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Mortgage Forbearance During Covid-19

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Who has taken up forbearance?
CARES Act provides generous forbearances for mortgagors

- Under CARES, up to 18 months of forbearance became available to many mortgagors

- Up-take of the program was swift and steep, with 7.4% of loans in forbearance by May 2020

- In March of 2021, 2.2 million mortgages were still in forbearance

- 1.2 million of those had been in forbearance since June 2020 or earlier

Forbearance entry, exit, and overall rate

% of loans

Source: New York Fed Consumer Credit Panel / Equifax
FHA borrowers most likely to participate in forbearance

- FHA borrowers were most likely to participate in forbearance, with 14.4% of borrowers in forbearance by June 2020.

- In contrast, GSE mortgages, which comprise the largest share of the market, had only 6% at the highest point and only 3% remain in forbearance as of March 2021.

Mortgage forbearance rate by loan type

Source: New York Fed Consumer Credit Panel / Equifax
Forbearance is more common in lower-income neighborhoods

• Borrowers in lower income areas have highest forbearance participation rates

• In higher-income neighborhoods, forbearance participation is lower and also has declined more as the pandemic has progressed

• Overall, forbearance has served as a lifeline for distressed lower income homeowners

% of mortgages in forbearance by zipcode income quartiles

Source: New York Fed Consumer Credit Panel / Equifax; IRS Statistics of Income
Note: Individuals are grouped into income buckets based on their address in March 2020
Struggling borrowers lean more heavily on forbearances

- Borrowers who were delinquent before the pandemic began opted into forbearances at very high rates
- 40% of borrowers who were 90 days past due on their mortgage went into forbearance
- Among borrowers who were current on their loans before the pandemic hit, the forbearance participation rate reached 7.2% in May 2020 but has since declined to 4.5%

Mortgage forbearance rate by pre-pandemic delinquency

Source: New York Fed Consumer Credit Panel / Equifax
Note: Lines are grouped by delinquency status in March 2020
Who has taken up forbearance?

- Overall, 7.4% of mortgage borrowers by June 2020 were in forbearance, and 4.2% remain

- Borrowers more likely to take up forbearance:
  - With FHA loans (14% at peak)
  - in lower income neighborhoods (10%)
  - Seriously delinquent on mortgages before the pandemic (40%)
What happened to forborne borrowers?
Mortgage delinquency rate drops with forbearance as an option

(Mortgage Forbearance Entrants in April-May 2020)

- The mortgage delinquency rate on credit report plummeted between March and May 2020 when forbearance became an option
- There are two reasons for this:
  - Uptake was higher among borrowers who were already struggling with repayment
  - Some loans that were previously delinquent are now listed as current without making a payment
  - For borrowers with new struggles, entering forbearance instead of delinquency was an option
- About 60%-70% of forborne borrowers skipped payment, with the rest continuing to make payments

Source: New York Fed Consumer Credit Panel / Equifax
Despite leniency on mortgages, other delinquency persists

- Among mortgage borrowers:
  - Borrowers who have participated in forbearance at any point since the pandemic have seen their non-housing (auto, credit card, other consumer debt) delinquency rates persist
  - Borrowers who have never entered forbearance have maintained low delinquency on non-housing debt
  - Note that student loans are excluded from these estimates.

### 90+ dpd delinquency rates on non-mortgage balances

% of balances

- **forbearance since pandemic**
- **no forbearance**

Source: New York Fed Consumer Credit Panel / Equifax
Forborne borrowers’ credit card balances decline steeply

• Credit card balances belonging to borrowers who participated in forbearance have declined by 23% since the pandemic began (-$2,000)

• Borrowers who never participated in forbearance saw smaller balance reductions in their credit card balances, with an average 15% decline (-$900)

• The larger decline among forborne borrowers may reflect either reduced consumption among those who have experienced pandemic-related hardship, or a debt prioritization to direct extra cash to expensive revolving debt balances

Credit card balances among mortgagors

% change from March 2020

Source: New York Fed Consumer Credit Panel / Equifax
Higher income borrowers in forbearance see largest balance declines

- Forborne borrowers in higher income neighborhoods saw dramatic reductions in their credit card balances, with an average 30% reduction from March-2020 to March-2021.

- Borrowers living in other neighborhoods also saw a 20% reduction in their credit card balances.

- Cash diverted from forborne mortgage payments, paired with stimulus payments and limited consumption opportunities have likely contributed to these declines.

Credit card balance changes among forbearance participants by zipcode income

Source: New York Fed Consumer Credit Panel / Equifax; IRS Statistics on Income
Note: Individuals are grouped into income buckets based on their address in March 2020.
What happened to forborne borrowers?

