



Sustainable Homeownership and Wealth Preservation for Communities of Color

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Sustainable Homeownership and Wealth Preservation for Communities of Color

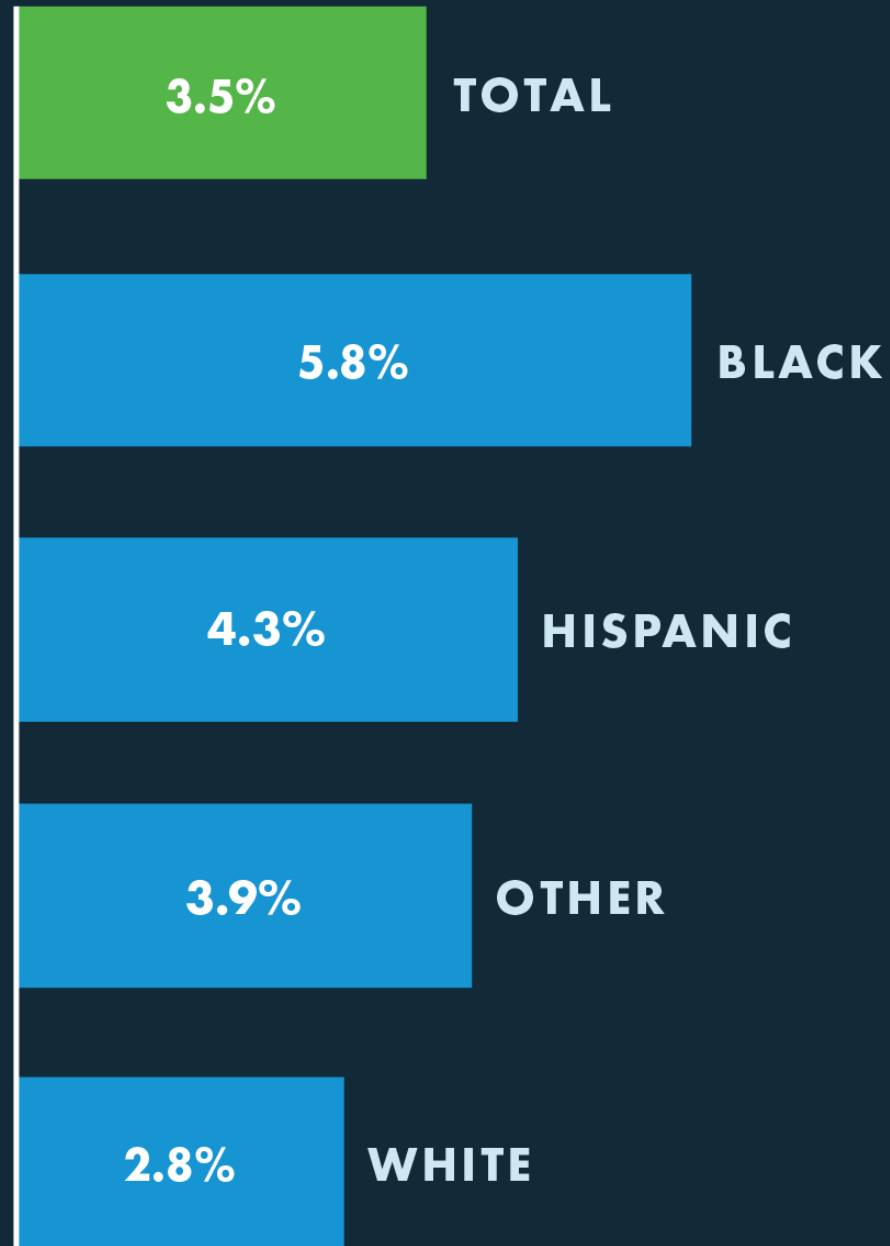
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Homeowner Unemployment Rates

By race or ethnicity

Sources: 2022 American Community Survey.

