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New Data on the Characteristics of Mortgage Borrowers During the COVID-19 Pandemic

CFPB Office of Research Special Issue Brief

Consumer Financial Protection Bureau

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1. Introduction

The COVID-19 pandemic created a dire situation for many homeowners, and almost 8 million homeowners have taken advantage of mortgage forbearance programs over the course of the pandemic.[1] Forbearance programs, such as those provided under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, allowed many borrowers to take forbearances for reasons related to the COVID-19 pandemic for periods lasting up to 18 months.[2] A significant number of homeowners have transitioned out of those forbearances over the last year due, in part, to improving economic conditions and the expiration of protections under these programs for many loans beginning in the Fall of 2021. Given these changes, our goal is to better understand the characteristics of borrowers who remain in forbearance.

In a May 2021 Consumer Financial Protection Bureau (CFPB) report,[3] we used data from the National Mortgage Database (NMDB®)[4] to report on the characteristics of mortgage borrowers during the COVID-19 pandemic based on the account status of borrowers reported through March 2021. The focus of this latest report is to understand the mortgage characteristics and demographics of borrowers who remained in forbearance in January 2022.[5] As in the May report, our sample of borrowers comes from the NMDB, which is a random 1-in-20 sample of closed-end first-lien mortgages in the United States. We analyze borrower demographic and loan characteristics for a sample of more than 2 million mortgage loans for owner-occupied

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[1] See Black Knight Mortgage Monitor, December 2021. Black Knight, Inc. Available at https://www.blackknightinc.com/wp-content/uploads/2022/02/BKI_MM_Dec2021_Report.pdf?. [Black Knight December 2021 report]

[2] Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, homeowners with GSE (Fannie Mae and Freddie Mac) and other federally-backed mortgages have the right to request and obtain a forbearance for up to 180 days, and an extension for another 180 days (for a total of 360 days). Guidance from the GSEs and federal agencies allow up to 18 months of forbearance. Privately-owned mortgages are not covered by the CARES Act, but many servicers and investors offer similar protections for those loans.

[3] Durbin, E., Li, G., Low, D., and Ricks, J., "CFPB Special Issue Brief: Characteristics of Mortgage Borrowers During the COVID-19 Pandemic" May 2021. Consumer Financial Protection Bureau. Available at https://files.consumerfinance.gov/f/documents/cfpb_characteristics-mortgage-borrowers-during-covid-19-pandemic_report_2021-05.pdf [May 2021 report]

[4] See National Mortgage Database Program, Federal Housing Finance Agency. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/National-Mortgage-Database.aspx

[5] Although we do not focus our discussion on the group of borrowers with loans reported as delinquent (not in forbearance), we report delinquency rates in Appendix B that are comparable to those reported in the May 2021 report.

properties.[6] The data include borrower-level demographics and loan-level origination and performance information. The account status in the NMDB is based off credit record data.[7] We measure account status for open loans as reported through January 2022. Overall, our January 2022 sample of borrowers had a forbearance rate of 1.3 percent,[8] compared to 4.7 percent in the March 2021 sample used in our May 2021 report.

The primary findings include:

- The share of mortgages in forbearance fell significantly for minority and non-minority borrowers between March 2021 and January 2022. Decreases in the rate of forbearance were relatively larger for non-white than for white borrowers with the largest decreases occurring among Hispanic and other race borrowers.

- Black and Hispanic borrowers were overrepresented among those in forbearance. Black and Hispanic borrowers accounted for a combined 31.2 percent of forbearances, while only accounting for 18.2 percent of the overall sample of borrowers. Furthermore, Black borrowers were 2.8 times more likely and Hispanic borrowers were 1.6 times more likely to be in forbearance compared to white borrowers.

- Borrowers in forbearance as of January 2022 appear to have less financial capacity, on average, than borrowers in forbearance as of March 2021. Among mortgage borrowers who were pre-COVID delinquent, the rate of forbearance fell 46 percent between March 2021 and January 2022, whereas the rate of forbearance fell 74 percent over the same period for borrowers who were pre-COVID current.

