FEDERAL RESERVE BANK PHILADELPHIA

Consumer Finance Institute

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Examining Resolution of Mortgage Forbearances and Delinquencies

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

By our projections, 2.15 million mortgages are either in forbearance or past due; around 630,000 of those were still in forbearance as of April 7.

Forbearances and seriously delinquent loans continue to decline to prepandemic levels, attributable to the strong housing market and loss mitigation activities implemented by policymakers, investors, and mortgage servicers. Nonetheless, there are still pockets of borrowers who remain at high risk of losing their homes and require special attention. This report documents how these loss mitigation programs have performed to date and the remaining pockets of risk.

In this latest monthly report, we document the first wave of mortgages that have been referred to foreclosure. To date, while they have picked up to prepandemic levels, we have not yet seen a surge of foreclosures from any backlogs. We also provide details on the disposition of the 8.65 million mortgages that entered forbearance since the onset of the pandemic. The good news here is that more than three-quarters are performing or paid off. Of the 852,000 mortgages that are seriously delinquent and not in forbearance, around 45 percent are on loss mitigation plans. But while they are in loss mitigation, nearly three-quarters are not paying. Minority and lower-income borrowers still have higher shares of nonperforming mortgages, increasing the importance of the loss mitigation plans examined below.

Mortgage Forbearances

As shown in **Table 1**, as of April 7, we estimate that 629,714 mortgage loans remain in forbearance.

These include mortgages from the Federal Housing Administration (FHA), Veterans Affairs (VA), and the two government-sponsored enterprises (GSEs) — Fannie Mae and Freddie Mac — comprising almost all of the federally insured mortgages, along with the major private-sector mortgages from private-label mortgage-backed securities (PLMBS) and portfolio loans.

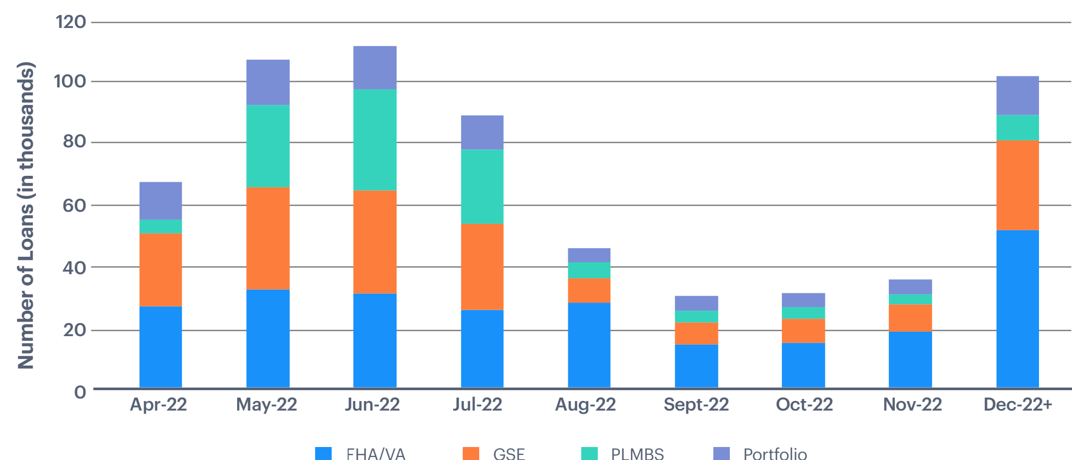
Figure 1 presents the projected forbearance expirations, assuming borrowers take the maximum forbearance allowed by various programs. Note that 39 percent of forbearances are FHA/VA mortgages.[2] Unless mortgage servicers can successfully execute home-retention options in the coming months, many borrowers face the prospect of selling their homes or losing them to foreclosure.[3]

Table 1: Mortgage Loans in Forbearance by Investor Type as of April 7, 2022

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	246,024	183,083	114,544	86,063	629,714
UPB of Loan Balances in Forbearance – UPB ($Bil)	52	38	21	8	120
Share of Loans in Forbearance	2.0%	0.7%	4.6%	0.8%	1.2%

