

ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

Widespread Housing Foreclosures Unlikely

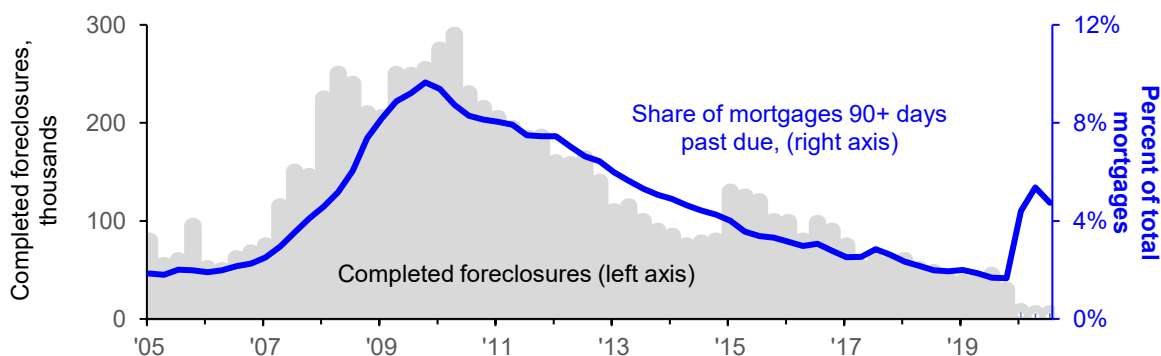
More than four percent of residential mortgages were three or more payments late at the end of December 2020, an arrearage few can overcome without help. However, unlike mortgages delinquent during the Great Recession, most of today's severely delinquent mortgages are not expected to end in foreclosure. This is primarily due to relief provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which covers most low- and moderate-income borrowers. Nonfederal mortgages—which are neither federally backed nor sponsored—are not statutorily entitled to relief. However, most nonfederal mortgages should withstand economic stress due to tighter borrower qualifications. In addition, most private lenders are also offering deferral or forbearance programs, so even troubled nonfederal borrowers can receive assistance. In sum, the prevalence and design of today's mortgage relief should help most troubled borrowers overcome temporary hardships without losing their homes to foreclosure.

Rise in Severely Delinquent Mortgages Not Resulting in Foreclosures

According to the Mortgage Bankers Association (MBA), the share of residential mortgages with three or more missing payments doubled between March and December 2020 to 4.7 percent. Reimbursing three or more missed payments along with interest and penalties presents a challenge for struggling borrowers; when mortgages become 90 days past due, that is a key turning point in expected future loan performance. For instance, from 2000 to 2018, more than one-third of Fannie Mae loans reaching 90 days past due ended with a negative disposition—either a short sale, deed in lieu of foreclosure, or foreclosure.¹ However, today's severely delinquent borrowers are thus far keeping their homes thanks to state and federal aid along with the suspension of some court proceedings during the COVID-19 pandemic. According to ATTOM Data Solutions, lenders repossessed approximately 50,000 properties during 2020, down 65 percent from the prior year even though delinquency rates doubled.

¹ This statement is based on Office of the Comptroller of the Currency (OCC) analysis of the Fannie Mae public-use dataset, which includes recidivism.

