

The Foreclosure Ban

BY KATY O'DONNELL AND CRISTINA RIVERO | 08/04/2021 06:00:45 PM EDT

PRO POINTS

- **About 1.8 million homeowners are in forbearance today, meaning they've suspended mortgage payments during the Covid-19 crisis thanks in part to government aid programs that allowed them to do so.**
- **Mortgage delinquency rates are expected to rise this fall as pandemic protections for homeowners expire, after more than 9 million mortgages were placed in forbearance programs over the last 17 months.**
- **The Biden administration is continuing to roll out programs intended to avert a wave of foreclosures.**

HOW WE GOT HERE

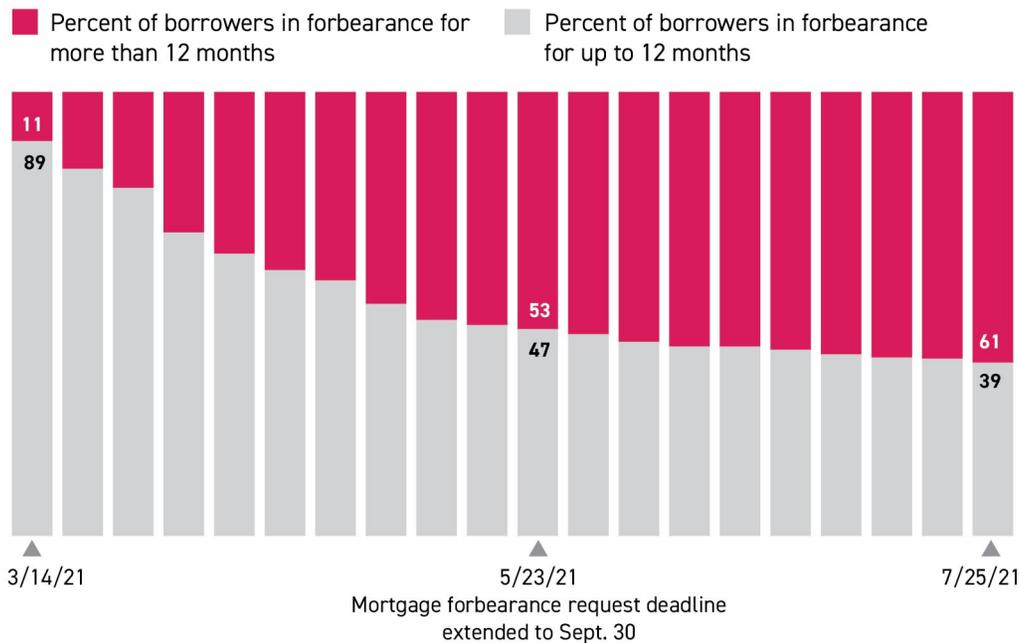
One of the biggest economic burdens unleashed by Covid-19 and the ensuing nationwide lockdowns was on homeowners, who faced the immediate risk of falling behind on mortgage payments as businesses shuttered and unemployment surged.

The \$2 trillion CARES Act that Congress passed at the onset of the pandemic was intended to provide a safety net by giving homeowners with federally backed mortgages the ability to suspend payments for up to 12 months. Congress later extended the forbearance option to 18 months. Private lenders also offered borrowers forbearance on mortgages that didn't have government backing.

Tracking mortgages in forbearance

More borrowers who are in forbearance are in for longer, but the discrepancy is also widening because there are fewer borrowers requesting for the first time.

Length of time borrowers have been in forbearance



Source: Mortgage Bankers Association

Millions of borrowers took advantage of the options in the early months of the pandemic. The take-up rate peaked in May 2020, when up to 7.4 percent of loans were in forbearance.

With the demand for assistance clear, the Centers for Disease Control and Prevention in September issued an order banning foreclosures outright. The agency cited concerns that removing people from their homes – forcing them to double up with friends and family or go to homeless shelters – would worsen the public health crisis.

WHAT'S NEXT

The number of Americans in forbearance has dipped in recent months but new concerns have emerged about the financial stability of those still unable to make mortgage payments. The trend has prompted the Biden administration to announce more economic aid for homeowners.

The pool of borrowers with paused mortgage payments today have substantially lower credit scores than the forbearance population earlier in the pandemic, according to the Federal Reserve. That suggests the

borrowers will struggle when protections are lifted. Many haven't been making mortgage payments since the pandemic began and will have more trouble accessing credit when forbearance programs lapse.