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

Figure 1: Projected Forbearance Exits as of April 7, 2022



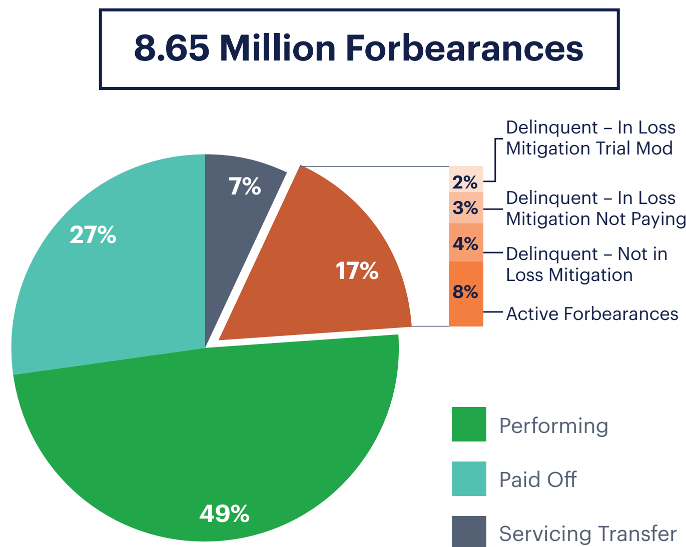
Sources: Black Knight Data & Analytics, LLC; and RADAR

Figure 1 also lists the investor categories in Table 1. Of special note, FHA/VA have 246,024 mortgages still in forbearance. Their business is targeted at low- to moderate-income borrowers, who also have higher minority shares. We will discuss the demographic characteristics of borrowers past due on their mortgages later in this report.

Examining Home-Retention Options

As shown in the green shaded areas in **Figure 2**, of the 8.65 million mortgages that entered forbearance since the onset of the pandemic, more than three-quarters are performing or have voluntarily paid off.

Figure 2: Status of Loans Ever in a COVID-19 Forbearance as of April 7, 2022



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

The focus of our analysis is on those borrowers who are still not paying, whether in forbearance or out of forbearance, depicted by the orange segments pulled out of Figure 2. Together, these make up about 17 percent of borrowers who entered forbearance.

For these borrowers, 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:[4]

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 back when the mortgage pays off.

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.

As shown in **Appendix 2**, 31 percent of borrowers have taken the first option thus far. Some borrowers will be unable — or choose not — to resume their regular mortgage payments. Loan modifications that reduce the mortgage payment are available to these borrowers; 11 percent have already done so, with another 2 percent in transition for a modification (i.e., on a “trial modification”). 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,[5] 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).[6]

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, which was formally announced on April 1 and expected to be available in June.[7] Each plan meets its targets differently. For conservatism, in the analysis below, we assume all borrowers will forbear to their full terms.

Table 2: Reductions in Payments Under Federally Insured Mortgage Programs as of April 7, 2022

Program	Market Counts	Average P&I Reduction	Average PITI Reduction	Distribution of PITI Reductions						
				1st	5th	25th	Median	75th	95th	99th
GSE Flex Mod	126,045	21%	14%	0%	2%	8%	12%	18%	36%	49%
FHA COVID-19 Recovery Mod & 30-Year Term	149,519	25%	16%	0%	10%	14%	16%	18%	21%	38%
FHA COVID-19 Recovery Mod & 40-Year Term	149,519	27%	17%	5%	11%	14%	16%	18%	26%	42%

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

For the FHFA and HUD programs, **Table 2** reports average declines in P&I and PITI monthly payments, with the full distribution of PITI reductions shown alongside the averages.[8] Note that since recent interest rate increases, average payment reductions have decreased significantly and are now below program targets. For example, the average PITI reduction for GSE Flex Mods was 19 percent in December, 5 percentage points more than in April.

Mortgage Delinquencies Not in Forbearance and Foreclosure Activity

As of April 7, we estimate that 851,621 mortgages not in forbearance are seriously delinquent, with 45 percent of these in some stage of loss mitigation, many having come out of forbearance.[9] (See **Table 3**.) However, note that 72 percent of these are still not paying at this time.