Figure 1: Foreclosures Remain Low Despite Surge in Past Due Mortgages

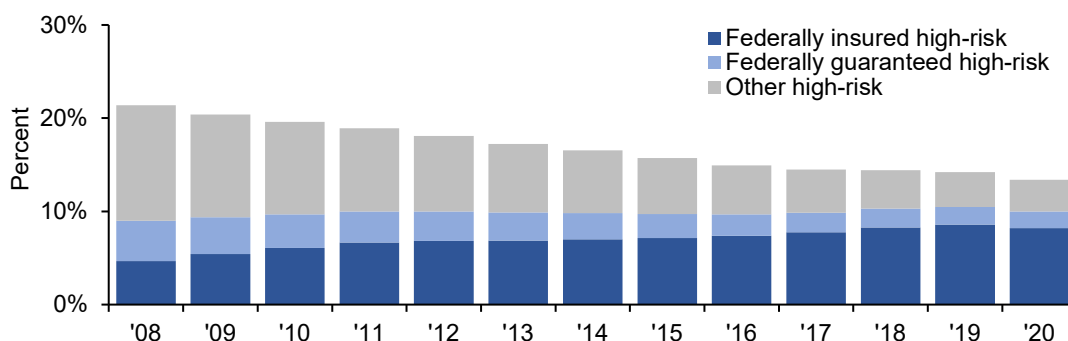


Sources: ATTOM Data Processing, Mortgage Bankers Association

CARES Act Offers Relief to Most At-Risk Borrowers

Under the CARES Act, all federally insured mortgages from the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the U.S. Department of Agriculture (USDA) as well as mortgages guaranteed by the government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac (hereafter referred to as federal mortgages) are entitled to two forms of relief. First, borrowers are eligible for up to 18 months of forbearance due to a COVID-19-related hardship if they enroll.² When forbearance ends, the borrower may roll forgone payments into the loan balance and avoid one of the primary challenges associated with making severely delinquent loans current—back payments and penalties.

Figure 2: Share of Outstanding Mortgage Loans by Owner and Risk Categorization



Source: National Mortgage Database (data through fourth quarter of 2020)

Note: Federally insured mortgages are insured by FHA, VA, or USDA. Federally guaranteed mortgages are guaranteed by Fannie Mae or Freddie Mac.

Note: Higher-risk loans are those associated with borrower risk (loans with at least two of the following characteristics: loan-to-value > 95%, debt-to-income ratio > 43%, or credit score < 640); product risk (loans with a prepayment penalty, negative amortization, or a balloon or interest-only payment); or both.

²The initial CARES Act 12-month forbearance duration was extended in response to persistent borrower hardship. On [February 25, 2020](#), the GSE regulator, the Federal Housing Finance Agency, extended the duration of forbearance plans offered by Fannie Mae and Freddie Mac to 18 months for borrowers on forbearance as of February 28, 2021. As of [February 16, 2021](#), FHA, VA and USDA borrowers who entered forbearance on or before June 30, 2020, became eligible to extend forbearance from 12 to 18 months in three-month increments.

Second, servicers are prohibited from initiating or proceeding with foreclosures until June 30, 2021, for federally insured mortgages.³ Because most financial hardships arising from the pandemic are predicted to be temporary, the relief offered under the CARES Act should help borrowers with federal mortgages keep their homes. As of December 2020, more than three-quarters of all outstanding mortgages were federally insured or guaranteed, and therefore, entitled to relief. More importantly, two-thirds of all higher-risk mortgages—loans with certain product or borrower characteristics that historically default at higher rates—are federally insured or guaranteed (see figure 2). This is a departure from the prior recession when higher-risk loans were securitized into private-label securities with widespread ownership and unique pooling and servicing agreements that made loan modifications practically impossible.

New Data Provides Unique Insight Into the Mortgage Market

Using the novel National Mortgage Database (NMDB) created by the Federal Housing Finance Agency (FHFA) and the Consumer Financial Protection Bureau (CFPB), it is possible to explore forbearance and payment status at a loan level. The NMDB assembles credit, administrative, servicing, and property data for a nationally representative 5 percent sample of closed-end, first-lien residential mortgages that is updated quarterly. According to an analysis of the NMDB, 4 percent of mortgages were in forbearance as of February 13, 2021, which is noticeably lower than the MBA's estimate of 5.2 percent.⁴ This discrepancy is due to different sampling. The MBA survey is based on 39 million mortgages serviced by medium to larger mortgage servicers that consistently report higher delinquency rates, and therefore, those borrowers are more likely to seek forbearance. The NMDB is based on a random sample of nearly 50 million active mortgages and includes smaller mortgage servicers that consistently report lower delinquency levels.⁵