- Mortgage borrowers who were pre-COVID delinquent were relatively less likely to be in forbearance compared to borrowers that were pre-COVID current in January 2022. Pre-

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6 As in the May 2021 report, we exclude manufactured housing. The sample selection varies somewhat, in that, we allow for a longer range of time to determine "active" status. This increases the sample size while providing a qualitatively similar sample compared to the May 2021 report.

7 The measurement of forbearance and delinquency in credit reporting has some limitations. For a detailed discussion of these limitations, see the May 2021 report, which explains issues with the measurement of forbearance and delinquency in credit reporting data.

8 The January estimate is smaller than publicly available estimates provided by Black Knight through the middle of January, which indicate that 1.6 percent of borrowers were in forbearance programs [Black Knight December 2021 report]. This difference is likely due to differences in the underlying data used to estimate forbearance. Black Knight uses daily mortgage servicing data, which does not experience a lag in the reporting of account status as is the case in credit reporting data.

COVID current borrowers were 12.4 times more likely to be in forbearance than to be 60+ days delinquent. In comparison, pre-COVID delinquent borrowers were only 2.7 times as likely to be in forbearance than to be 60+ days delinquent.

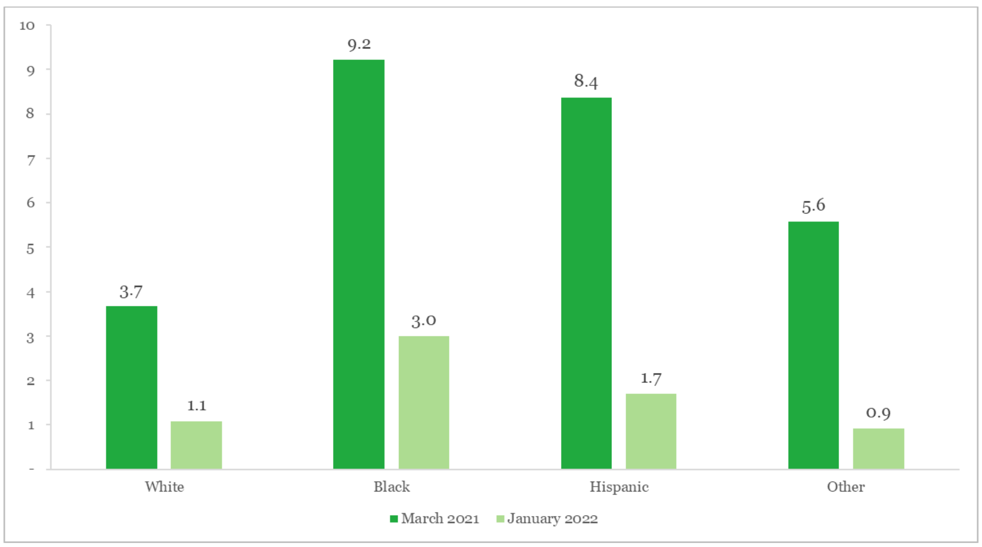
- Mortgage borrowers with current (or mark-to-market) loan-to-value (LTV) ratios over 95 percent had significantly higher rates of forbearance compared to loans with lower LTV ratios in January 2022. However, this population of borrowers accounted for a small share of forbearances (1.0 percent).

- Finally, in the January 2022 sample there was a significantly smaller share of loans with current LTV ratios above 80 relative to the March 2021 sample of borrowers. Unlike in past recessions where house prices fell, the pandemic economy has seen significant house price appreciation that can reduce a borrower's LTV ratio, all else equal.

2. Borrower Demographics

In this section, we analyze the demographics of mortgage borrowers who were in forbearance as reported through January 2022. In our May 2021 report, we showed that minority borrowers made up a disproportionately larger share of borrowers with loans either in forbearance or delinquent compared to the overall population of mortgage borrowers. In particular, minority borrowers and borrowers living in majority-minority tracts had a higher likelihood of being in forbearance compared to white borrowers and borrowers not in majority-minority tracts, respectively. The most recent data show that, while fewer loans to minority borrowers and loans for properties in majority-minority tracts were in forbearance in January 2022 as compared to March 2021, these borrowers continue to be overrepresented among borrowers in forbearance.