For the 465,903 seriously delinquent loans not in loss mitigation, 62 percent never entered forbearance. When we examined these, we saw that 60 percent were originated before 2009. Many of these loans likely had been worked out before, thus loss mitigation may not have been an option. In the case of the private loans (i.e., PLMBS and Portfolio), 85 percent of seriously delinquent loans not in loss mitigation were originated before 2009.

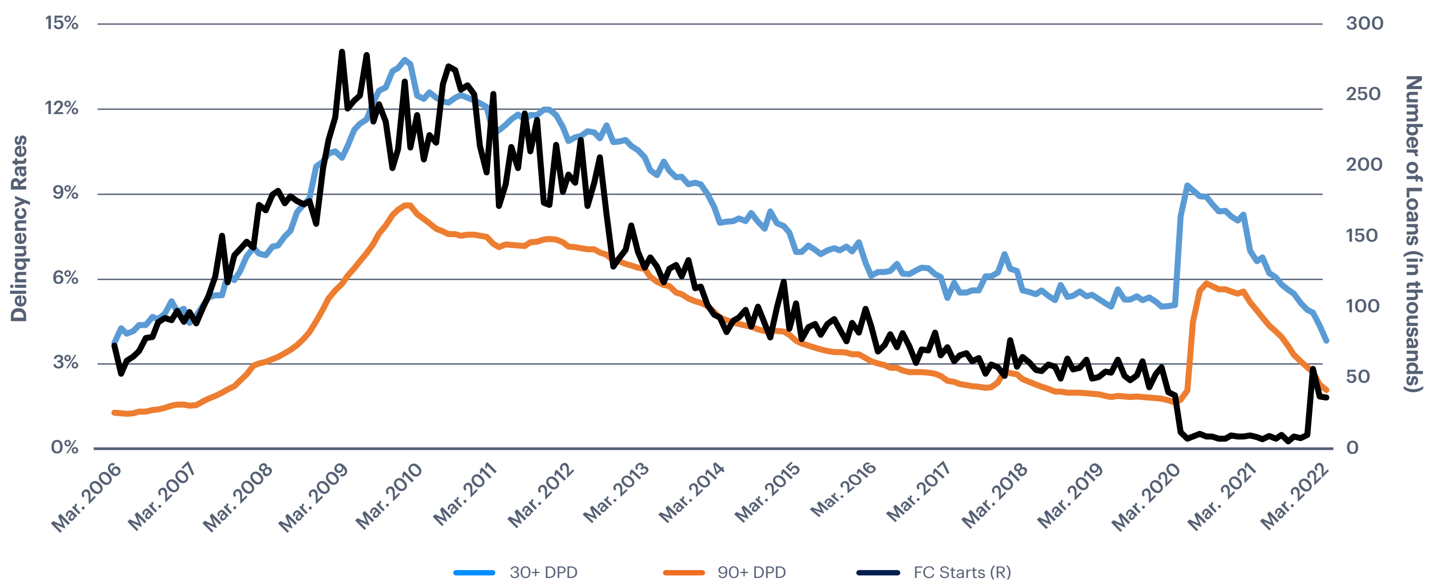
As shown in **Figure 3**, because of the CARES Act foreclosure moratorium and subsequent Consumer Financial Protection Bureau (CFPB) temporary protections, foreclosure activity stopped abruptly in March 2020 for all but vacant or abandoned properties through December 2021. These protections ran out on January 1, 2022. In January, foreclosure starts rose to an estimated 56,000, consistent with prepandemic levels. February and March recorded another 37,000 and 36,000 foreclosure starts, respectively. While these numbers are far higher than those during the pandemic, they are now at levels observed prepandemic. So, we have yet to see a surge in foreclosure starts since protections ran out.

