7, we estimate that 1.63 million mortgage loans remain in forbearance. These include most federally insured mortgages from the Federal Housing Administration (FHA), Veterans Administration (VA), and the two government-sponsored enterprises (GSEs) — Fannie Mae and Freddie Mac — along with the major private-sector mortgages from private-label mortgage-backed securities (PLMBS) and portfolio loans at bank and nonbank servicers.

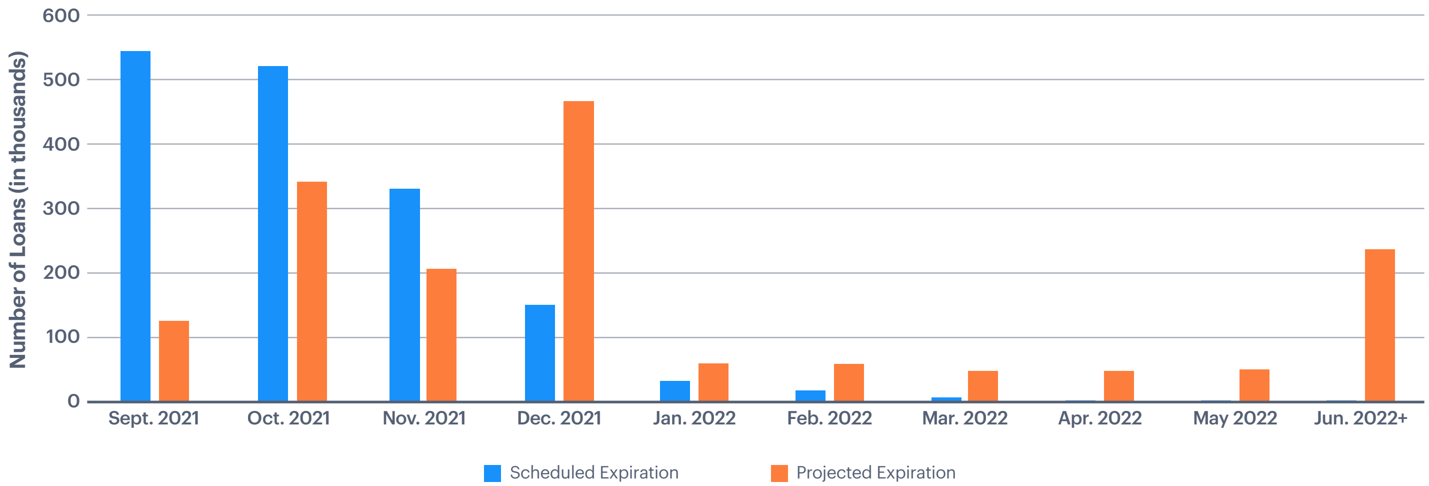
Figure 1 highlights the immediacy of the challenges facing mortgage servicers and policymakers. Most forbearances are *scheduled* to expire over the next few months (see the blue bars in Figure 1). Recent executive and regulatory actions have extended CARES Act forbearances for most mortgages to 18 months, so our projected expirations (the orange bars) are RADAR's estimates of when forbearances will expire if taken to their full terms.[2] Figure 1 shows that most terms 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). 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]

Table 1: Mortgage Loans in Forbearance by Investor Type as of September 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	660,746	485,943	197,309	287,889	1,631,888
UPB of Loan Balances in Forbearance – UPB ($Bil)	134	107	41	45	326
Share of Loans in Forbearance	5.5%	1.7%	7.9%	2.7%	3.1%

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

Figure 1: Scheduled and Projected Forbearance Exits as of September 7, 2021

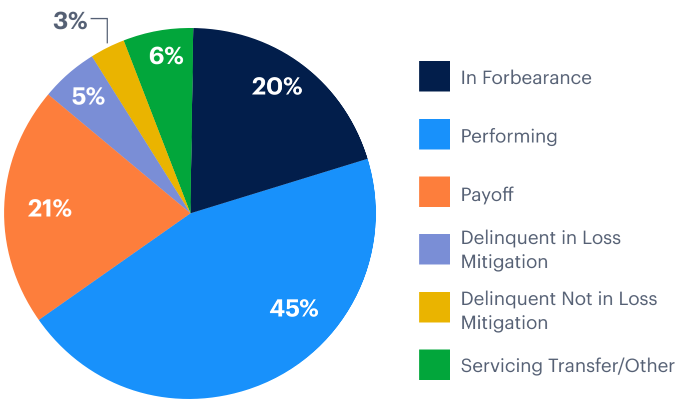


Sources: Black Knight Data & Analytics, LLC, and RADAR

Examining Home-Retention Options

As shown in **Figure 2**, since the onset of the COVID-19 pandemic, of the 8 million mortgages that entered forbearance, almost 71 percent are reperforming, 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 September 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 that are 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 later this year.[9] Each plan meets its targets differently. For conservatism, we project that 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 September 7, 2021

Program	Market Counts	Average P&I Reduction	Average PITI	Distribution of PITI Reductions						
				1st	5th	25th	Median	75th	95th	99th
GSE Flex Mod	**351,595**	32%	23%	11%	13%	17%	20%	26%	40%	53%
FHA COVID-19 Recovery Mod & 30-Year Term	**533,752**	29%	18%	10%	12%	15%	17%	19%	32%	44%
FHA COVID-19 Recovery Mod & 40-Year Term	**541,582**	36%	23%	11%	14%	18%	21%	26%	38%	49%