FIGURE 1: PERCENT OF BORROWERS IN FORBEARANCE BY RACE AND ETHNICITY



Forbearance rates have fallen for all groups when broken out by race and ethnicity. Roughly 1.1 percent of white borrowers were in forbearance as of January 2022, compared to 3.7 percent in March 2021 (71 percent decrease). Black borrowers had forbearance rates of 3.0 percent (68 percent decrease). Roughly 1.7 percent of Hispanic borrowers were in forbearance in January 2022 (80 percent decrease), and all other borrowers[9] had forbearance rates of 0.9 percent (84

[9] As in the May 2021 report, the other race borrower group includes non-Hispanic borrowers reported as American Indian, Asian, Native Hawaiian/Pacific Islander, or multiple races.

percent decrease). These numbers represent significant reductions in forbearance for minority groups, especially Hispanic and other race borrowers, that are relatively larger than for white borrowers.

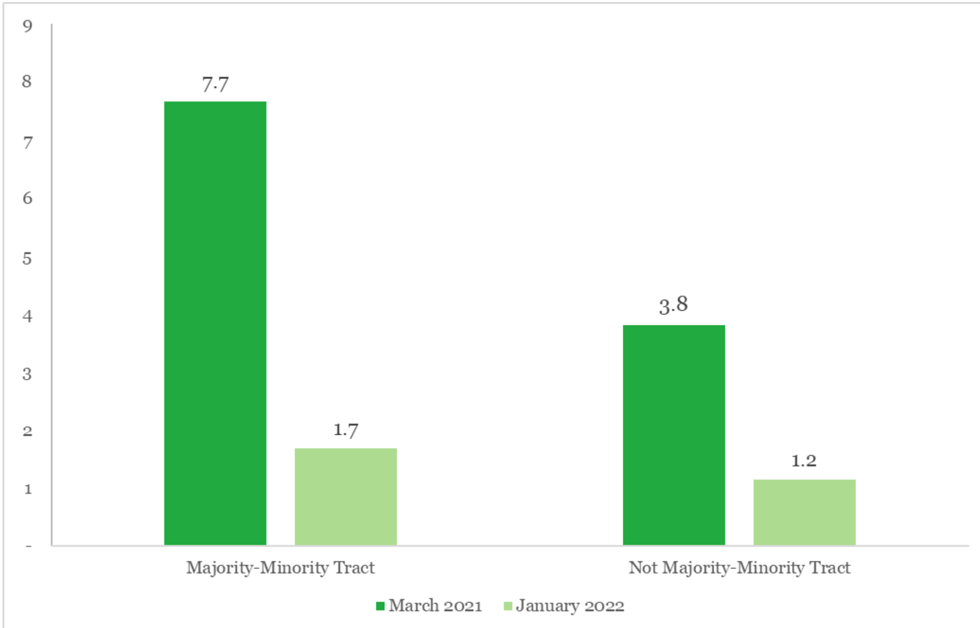
Nevertheless, Black and Hispanic borrowers remained significantly more likely to be in forbearance compared to white borrowers. Black and Hispanic borrowers were 2.8 times and 1.6 times more likely to end up in forbearance than white borrowers, respectively. Other race borrowers were less likely to experience forbearance compared to white borrowers.

Considering the overall composition of loans that were in forbearance, white borrowers accounted for roughly 64 percent of loans in forbearance, while Black and Hispanic borrowers each accounted for roughly 16 percent and other race borrowers accounted for roughly 4 percent. Loans held by white borrowers continued to make up a large majority of this group, consistent with white borrowers accounting for the largest share of mortgages in our sample.[10] In January 2022, the share belonging to Hispanic borrowers fell and the share belonging to Black borrowers increased relative to March 2021. The different pattern for Black borrowers results from having a relatively smaller reduction in forbearances since March 2021 while accounting for a relatively smaller share of the overall sample compared to Hispanic borrowers.

