

November 18, 2021

Mortgage Forbearance & Low Income Home Ownership

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*The views here are of the presenter and do not
necessarily represent those of the Federal Reserve Bank
of New York or Federal Reserve System.*

Mortgage Forbearance for Low Income Home Ownership

- Home ownership is the most important means of asset accumulation for low and middle income households in the US.
- In the advent of the pandemic and economic crisis, to prevent massive mortgage defaults and assist households with economic difficulty, the CARES Act provided forbearance on federally-backed mortgages initially for one year and now extended to 18 months.
 - Borrowers may enroll by contacting their servicer/lender
 - CARES Act also put a moratorium on foreclosure starts
- We focus on the development of mortgage forbearance participation, forbearance exits, mortgage delinquencies for the nation overall, and also focus on households in lower income neighborhoods.
- We provide some perspective of low income mortgage forbearance outcomes in balancing terms of sustainable home ownership and access to home credit.

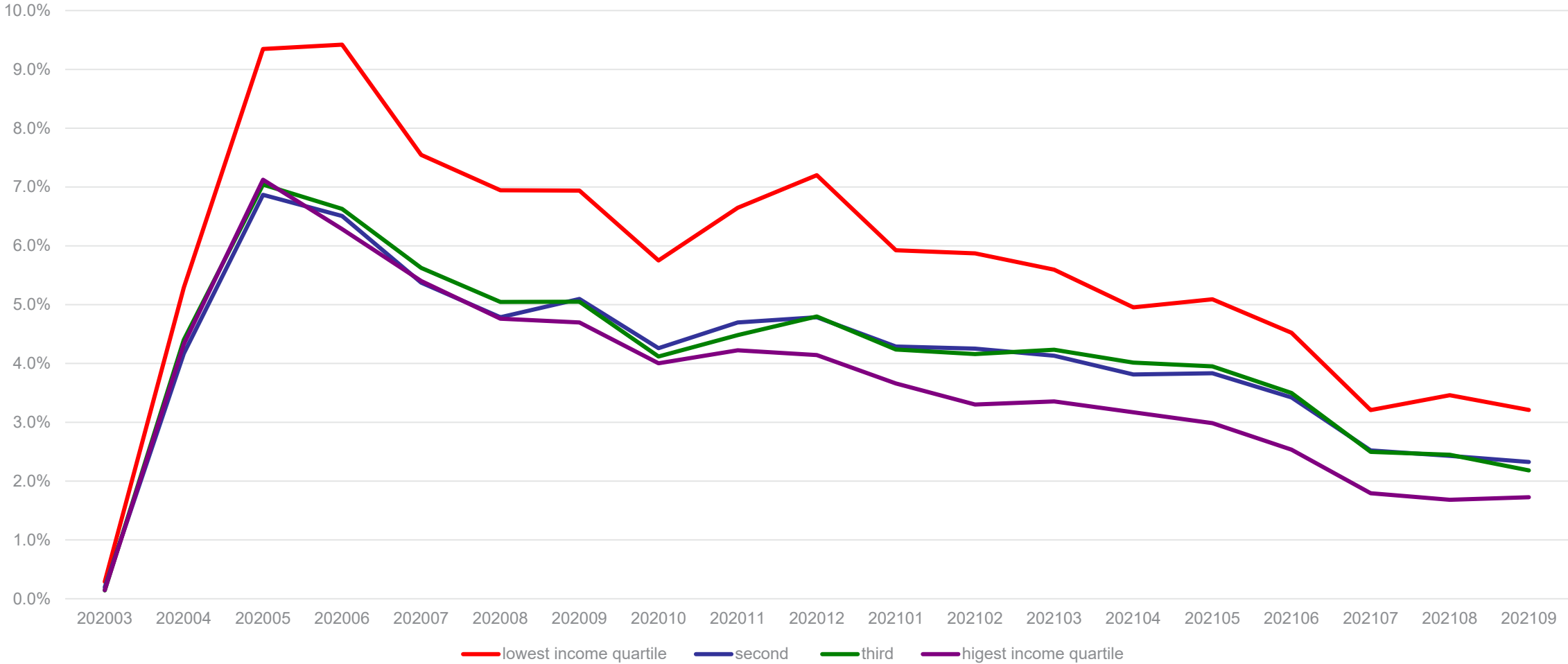
Mortgage forbearance rate peaked in May 2020 and gradually improved since