Table 3: Counts of Mortgage Loans Seriously Delinquent, Not in Forbearance by Investor Type as of April 7, 2022

Counts of Serious Delinquencies Not in Forbearance	FHA/VA	GSEs	PLMBS	Portfolio	Total
90+DPD	333,305	132,466	123,203	262,647	851,621
Not in Loss Mitigation	149,510	47,062	91,995	177,336	465,903
Share Never in Forbearance	53%	45%	61%	75%	62%
In Loss Mitigation	183,795	85,404	31,208	85,311	385,718
Share Never in Forbearance	18%	11%	21%	23%	18%
Share in Loss Mitigation, Not Paying	77%	59%	81%	70%	72%

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

Figure 3: Delinquency Rates and Foreclosure Flows as of April 7, 2022
(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

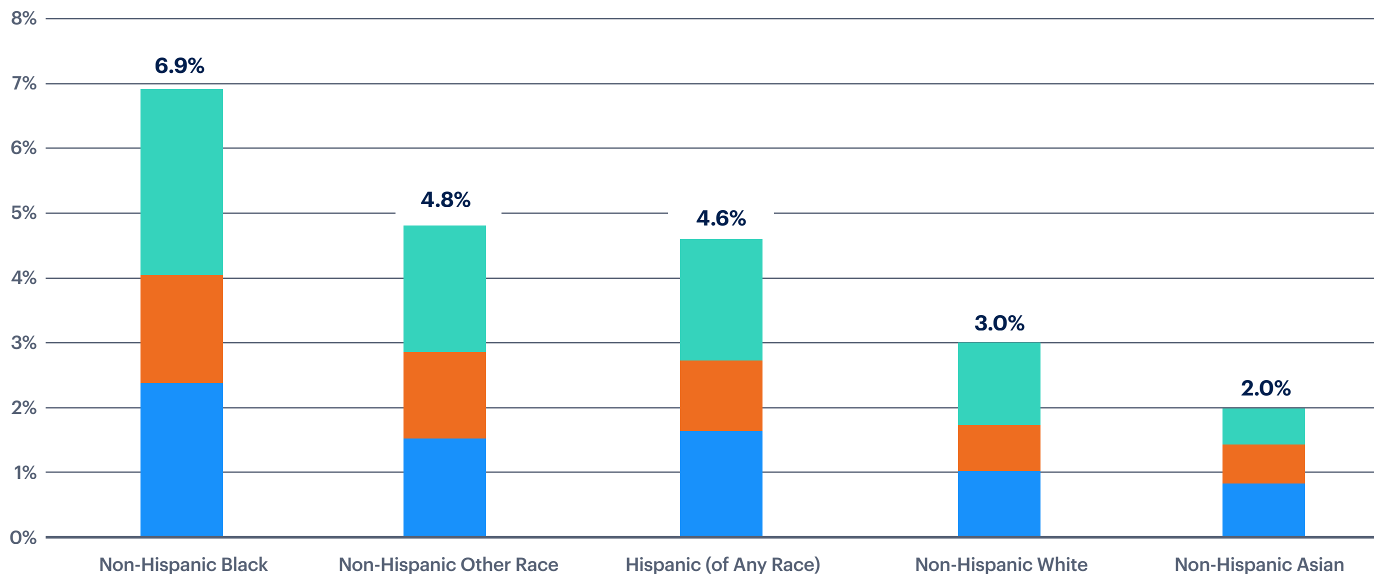
An important aspect of the pandemic is its uneven impact on different racial and ethnic groups. To examine these effects, we merged a sample of our servicing data from Black Knight Analytics with confidential Home Mortgage Disclosure Act (HMDA) data, in which borrower race and household income are collected at application. As shown in **Figure 4**, 6.9 percent of Black borrowers are in some past due state, the highest of any group. Hispanic borrowers have the next highest rates, above those of White or Asian borrowers.

These states include borrowers in forbearance, borrowers not in forbearance but in some stage of loss mitigation,[10] and borrowers who are delinquent but neither in forbearance nor in loss mitigation.

For additional details on Figure 4, see **Appendix 3**, which includes these past due percentage breakouts as well as past due rates by income quartile and for our four major investors described in Table 1.