Turning to analysis at the tract-level, we see that borrowers living in majority-minority census tracts remained more likely to be in forbearance. The data show that roughly 1.7 percent of borrowers living in majority-minority tracts were in forbearance versus 1.2 percent in non-majority-minority tracts. However, as a share of overall forbearances, loans in majority-minority tracts fell from 35.7 percent in March 2021 to 29.2 percent in January 2022 (18 percent decrease).

[10] The overall racial composition of our NMDB sample is: White (75.7 percent), Black (6.6 percent), Hispanic (11.6 percent), and other race (6.0 percent).

FIGURE 2: PERCENT OF BORROWERS IN FORBEARANCE BY MAJORITY-MINORITY TRACT STATUS



3. Factors Related to Financial Capacity

Since the start of the pandemic, most borrowers who entered a COVID-19 forbearance exited.[11] An open question is when and how the remaining borrowers will be able to exit forbearance. Understanding factors related to a household's financial capacity can shed light on this matter.

Following from our earlier report, our primary measures of financial capacity include pre-COVID mortgage delinquency status, nonmortgage distress, single borrower status, and relative income position.[12] Pre-pandemic mortgage delinquency and nonmortgage distress serve as proxies for payment difficulty. Single borrower status and relative income position proxy for financial capacity.

Whether a borrower was delinquent on their mortgage prior to the pandemic ("pre-COVID delinquent") continues to be an important factor associated with a borrower's likelihood of having a loan in forbearance. Our May 2021 report showed that pre-COVID delinquency was strongly positively associated with being in forbearance. As of January 2022, the rate of forbearance among borrowers who were pre-COVID delinquent was 10.0 percent. For the same period, only 1.1 percent of borrowers who were pre-COVID current were in forbearance. Relative to March 2021, the pre-COVID delinquent borrowers experienced a 46 percent decrease in forbearance rate, whereas the borrowers who were pre-COVID current saw a 74 percent decrease.

The data also show that pre-COVID delinquency was correlated with being delinquent and not in forbearance both in March 2021 and January 2022. The rate of 60+ day delinquency among borrowers who were pre-COVID delinquent was roughly 15.4 percent in March 2021 and 3.7

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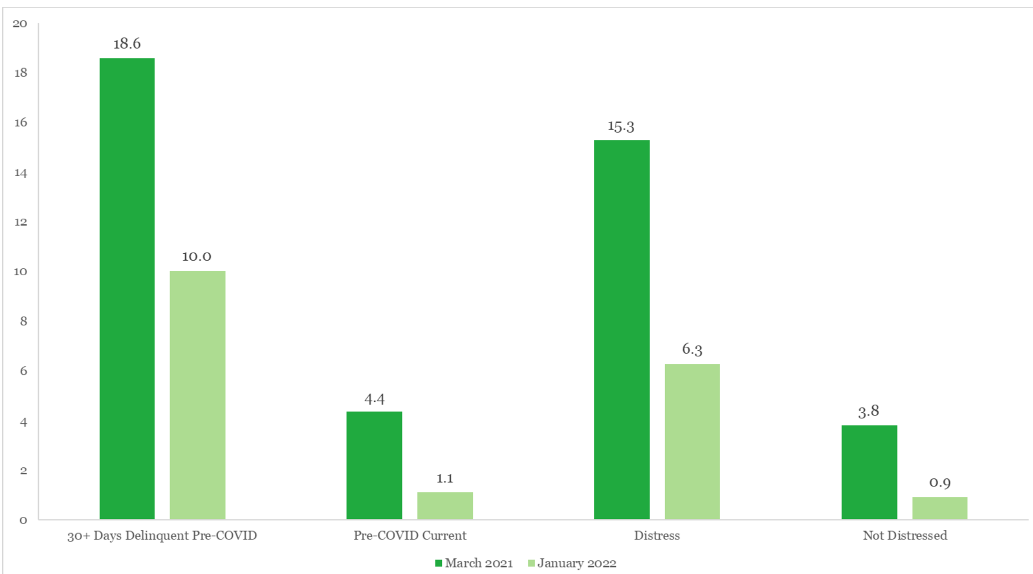
[11] Publicly available estimates from Black Knight through January 2022 report that among borrowers who entered into a COVID-19 forbearance: 52 percent transitioned to performing status, 27 percent paid off their loan, 11 percent remained in active forbearance, 6 percent exited into post-forbearance loss mitigation, 3 percent were post-forbearance delinquent, and 1 percent were post-forbearance active foreclosure. See Black Knight December 2021 report.