Source: New York Fed Consumer Credit Panel / Equifax

Lower income areas have the highest mortgage forbearance rate but all areas saw improvement

Lower income areas have the highest mortgage forbearance rate



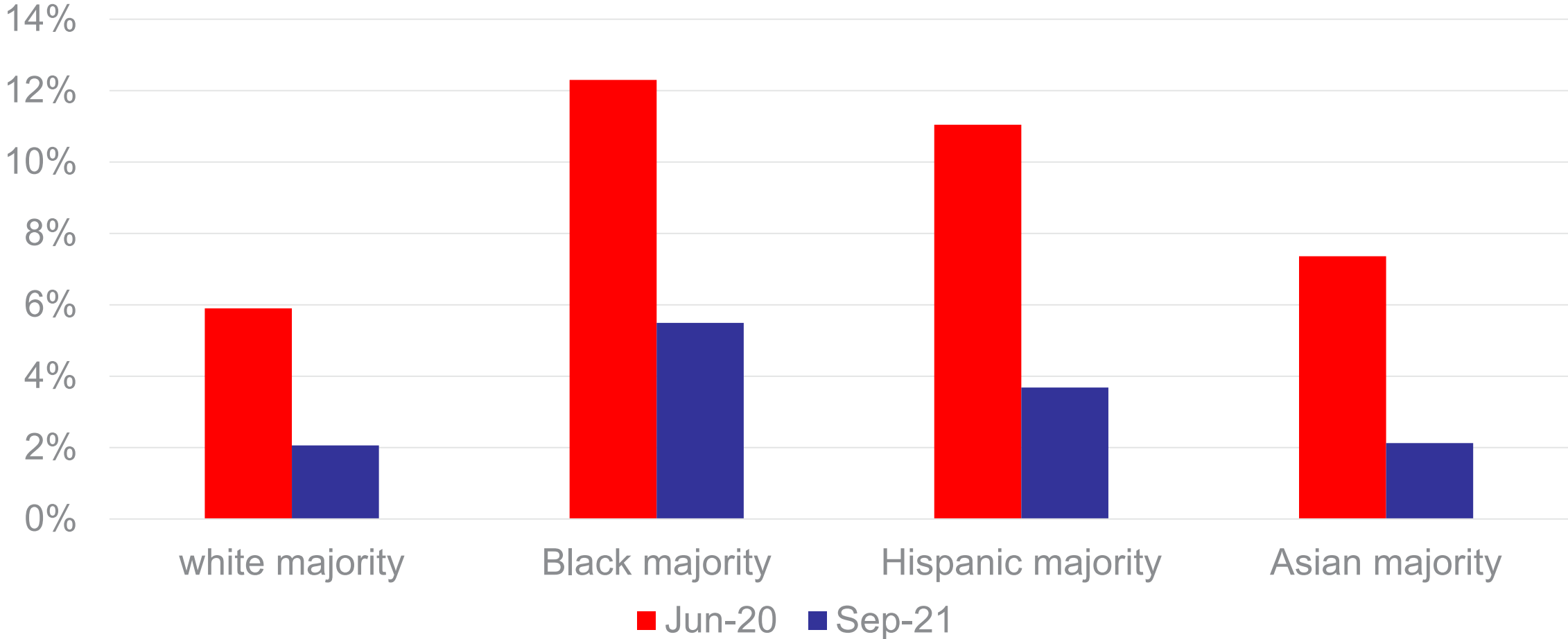
Source: New York Fed Consumer Credit Panel / Equifax & IRS Statistics of Income

How lower income home borrowers compare with the rest : Lower income areas have lower mortgage balance, higher FHA share and lower credit score

	Lowest Income Quartile	Highest Income Quartile
Income range	Less than \$46K	more than \$79K
Population share	25%	25%
Average origination amount	\$148,000	\$312,000
Average mortgage balance	\$120,000	\$247,000
Aggregate mortgage balance (\$Trillions)	\$0.9	\$3.9
Number of mortgages (Millions)	7.5	15.8
FHA share	24%	7%
Average credit score	716	778