The NMDB's loan-level compilation and reporting allows more granular analysis than any other existing mortgage database. One downside is that NMDB loan performance is based on consumer credit bureau reporting rather than administrative or servicing data. Normally this would not matter; however, creditors are required to report accommodated accounts as current under the CARES Act.⁶ Therefore, loan performance data from credit bureaus is less reliable this cycle. As an alternative, it is possible to ascertain whether the borrower made their recent payment. Using the underlying NMDB, figure 3 compares mortgage forbearance and payment status by loan ownership as of February 13, 2021. Loans are segmented into three categories: (1) 1.7 percent in forbearance and making payments, (2) 2.1 percent in forbearance but missing payments, and (3) 1.9 percent missing payments and not in forbearance.

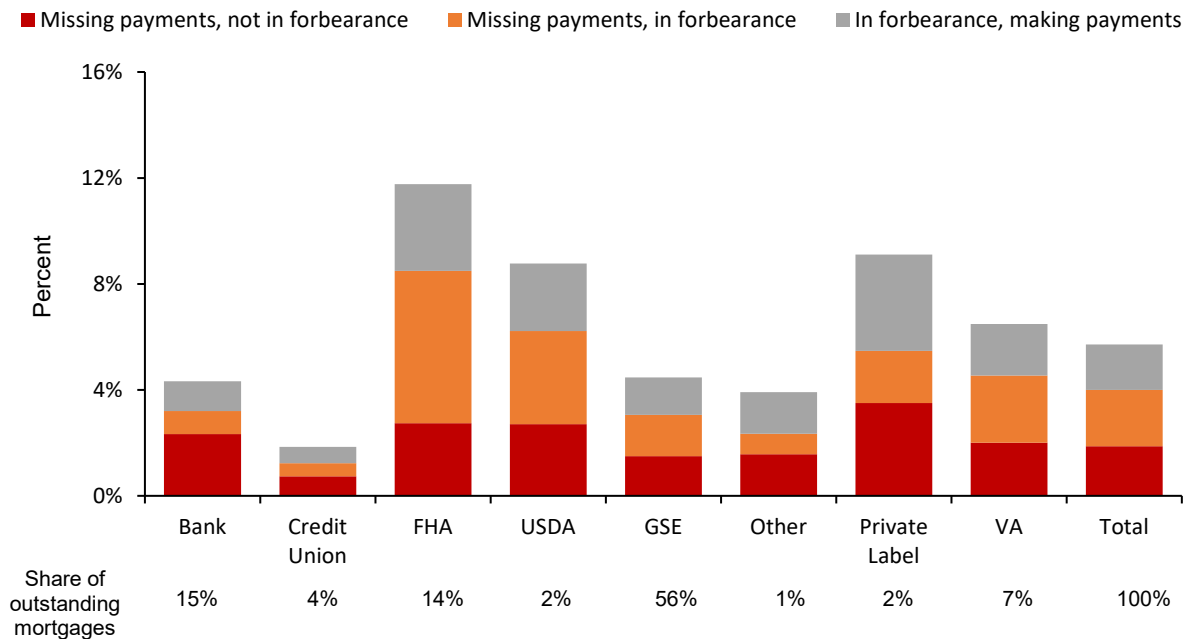
³ On [February 16, 2021, the FHA, USDA, and VA](#) extended their foreclosure moratorium through June 30, 2021. On [February 25, 2021, the FHFA](#) extended the foreclosure moratorium on GSE mortgages through June 30, 2021.

⁴ The NMDB released a monthly update to their fourth quarter 2020 release, which contains consumer credit bureau archives as of mid-February. Therefore, roughly half of loans are reported through January 2021 and the other half through mid-February, depending on the servicer's timeliness in reporting.

⁵ For a discussion about disparities in loan performance by small and large mortgage servicers, see this [CFPB report](#) from 2019.