[12] See Appendix A for a complete list of variable definitions.

percent in January 2022 (see Appendix A). In contrast, the rate of delinquency for borrowers who were pre-COVID current was 0.2 percent in March 2021 and 0.1 percent in January 2022.

Furthermore, comparing within group, borrowers who were pre-COVID current were significantly more likely to be in forbearance than to be delinquent compared to borrowers who were pre-COVID delinquent. In January 2022, borrowers who were pre-COVID current were 12.4 times more likely to be in forbearance than to be delinquent, whereas borrowers who were pre-COVID delinquent were only 2.7 times as likely to be in forbearance than to be delinquent. Similar within group patterns are observed in the March 2021 sample. Overall, the data suggest that pre-COVID delinquent borrowers were less likely to have made use of COVID forbearance protections compared to borrowers who were pre-COVID current.

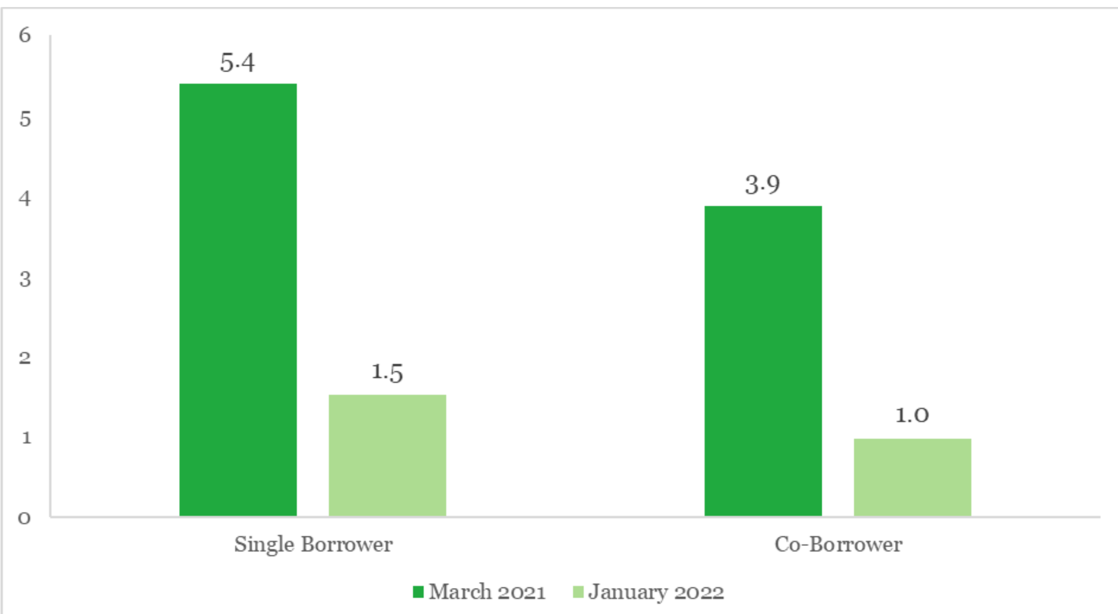
FIGURE 3: PERCENT OF BORROWERS IN FORBEARANCE BY DISTRESS AND PRE-COVID DELINQUENCY



We consider a borrower "distressed" if they were delinquent or in forbearance on an auto loan or credit card as of December 2021, the most recent data available. The share of January 2022 mortgage forbearances that belonged to distressed borrowers was 31.3 percent. This is somewhat larger than the 25.4 percent we reported in the March 2021 sample, which measured nonmortgage delinquency as of September 2020. We note that nonmortgage delinquency may be overestimated due to general seasonal delinquency in nonmortgage debt.[13] Overall, the data show that distressed borrowers were 6.8 times as likely to be in forbearance compared to non-distressed borrowers in January 2022.