Black and Hispanic-majority zips see higher forbearance rates

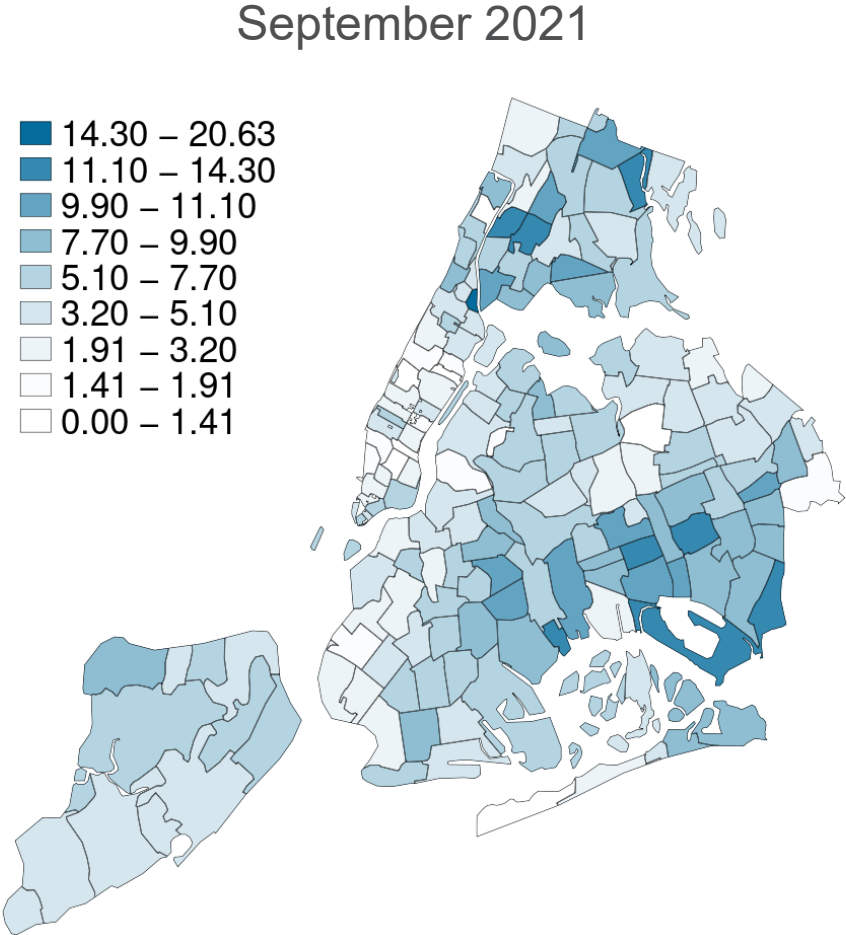
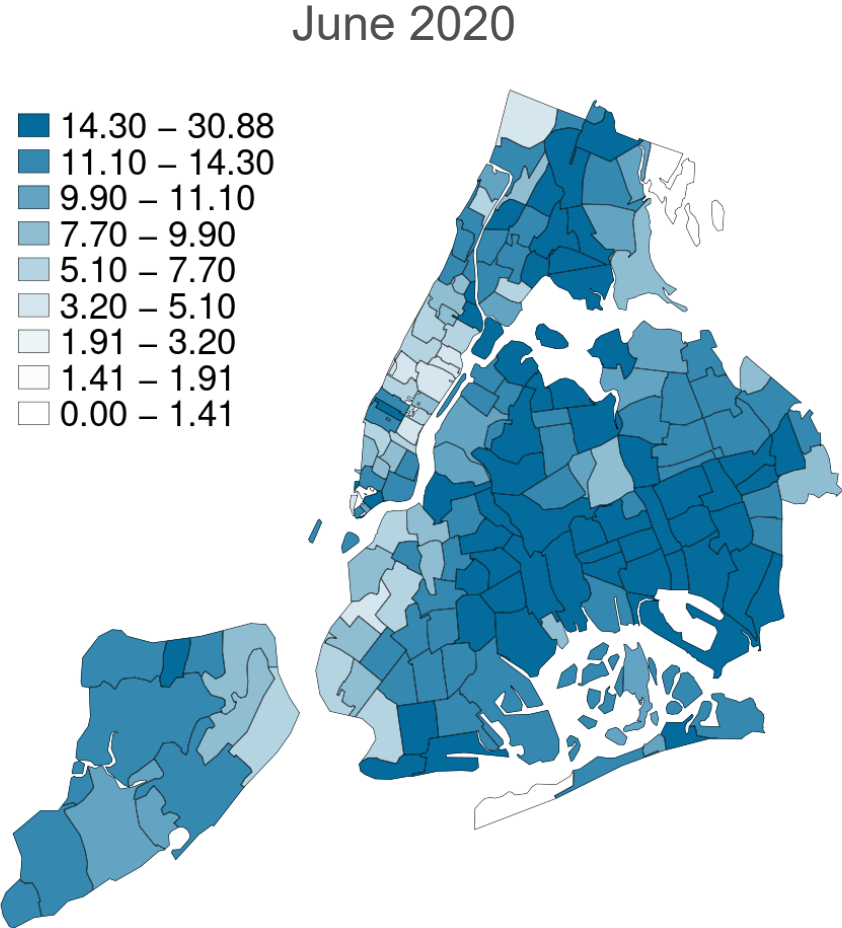
Forbearance Rate by Majority Race in Zip Code