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 September 7, we estimate that over 986,000 mortgage loans are seriously delinquent and not in forbearance, with 45 percent of these in some stage of loss mitigation, many having come out of forbearance.[11] The figures are summarized in **Table 3.**

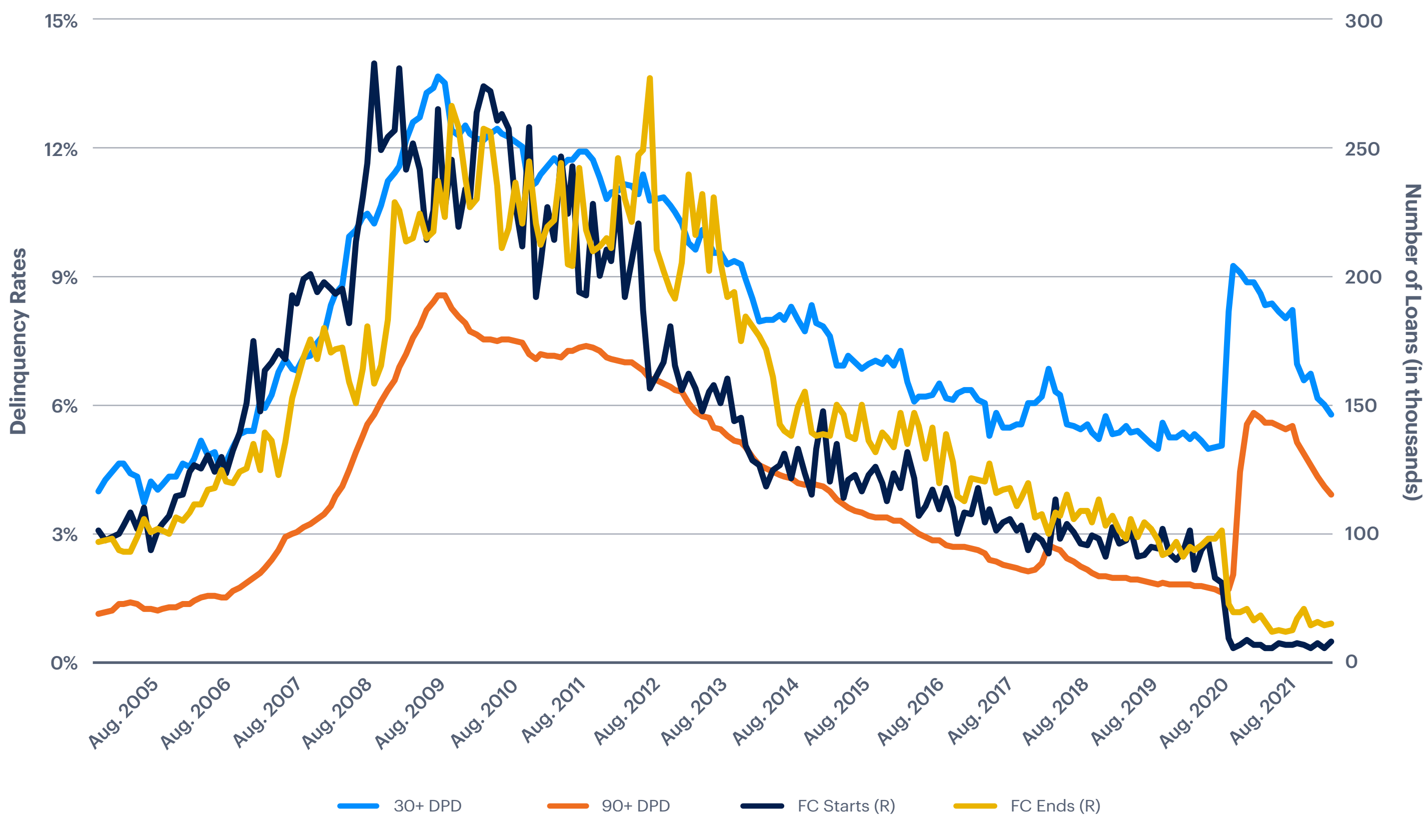
As shown in **Figure 3**, foreclosure activity stopped abruptly in March 2020 for all but vacant or abandoned properties. This low level of foreclosure activity is unprecedented in recent history. With the federal foreclosure moratorium having expired on July 31, some limited foreclosures started in August and will advance further once CFPB safeguards expire on January 1, 2022. In this report, we will examine the movement of forbearances and foreclosures in the critical months ahead.

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

Counts of Serious Delinquencies Not in Forbearance	FHA/VA	GSEs	PLMBS	Portfolio	Total
90+DPD	350,709	148,778	140,261	346,358	986,106
In Loss Mitigation	215,460	90,400	25,338	111,523	442,721
Not in Loss Mitigation	135,249	58,378	114,923	234,835	543,385

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

Figure 3: Delinquency Rates and Foreclosure Flows as of August 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

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.

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. While HUD prefers a 40-year mortgage, there is presently no market for a 40-year security, prompting the Government National Mortgage Association (GNMA) to announce its intention to develop one later this year. See press releases (ginniemae.gov). The GSEs offer a 40-year mortgage in their Flex Mod Program.

10. Numbers vary from those reported in Table 1 by the loans that do not meet their targets. We also only include mortgages that are 90 or more days delinquent.

11. We estimate an additional 640,000 mortgages are 30- and 60-days past due and not in forbearance, making the total past-due mortgage count more than 3 million.