- Mortgage delinquency rates on credit reports dropped
- Delinquency on non-mortgage debts persisted
- Credit card balances declined more steeply among forborne borrowers
  - Declines most pronounced for higher-income area borrowers
- About 60%-70% skipped payment
Did small business owners turn to personal credit?
Forbearance has been higher among business owners, although has come down more sharply

- Business owners differ from the general population – they tend to live in wealthier neighborhoods, be slightly older, higher credit scores, are more likely to have a variety of credit products and have higher balances.

- Despite their more favorable creditworthiness profiles, they were far more likely to take on forbearance on their personal mortgages during the pandemic.

- This contrasts with lower forbearance rates among higher-income and higher-credit score borrowers in the general population.

% of mortgage borrowers in forbearance

Source: New York Fed Consumer Credit Panel / Equifax; Equifax Commercial Database
Business owners in harder-hit industries had higher forbearance rates

- Business owners in the Accommodations and Food Services supersector saw the highest forbearance rates, at 24%
- Some sectors saw far lower forbearance uptake rates

% of mortgagors ever in forbearance
(March 2020 or after)

Source: New York Fed Consumer Credit Panel / Equifax; Equifax Commercial Database
Small business owners used home equity during the pandemic

- The average HELOC balances on small business owners' personal credit reports jumped by 3.4% between February and May 2020.

- In contrast, those of the general population declined by 0.6% during this same period.

- The difference has persisted over the past year, with the paydown of business owners’ HELOC balances lagging that of the general public.
  - Overall, balances are down 13% since Feb 2020;
  - Business owners’ balances are down by only 10% since Feb 2020.

Source: New York Fed Consumer Credit Panel / Equifax; Equifax Commercial Database
Forbearances may be forestalling delinquency on other debts among forborne small business owners

- We previously showed the non-mortgage delinquency rates (credit card, auto loans, and other) among forborne borrowers have been creeping up.

- For business owners, in contrast, the delinquency rate on non-housing debt has been basically level after a brief uptick in July.

- Note that these exclude student loans.

% of non-mortgage balances (on personal accounts) 90+ days past due

Source: New York Fed Consumer Credit Panel / Equifax; Equifax Commercial Database
Did small business owners turn to personal credit?

- Business owners, and especially those in hard-hit industries, took up mortgage forbearance at a higher rate in spite of having higher credit scores.
- They drew against HELOC accounts in the beginning of the pandemic.
- Unlike most forborne borrowers, owners have not seen deterioration in non-mortgage delinquency rates.
What’s next for forborne borrowers?
Nearly 2/3 of forbearance participants have exited the program

- 13% of borrowers spent at least one month of the pandemic in forbearance, but only 35% of those participants remain in forbearance as of March 2021
  - A third of participants were in forbearance for only 1-2 months
  - So far, 12% of taken advantage of the maximum possible forbearance
- Many borrowers exited forbearance by prepaying their loan – likely either by moving or refinancing

Forbearance Duration Distribution as of March 2021

% of mortgages in forbearance

[Graph showing distribution of forbearance duration]

Source: New York Fed Consumer Credit Panel / Equifax
Lower income and lower credit score borrowers linger in forbearance

% of borrowers in forbearance by neighborhood income

1st quartile
16%
(38% remaining)

2nd quartile
12%
(37% remaining)

3rd quartile
12%
(37% remaining)

4th quartile
11%
(31% remaining)

% of borrowers in forbearance by pre-pandemic credit score

<620
29%
16%
16%
12%
8%

620-659
20%
9%
6%
4%
2%

660-719
16%
6%
4%

720-759
12%

760+
10%

ever participated in forbearance forbearance in March-2021

Source: New York Fed Consumer Credit Panel / Equifax; IRS Statistics of Income
Note: Credit score is Equifax Risk Score 3.0; Income is average income in zip code of borrower
Credit scores creep up

- Average credit scores have crept up for borrowers overall in the past year

- The increases have been larger among forbearance participants

- Credit score improvements were most pronounced among subprime forbearance participants

Average credit score among mortgagors

Source: New York Fed Consumer Credit Panel / Equifax;
Note: Credit score is Equifax Risk Score 3.0
What's next for forborne borrowers?

- Forbearance durations have varied, with 1/3 exiting after 1-2 months, and only 12% taking advantage of the maximum (so far)
- Those remaining in forbearance are increasingly borrowers from lower income areas and lower credit scores, and more likely to have been in delinquency just before the pandemic
- Those not making their mortgage payments are most at-risk for delinquency when forbearance policies end
  - A pessimistic estimate that assumes they all become delinquent implies an increase in the delinquency rate to 3.8% of mortgagors – a steep increase –but lower than the 6.3% of 2010
Key takeaways

- CARES Act has been successful at avoiding widespread damage on consumer credit reports.

- Credit scores may be less informative as protection from delinquency has lifted the scores of would-be troubled borrowers.

- Cautious estimates suggest that mortgage delinquency rates will increase when supports end, but not to levels seen in 2010.

- Economic conditions and the evolution of supportive policies will determine the stability of the household sector as the pandemic begins to ebb.