Source: New York Fed Consumer Credit Panel / Equifax & Census Bureau

Within NYC, forbearance remains elevated in some neighborhoods

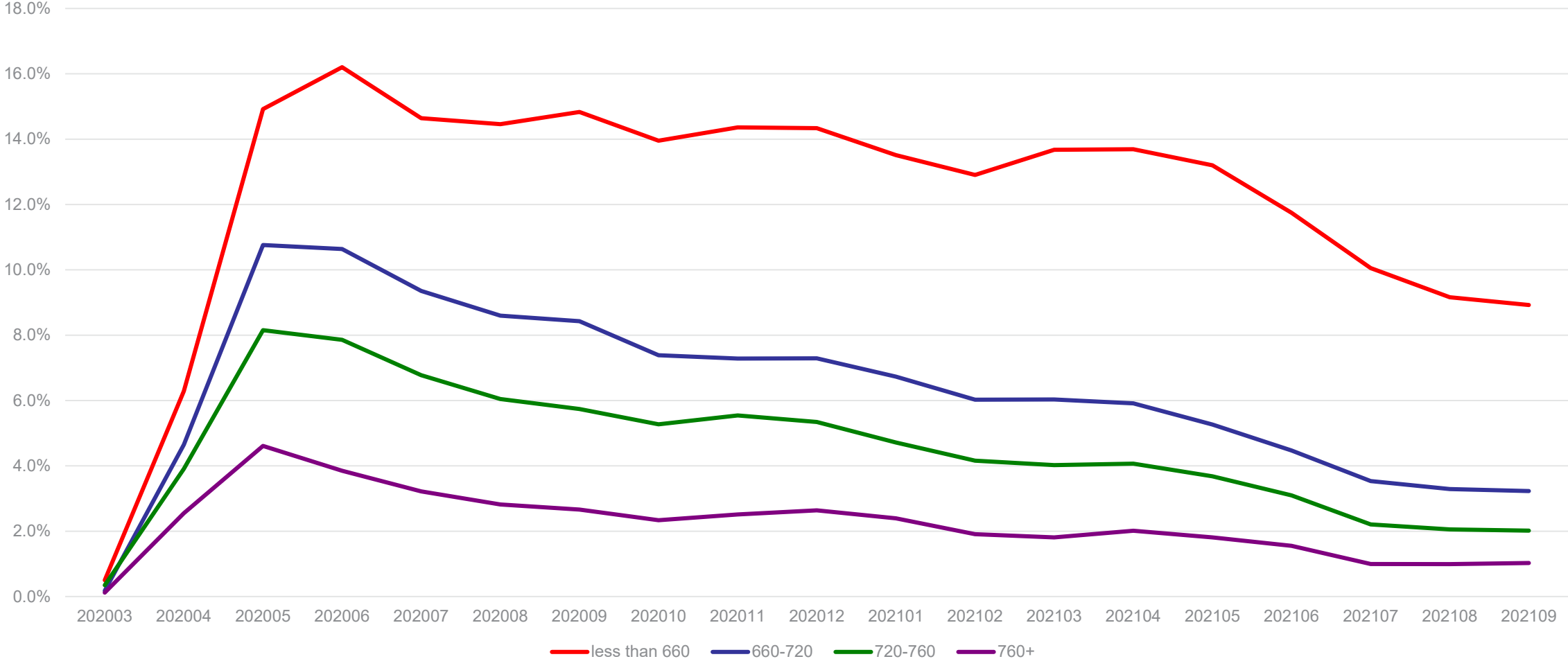
% of mortgages in forbearance by zip code