Demographic Shares of Past Due Mortgages

Figure 4: Past Due Rates by Race and Ethnicity as of April 7, 2022



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

COVID-19 Forbearance Dispositions as of April 7, 2022

Category 1: Performing or Paid Off	
Performing	**49%**
Always Performing	8%
Lump-Sum Payment	12%
Repayment Plan	11%
Deferrals/Partial Claims	8%
Modification	11%
Payoff	**27%**
Payoff from Delinquency or Forbearance	9%
Payoff from Current	18%
Category 2: Still in Forbearance	
Active Forbearances	**8%**
Category 3: Delinquent, Defaulted	
Delinquent — In Loss Mitigation Trial Mod	**2%**
Delinquent — In Loss Mitigation Not Paying	**3%**
Delinquent — Not in Loss Mitigation	**4%**
Default	**0%**
Servicing Transfer	**7%**
Total	**100%**
Share Lump-Sum Payment, Repayment Plan, Arrears Deferral — Option 1	31%
Share Paid Off Out of Forbearance or Delinquency	33%
Share Performing or Paid Off	76%
Share of Loans Delinquent in Loss Mitigation Not Paying	63%

Notes: This table summarizes from our sample the disposition of all loans that entered forbearance during the pandemic. Dispositions were determined by gathering servicers' classifications and examining monthly payment patterns compared against scheduled payments. Deferrals place past due arrears to the end of the loan; *partial claims* are the names given to FHA/VA deferrals. *Trial modifications* are defined as those classified in loss mitigation, still delinquent but where borrowers are making payments. Servicing transfers are loans sold where a status could not be determined.

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

Appendix 3

Mortgage Shares in Different States of Nonpayment by Demographic/Investor Groups as of April 7, 2022

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	1.0%	0.7%	0.9%	0.4%	3.0%
Black, Non-Hispanic	2.4%	1.7%	2.0%	0.9%	6.9%
Asian, Non-Hispanic	0.8%	0.6%	0.4%	0.2%	2.0%
Other Race, Non-Hispanic	1.5%	1.3%	1.4%	0.6%	4.8%
Hispanic (of Any Race)	1.6%	1.1%	1.4%	0.5%	4.6%
Income at Origination					
1st Quartile (Lowest)	1.6%	1.1%	1.3%	0.6%	4.6%
2nd Quartile	1.4%	1.0%	1.1%	0.5%	3.9%
3rd Quartile	1.1%	0.7%	0.8%	0.3%	2.8%
4th Quartile (Highest)	0.6%	0.5%	0.4%	0.2%	1.7%
Investor Type					
GSE	0.8%	0.5%	0.4%	0.1%	1.8%
FHA/VA	1.9%	1.7%	2.0%	0.9%	6.6%
PLMBS	3.6%	1.3%	4.2%	1.6%	10.8%
Portfolio	0.7%	0.6%	0.7%	0.4%	2.4%
Servicer Type					
Bank	0.9%	0.7%	0.8%	0.3%	2.7%
Non-Bank	2.4%	1.4%	1.8%	0.8%	6.4%

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 also have higher shares of minorities. PLMBS loans have the highest nonpayment rates; they primarily hold nonagency nonconforming mortgages.[11]

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). Industry sources have informed us that PLMBS and Portfolio forbearance terms track those GSEs.

[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] More details are provided by the CFPB at Repay Your Forbearance | Consumer Financial Protection Bureau (consumerfinance.gov).

[5] Due to special features of VA loans, we cannot assess them. See Appendix 1 for a description of the VA plan.

[6] Some borrowers pay their own escrows, so they are not included in their PITIs.

[7] The Department of Housing and Urban Development (HUD) proposed a rule on April 1, 2022, to increase the term of modified loans up to 480 months. With the comment period ending May 31, the 40-year term for FHA loan modifications is expected to be rolled out in June. The GSEs presently offer a 40-year mortgage in their Flex Mod Program, which private-sector investors have also adopted. As explained in An et al. (2021), extending terms to 40 years is the lowest cost option for reducing payments for loan mods, lower than reducing the interest rate to the market rate or forbearing on past payments or additional principal.

[8] 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.

[9] We estimate an additional 672,000 mortgages are 30- and 60-days past due and not in forbearance, making the total past due mortgage count about 2.15 million.

[10] 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.

[11] 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*.