Single borrower loans were about 1.6 times more likely to be in forbearance through January 2022, compared to loans with a co-borrower. This is an increase relative to March 2021, where single borrowers were only 1.4 times more likely to be in forbearance compared to co-borrowers. Furthermore, the share of forbearances that belonged to single borrowers increased to 64.7 percent in January 2022 from 59.6 percent in March 2021. This shows that forbearances remain relatively more common for loans with a single borrower than loans with multiple borrowers. This pattern could reflect that many single borrowers may be in single-income households and, thus, more resource constrained, on average, compared to dual-income households.

FIGURE 4: PERCENT OF BORROWERS IN FORBEARANCE BY BORROWER STATUS



Finally, census tract-level analysis shows that living in a relatively lower-income tract is associated with a greater likelihood of forbearance. Borrowers in the lowest quartile of tract-to-

[13] Drukker, L. and S. Nelson, "End-of-Year Credit Card Borrowing," June 2018. Consumer Financial Protection Bureau. Available at https://files.consumerfinance.gov/f/documents/bcfp_consumer-credit-trends_eoy-credit-card-borrowing_062018.pdf.

MSA income (Q1), were 1.7 times more likely to be in forbearance compared to borrowers in the highest quartile of tract-to-MSA income (Q4). Borrowers in the second (Q2) and third (Q3) quartiles of tract-to-MSA income were 1.4 and 1.2 times more likely to be in forbearance, respectively, compared to Q4 borrowers.

As a share of all forbearances, borrowers living in Q1 made up 33.7 percent of loans in forbearance, which is an increase relative to March 2021. It is also almost twice as large as the share of borrowers from Q4, which made up only 17.8 percent of loans in forbearance. On average, we expect borrowers living in the lowest quartile of tract-to-MSA income to have fewer income resources compared to borrowers living in the highest quartile. Thus, we expect borrowers in the lowest income quartile to have relatively less financial capacity.

TABLE 1: PERCENT OF BORROWERS IN FORBEARANCE BY QUARTILE OF TRACT-TO-MSA INCOME

Quartile of Tract-to-MSA Income	March 2021	January 2022
Income: Q1	5.5	1.6
Income: Q2	4.5	1.3
Income: Q3	4.2	1.2
Income: Q4	4.4	1.0

Overall, the data indicate that households with potentially less financial capacity continue to be more likely to have loans in forbearance compared to those with relatively more financial capacity, based on the measures presented in this analysis. Borrowers who remained in forbearance may have had relatively more difficulty improving their financial situation as the pandemic economy persisted.

4. The Distribution of Current Loan-to-Value Ratio

Over the course of the pandemic, many homeowners have experienced significant gains in home equity due to house price appreciation. Publicly available numbers estimate 26 percent house price appreciation over the 24-month period ending January 2022.[14] For borrowers who entered forbearance or were delinquent during or throughout the pandemic, house price appreciation would increase their home equity, all else equal. Unlike in past economic downturns in which house prices fell, significant house price appreciation may provide borrowers with additional opportunities to avoid foreclosure as CARES Act protections expire (e.g., rate-term refinancing, loan modification, or sale of home). The idea that borrowers can avoid foreclosure due to the house price appreciation channel has been a topic of discussion throughout the pandemic.[15]

We first show evidence on the relationship between house price appreciation and LTV ratio. We report the distribution of current LTV ratios for three samples: March 2021, January 2022, and January 2022 restricted to loans open as of March 2021 or earlier (restricted January 2022 sample). The latter allows us to isolate changes in the distribution of LTV ratios that come from loans that were open in March of 2021, as opposed to the full January 2022 sample, which includes new mortgages (e.g., for refinance or purchase) that originated between March 2021 and January 2022. The current LTV ratio is a mark-to-market measure based on house price index data from December 2021, which is the most recent data available.