Source: New York Fed Consumer Credit Panel / Equifax

Origination credit score strongly predicts forbearance participation

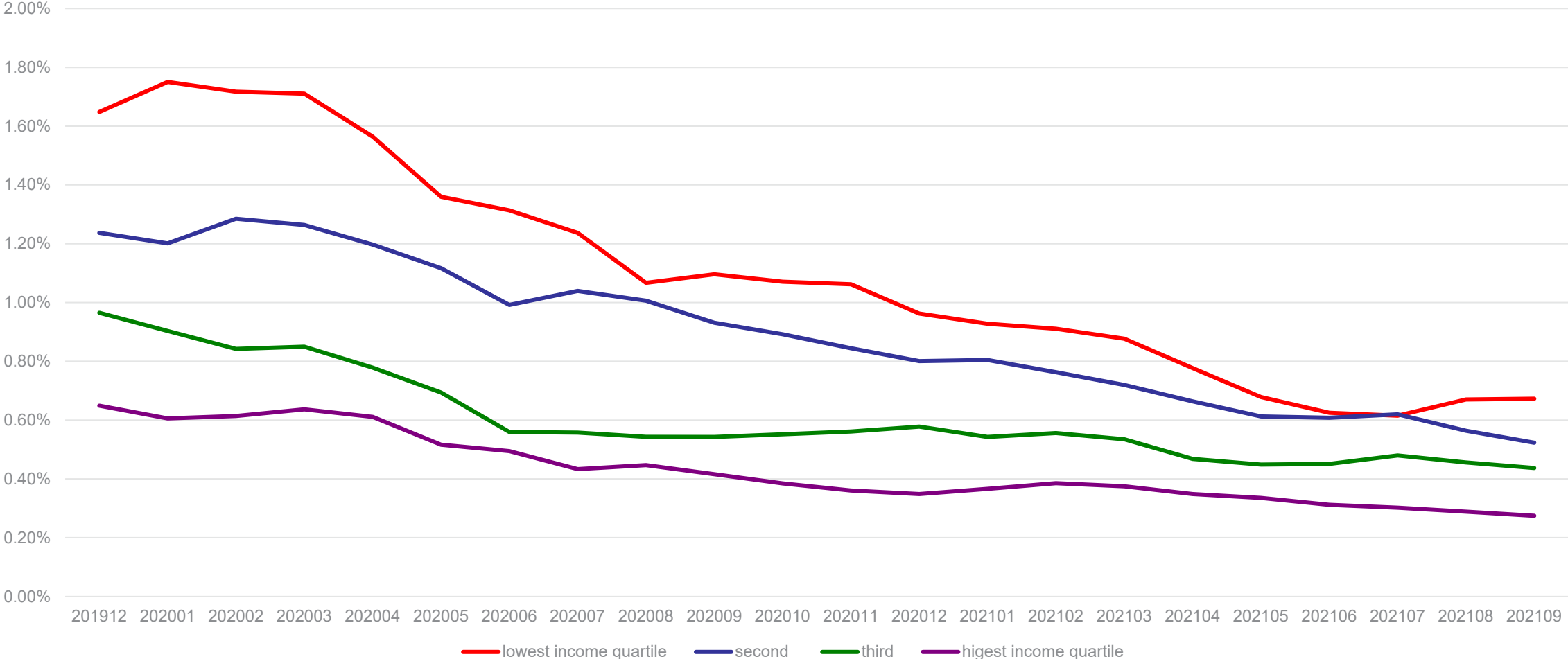
Lower origination credit scores are associated with higher forbearance rate