Just before the CDC foreclosure ban expired July 31, the Biden administration unveiled new loan modification options for borrowers with federally guaranteed mortgages in a bid to stave off a surge in foreclosures as forbearance programs sunset over the coming months. More than 1.7 million loans, or about 3.5 percent of mortgages, remained in forbearance at the end of July, according to the Mortgage Bankers Association.

In addition, the Federal Housing Administration – an arm of the Department of Housing and Urban Development that insures mortgage loans to mostly lower-income and minority borrowers – announced July 30 that it would extend its ban on evicting foreclosed borrowers through Sept. 30. The other two federal agencies that back loans – the departments of Veterans Affairs and Agriculture – followed suit, providing two months of extra protection for people living in federally insured single-family properties.

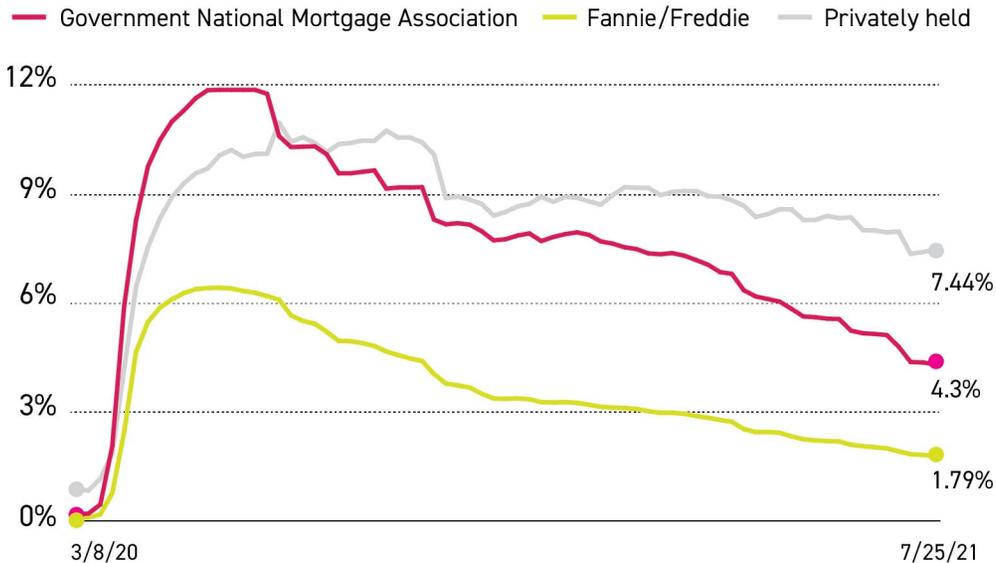
The Federal Housing Finance Agency announced that Fannie Mae and Freddie Mac – which stand behind about half of the U.S. residential mortgage market – would also extend their moratoria on evicting foreclosed borrowers through the end of September.

HUD, USDA and the VA also announced in late July that borrowers who have not suspended payments to date can still enter into a forbearance program through Sept. 30, an option already available for homeowners with mortgages guaranteed by Fannie and Freddie.

Types of mortgages in forbearance

Early in pandemic shutdowns, nearly 12 percent of borrowers with mortgages backed by the Government National Mortgage Association were in forbearance. Those loans, offered through the Federal Housing Administration and the Department of Veterans Affairs, often went to people likely to work in sectors most affected by the health crisis. The privately held loan category now has the largest share of loans in forbearance.

Weekly mortgage forbearances, by type of loan investor



Note: "Privately held" includes loans originally backed by Government National Mortgage Association.
Source: Mortgage Bankers Association

POWER PLAYERS

- **Sandra Thompson:** The acting director of the FHFA will decide whether to extend Fannie and Freddie's protections before they lapse in the fall.
- **Julia Gordon:** Gordon has been nominated to be the next FHA commissioner. If confirmed, she will be tasked with monitoring FHA's portfolio and its financial exposure to mortgage-market stresses. The former president of the National Community Stabilization Trust has wide support among affordable housing advocates.
- **David Dworkin:** Dworkin is the president and CEO of the National Housing Conference, an affordable housing advocacy group that successfully lobbied for the inclusion of a \$10 billion Homeowner Assistance Fund in the March 2021 Covid relief package. The fund is meant to provide help to homeowners struggling with monthly payments.