Overall, the data show that loans with high LTV ratios account for a small share of loans in forbearance. In the restricted January 2022 sample, loans with an LTV ratio above 95 accounted for 0.2 percent of the sample and loans with an LTV ratio above 80 and up to 95

[14] See American Enterprise Institute (January 2022), "Housing finance: Insights on the new normal (week 2, 2022)." Available at https://www.aei.org/wp-content/uploads/2022/01/OB-Infographic-The-New-Normal-2022-Week-2-FINAL-v2.pdf?x91208.

[15] See, e.g., Urban Institute (February 2021), "The Predicted Foreclosure Surge Likely Won't Happen, Even among Financially Vulnerable." Available at https://www.urban.org/urban-wire/predicted-foreclosure-surge-likely-wont-happen-even-among-financially-vulnerable-borrowers. See, e.g., Elul, R. and Newton, N., (2021), "Helping Struggling Homeowners During Two Crises." Available at https://www.philadelphiafed.org/consumer-finance/mortgage-markets/helping-struggling-homeowners-during-two-crises.

accounted for 6.2 percent of the sample. This is a decrease relative to March 2021, where the comparable numbers were 0.3 percent for above 95 LTV ratio and 8.5 percent for above 80 and up to 95 LTV ratio. Most loans in the sample had LTV ratios at or below 80 in January 2022. Furthermore, the share of loans with an LTV ratio above 60 and up to 80 reported a significant increase from 26.0 percent in March 2021 to 30.3 percent in the restricted January 2022 sample.

Similar patterns are observed for the full January 2022 sample with the share of all loans being slightly higher for LTV ratios above 60. This is expected given that the sample includes new loans that often originate at LTV ratios of 80 or higher and may have benefited less from house price appreciation. Overall, the data are not inconsistent with house price appreciation having increased the home equity of many borrowers who started the pandemic with relatively higher LTV ratios.

TABLE 2: DISTRIBUTION OF LOAN-TO-VALUE RATIO BY SAMPLE

LTV Group	March 2021	January 2022	January 2022 Restricted
<= 60	65.2	60.1	63.3
60.01 - 80.00	26.0	32.4	30.3
80.01 - 95.00	8.5	7.4	6.2
> 95	0.3	0.2	0.2

Turning to the composition of loans in forbearance, the data indicate that the situation may have worsened between March 2021 and January 2022 for the relatively small number of borrowers with an LTV ratio above 95. Compared to borrowers with an LTV ratio greater than 80 and up to 95, borrowers with an LTV ratio above 95 were 2.6 times more likely to be in forbearance and 8.5 times more likely to be 60+ days delinquent as of January 2022. This is a significant increase compared to our numbers for March 2021 (1.7 times more likely to be in forbearance and 7.4 times more likely to be 60+ days delinquent).

For borrowers with an LTV ratio above 95, we also note that the 60+ day delinquency rate fell the least for this group compared to the other LTV groups. The share of 60+ days delinquent fell

48 percent between March 2021 and January 2022 for borrowers above 95 LTV ratio (3.8 percent in January 20221 compared to 7.4 percent in March 2021). Borrowers with an LTV ratio above 80 and up to 95 saw a 54 percent decrease and borrowers above 60 and up to 80 LTV ratio saw a 72 percent decrease between March 2021 and January 2022. This suggests that borrowers with high LTV ratios in March 2021 may have become worse off even while the situation improved for many borrowers.

TABLE 3: PERCENT OF BORROWERS IN FORBEARANCE BY LOAN-TO-VALUE RATIO

	March 2021		January 2022	
LTV Group	In Forbearance	60+ Days Delinquent	In Forbearance	60+ Days Delinquent
<= 60	3.5	0.4	0.8	0.1
60.01 - 80.00	5.9	0.6	1.6	0.2
80.01 - 95.00	8.9	1.0	3.4	0.5
> 95	15.3	7.4	8.6	3.8

Overall, the data report that the level of home equity is related to a borrower's likelihood of having a mortgage loan in forbearance or delinquent. Specifically, borrowers with LTV ratios above 95 percent remain significantly more likely to have loans in forbearance or delinquent.