Source: New York Fed Consumer Credit Panel / Equifax; Credit score is Equifax Risk Score 3.0

Forbearance has helped lower mortgage delinquencies as troubled borrowers enrolled in the program

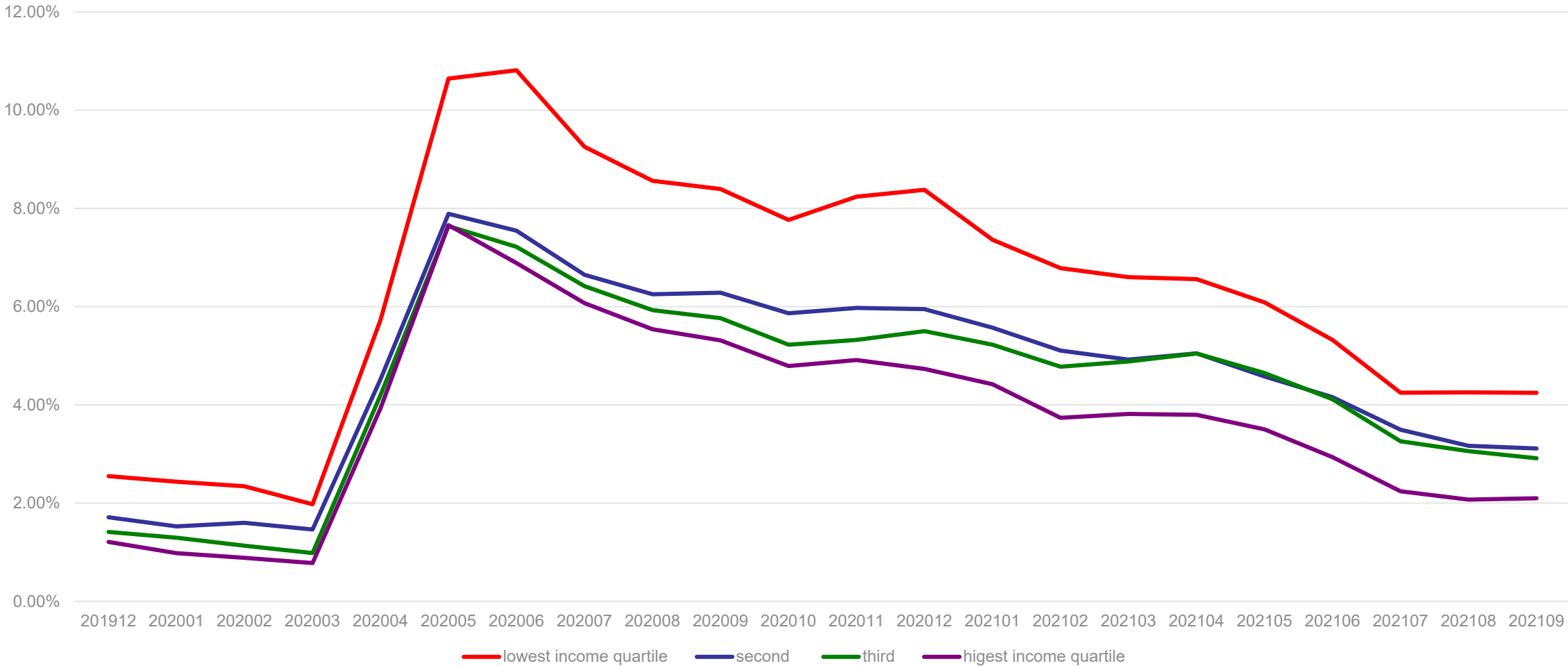
As borrowers take up forbearance, delinquency rate declined on credit reports



Source: New York Fed Consumer Credit Panel / Equifax

Stressed mortgages, either in forbearance or in delinquency, approach pre-pandemic level