⁶ The MBA delinquency survey is taking a different tack by [instructing](#) mortgage servicers to report whether or not loans are performing based on the original terms of the mortgage, even if the borrower is in forbearance.

Figure 3. Outstanding Mortgages by Owner, Forbearance and Payment Status as of February 13, 2021



Source: National Mortgage Database (consumer credit report archive as of February 13, 2021)

As discussed above, mortgage ownership determines a borrower’s options. Even among federal mortgages, different deadlines apply for forbearance, as well as differing foreclosure moratorium dates. Given the differing loan composition in each segment, as well as the available relief, federal and nonfederal forbearance is explored separately.

Federal Borrowers Missing Payments but Not in Forbearance Have Options to Avoid Foreclosure

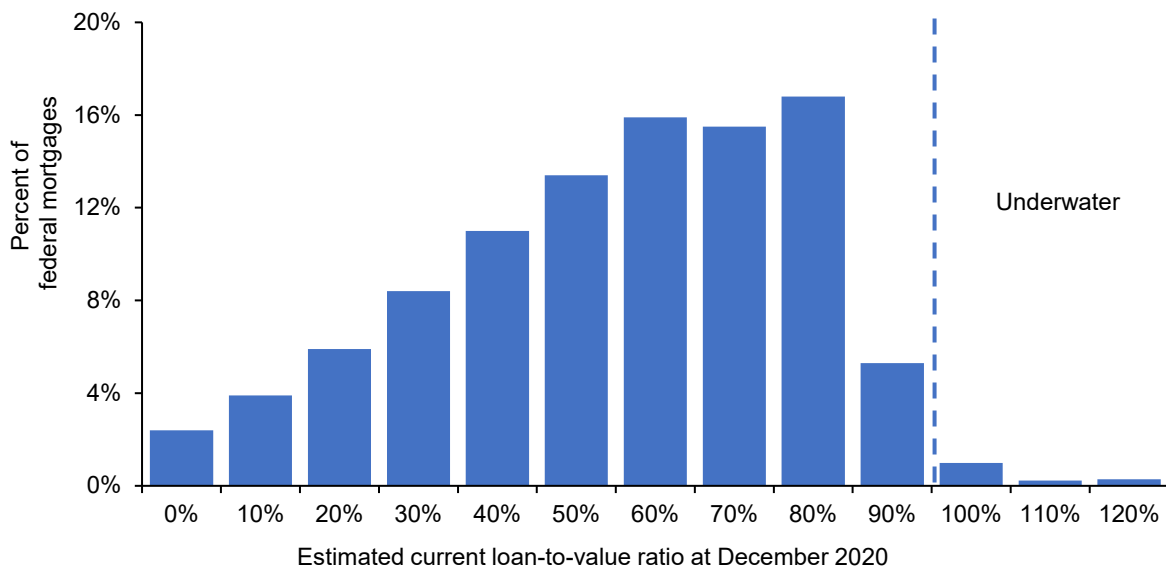
Unfortunately, analysis of the NMDB reveals roughly 650,000 federal borrowers are behind in payments and *not* enrolled in forbearance. Although relief would be automatically granted, borrowers must request forbearance from their mortgage servicer. While no foreclosure proceedings on federal mortgages can begin until the moratorium ends, delinquent borrowers not enrolled in forbearance will be subject to negative consequences, including foreclosure, once the moratorium ends. Despite their delinquency, these borrowers are eligible to apply for forbearance anytime for GSE mortgages or through June 30, 2021, for FHA, USDA, and VA mortgages.⁷ Under the CARES Act, delinquent status will be frozen, and borrowers may receive up to one year of suspended payments and stave off foreclosure.