5. Conclusion

Most of the 8 million borrowers who entered mortgage forbearance due to the dire economic circumstances presented by the COVID-19 pandemic have exited. However, many borrowers remain in forbearance. Our analysis provides insight into who these borrowers are. It also sheds light on the financial circumstances of these borrowers compared to borrowers who were in forbearance earlier in the pandemic.

As protections under the CARES Act have expired for many loans, it is unclear what will happen to the borrowers who remain in forbearance. Our analysis shows that these borrowers are more likely to be minorities and to live in majority-minority tracts. The data also show that these borrowers may have less financial capacity on certain dimensions, such as whether they were delinquent prior to the start of the pandemic. While house price appreciation may provide additional opportunities for some of these borrowers, there remains a small group of borrowers with little to no housing equity who may be at risk of foreclosure. Overall, our analysis suggests that borrowers remaining in forbearance may have relatively more difficulty avoiding foreclosure compared to borrowers who already exited.

APPENDIX A: VARIABLE DEFINITIONS

Using data from NMDB, we define the following variables that are used in this report:

1. Race is defined based on the primary borrower. White is non-Hispanic and white. Black is non-Hispanic and black, including borrowers who reported two races with one being Black. Hispanic is based on reported ethnicity and can be for any race (white, black, or other). Other includes non-Hispanic borrowers reported as American Indian, Asian, Native Hawaiian/Pacific Islander, or multiple races.

2. Current or mark-to-market LTV is estimated using information on the current first-lien loan balance and changes in the local home price index to estimate a current property value as of December 2021.

3. Single borrower status is measured based on whether the loan has only one borrower reported. If the loan reports more than one borrower, then it is classified as a co-borrower loan.

4. Delinquency status in February 2020 is measured by the mortgage loan account status. Specifically, whether the account is reported as 30+ days delinquent in February 2020, which is one month prior to the start of the COVID-19 pandemic.

5. Distress is measured at the household level, based on the borrower's performance on auto loans and credit cards as reported through December 2021. A borrower is "distressed" if they are delinquent or in forbearance on an auto loan or credit card and "not distressed" if they have an auto loan or credit card but are not delinquent or in forbearance on either product. We focus on auto loans and credit cards because, unlike with mortgages or student loans, forbearance is more likely to be discretionary because there are not government-sponsored forbearance programs for these products.

6. Relative income quartile is measured based on the ratio of census tract-to-MSA income, which comes from the American Community Survey (ACS).

APPENDIX B: FORBEARANCE AND 60+ DAY DELINQUENCY RATES BY BORROWER CHARACTERISTICS, MARCH 2021 AND JANUARY 2022

	March 2021		January 2022	
Borrower Characteristic	In Forbearance	60+ Days Delinquent	In Forbearance	60+ Days Delinquent
White	3.67	0.50	1.08	0.14
Black	9.22	0.98	3.00	0.32
Hispanic	8.37	0.72	1.70	0.20
Other	5.58	0.26	0.92	0.08
LTV: <= 60	3.53	0.41	0.84	0.10
LTV: 60.01 - 80.00	5.93	0.64	1.56	0.18
LTV: 80.01 - 95.00	8.94	0.99	3.37	0.45
LTV: > 95	15.30	7.37	8.60	3.82
Single borrower	5.39	0.73	1.52	0.21
Coborrowers	3.87	0.35	0.98	0.08
Delinquent (30+) in Feb. 2020	18.60	15.40	10.03	3.66
Current in Feb.	4.35	0.23	1.12	0.09
Distressed	15.30	3.39	6.29	1.28
Not Distressed	3.81	0.21	0.93	0.06
Majority-Minority Tract	7.67	0.74	1.69	0.20
Not a Majority-Minority Tract	3.82	0.49	1.15	0.14
Income: Q1	5.50	0.80	1.61	0.23
Income: Q2	4.47	0.63	1.33	0.17
Income: Q3	4.23	0.45	1.17	0.13
Income: Q4	4.42	0.30	0.97	0.09