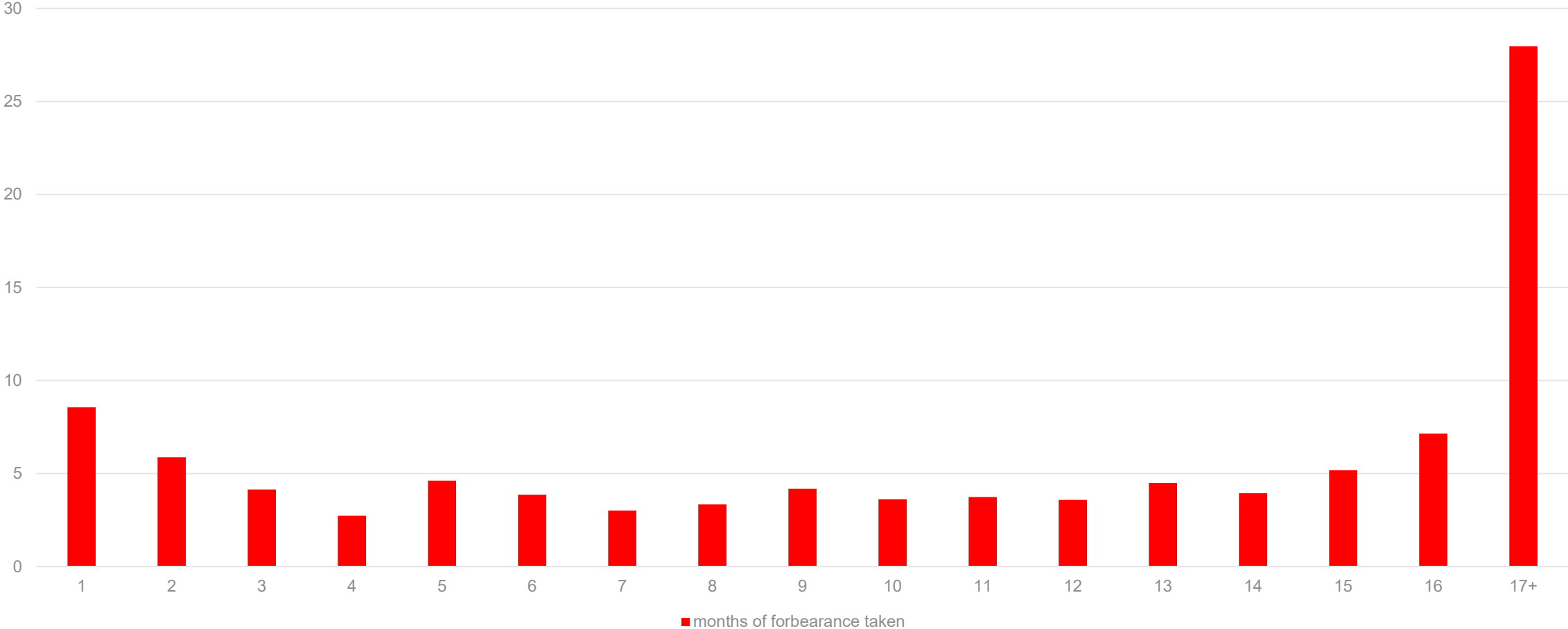
Stressed mortgages (either 90+ days delinquent or in forbearance) is the highest in low income areas