Borrowers not enrolled in forbearance typically have higher levels of home equity than borrowers in forbearance, which provides more economic options. Using the NMDB and applying the localized FHFA home price index, each loan’s current loan-to-value ratio (CLTV) is estimated. The relative frequency of federal loans not in forbearance and missing payments by CLTV is shown in figure 4. As of December 2020, very few of these loans are underwater—

⁷ The original CARES Act February 28, 2021, deadline to apply for forbearance was eliminated or extended. As of January 31, 2021, Fannie Mae and Freddie Mac have no forbearance enrollment deadline. On [February 16, 2021](#), the FHA, USDA, and VA extended their forbearance enrollment deadlines until June 30, 2021.

meaning the outstanding mortgage balance exceeds the home's value. Half of borrowers not in forbearance have a home equity percentage of at least 40 percent of the property's value, which provides more flexibility and options for struggling borrowers. It also begs the question of why a borrower with significant home equity would risk default by not enrolling in forbearance. According to a [National Housing Resource Center](#) survey of housing counselors, many borrowers are either unaware of their forbearance options or misunderstand them. For example, they are afraid forbearance may require a lump-sum payment.

Figure 4. Share of Federal Mortgages (Not in Forbearance) with a Missed Payment as of February 13, 2021, by Loan-to-Value ratio, as of December 2020



Source: National Mortgage Database (data through December 2020)

Note: Federal mortgages include mortgages insured by FHA, VA, or USDA and mortgages guaranteed by Fannie Mae or Freddie Mac.

Troubled Nonfederal Borrowers Are Well-Positioned to Weather Economic Downturn

Nonfederal loans, which are primarily owned by depositories or, to a lesser extent, bundled in private-label securities (PLS), are not covered by the CARES Act. Setting aside the legacy PLS mortgages originating during the peak of the mid-2000s housing boom, most private capital comes from banks and credit unions, which tend to have stricter origination guidelines. Table 1 presents the median origination characteristics of outstanding mortgages as of December 2020, by holder. Although a rough comparison, loans made and owned by depositories had characteristics associated with lower levels of default, lower loan-to-values, lower debt-to-income ratios at origination, and higher borrower credit scores. Thus far, payment rates, by holder, track with the original origination metrics. Likewise, the overall portfolio of depository mortgages should be better positioned to weather the current economic turmoil than federally insured or guaranteed loans.

Table 1. Median characteristics at origination of outstanding mortgages by holder as of December 2020

	Original credit score	Original back-end debt-to-income ratio	Original loan-to-value ratio	Percent missing payments, Dec 2020
Bank	754	35	72	3.2%
Credit Union	754	34	70	1.2%
FHA	677	41	96	8.5%
USDA	692	36	100	6.2%
GSE	766	35	75	3.1%
Other	768	30	77	2.3%
PLS	667	38	80	5.5%
VA	720	39	96	4.5%
All mortgages	741	37	77	4.0%

Source: National Mortgage Database (consumer credit report archive as of February 13, 2021)

In addition, private lenders learned an enduring lesson from the financial crisis regarding the benefits, to both borrowers and lenders, when homeowners keep their homes. Consequently, many private lenders are also offering deferral or forbearance options during the COVID-19 crisis. However, private lender accommodations are generally in the form of deferrals, in which loans continue to accrue interest and outstanding balances are due after the deferment period. Although a form of temporary relief, deferrals may not be enough to keep all troubled borrowers in their homes. There are two small, but vulnerable groups of nonfederal borrowers that are at greater risk of future foreclosure. The first group are borrowers who enrolled in an accommodation and did not make payments. These borrowers could owe the entirety of their outstanding balance after the deferral period. The second group are borrowers not enrolled in an accommodation who are behind on payments. Since these loans in the second group are not subject to the CARES Act, lenders may bring foreclosure actions at any point barring state prohibitions and judicial stays. These two groups collectively account for approximately 300,000 mortgages, less than one percent of outstanding loans. In total, the volume of troubled nonfederal loans, enrolled or not enrolled in forbearance, is a very small proportion of the market.

The Point?

Widespread residential foreclosures are unlikely this economic cycle due to relief from the CARES Act, greater levels of home equity, better mortgage origination quality during the last expansion, and the temporary nature of this economic shock.