Source: New York Fed Consumer Credit Panel / Equifax & IRS Statistics of Income

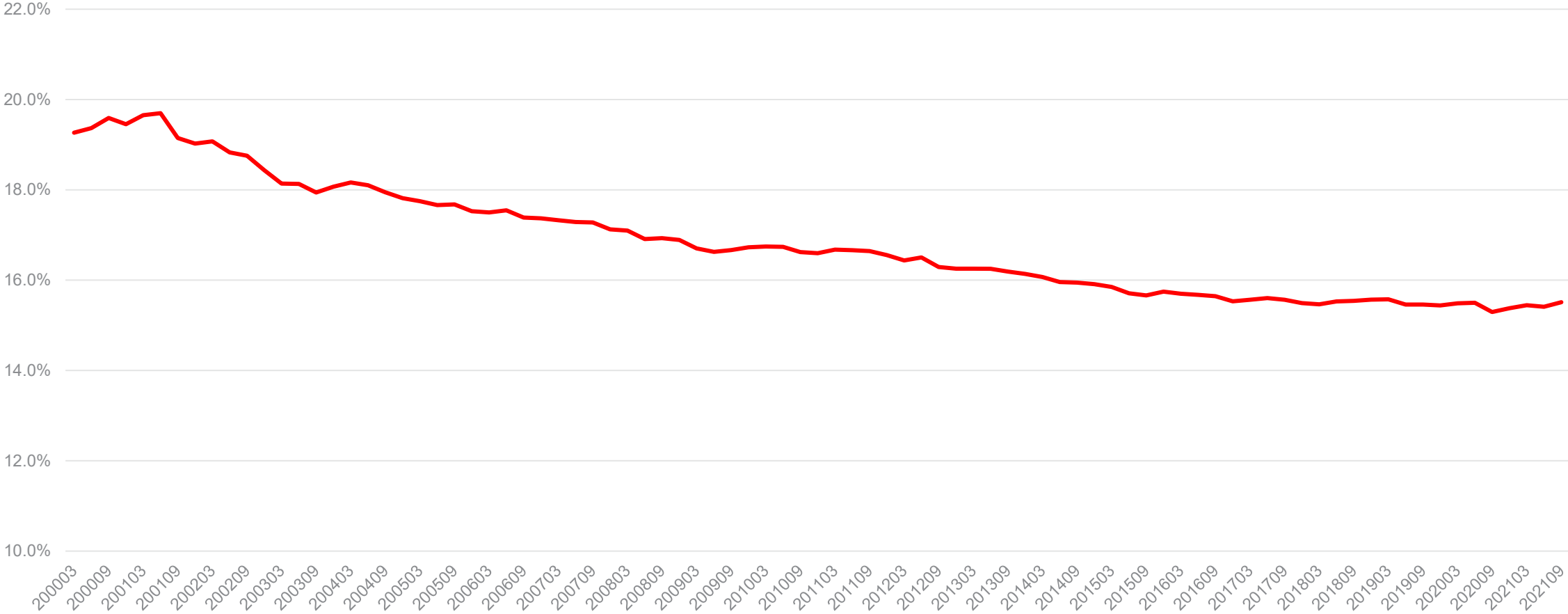
However, we expect borrowers still in forbearance will transition to delinquency with higher probability, as more than half of them have been in forbearance more than a year ...

Distribution of months of forbearance taken among those still in forbearance in September 2021
Either a few months or the entire period since March 2020



Resilience of home borrowers compared to the Great Recession period was, partly, at the expense of home ownership in the lower income area (Lowest income mortgage share dropped from 20% to 15%)

lowest income quartile mortgage share



Source: New York Fed Consumer Credit Panel / Equifax

Conclusion on Mortgage Forbearance in the Pandemic

- Cares Act provided forbearance on federally held mortgages and helped prevent mortgage defaults and assisted households in economic and financial difficulty
- Forbearance rates have declined substantially and now stand at around 2% without causing mortgage delinquencies to jump. However, mortgages still in forbearance are expected to transition into delinquency with higher probability when the program ends.
 - Lower income and lower credit score borrowers are disproportionately at risk here.
- Tightened mortgage underwriting standards post-Financial Crisis helped forbearances and delinquencies in the Pandemic remain relatively low, but they unavoidably limited the home ownership of the lower income households.

Appendix

How lower income home borrowers compare with the rest : Lower income areas have lower mortgage balance, higher FHA share and lower credit score

	Lowest income quartile	Second income quartile	Third income quartile	Highest income quartile
income range	Less than \$46K	\$46K - \$58K	\$58K - \$79K	More than \$79K
population share	25%	25%	25%	25%
origination amount	\$148,000	\$166,000	\$207,000	\$312,200
average mortgage balance	\$120,000	\$133,000	\$168,000	\$247,000
total mortgage balance (\$Trillions)	\$0.9	\$1.5	\$2.2	\$3.9
number of mortgages (Millions)	7.5	10.9	13.4	15.8
FHA share	24%	17%	14%	7%
VA share	6%	8%	7%	4%
GSE share	42%	48%	57%	64%
average credit score	716	736	754	778
mortgage 90+ days delinquent	1.7%	1.3%	0.8%	0.6%