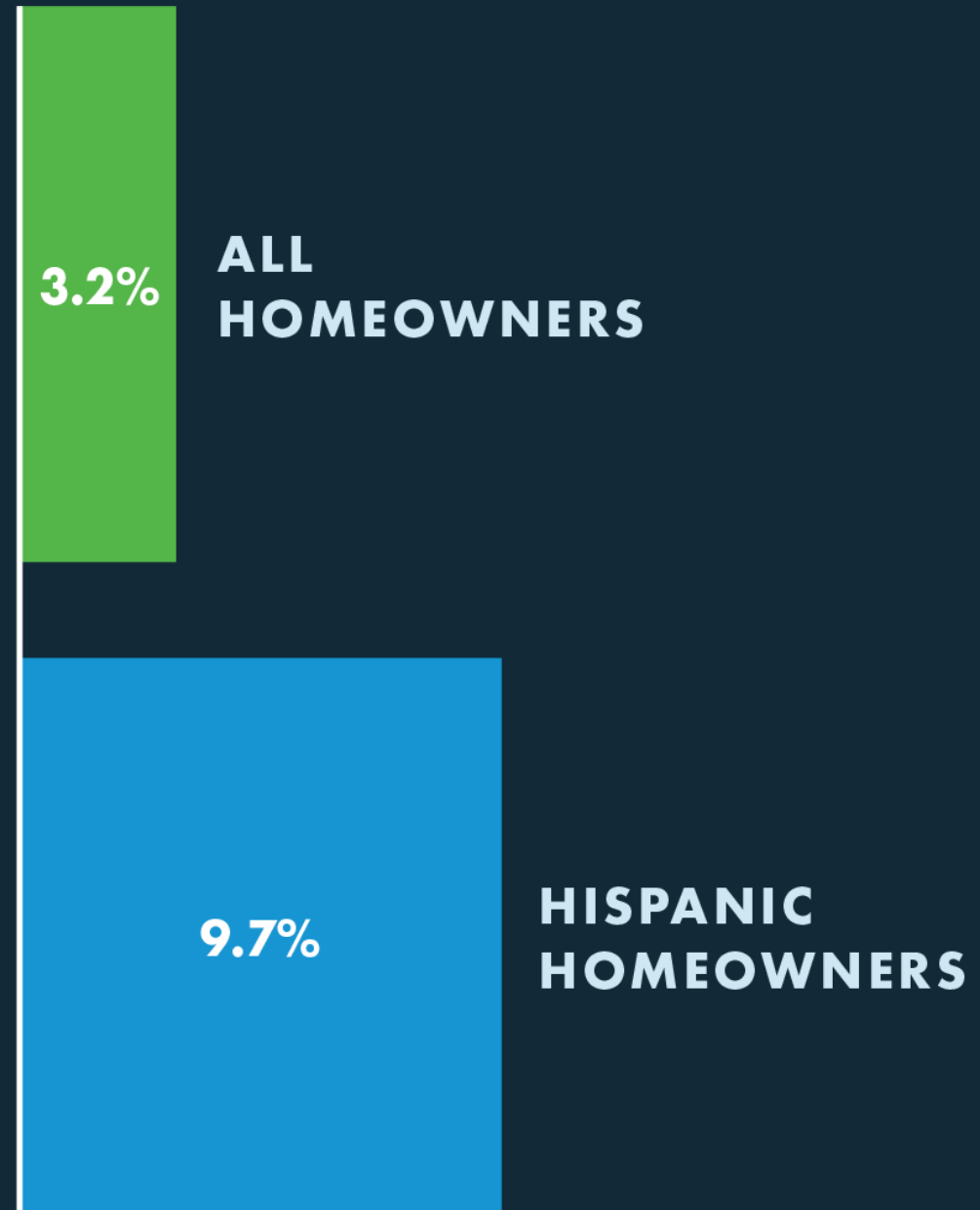
Note: The unemployment rate shows the employment status of heads of households in the labor force.



Share of Homeowners Living in Overcrowded Housing

Source: 2023 American Housing Survey and Urban Institute calculations.

Note: Overcrowded housing is defined as households in which the ratio of persons to total rooms, excluding bathrooms and kitchens, exceeds 1.0.



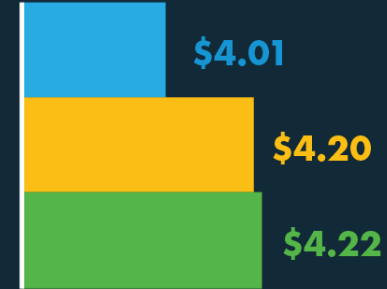
Median Annual Homeowner's Insurance Premium per \$1,000 in Home Price

By income group and neighborhood climate risk

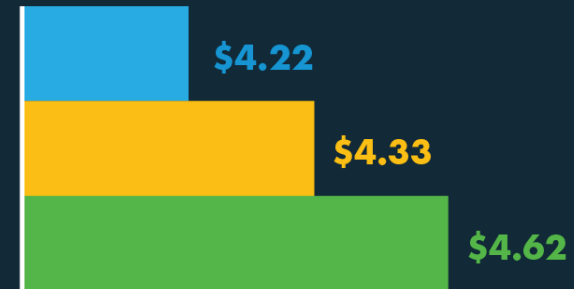
- High income
- Middle income
- Low income

Source: 2021 American Housing Survey.

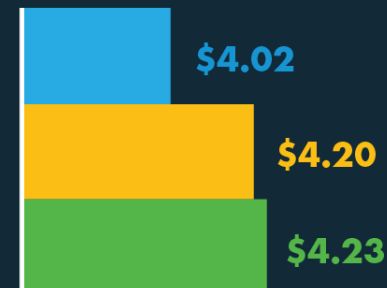
LOW CLIMATE RISK NEIGHBORHOOD



HIGH CLIMATE RISK NEIGHBORHOOD



OVERALL





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October 17, 2024

Improvements in Foreclosure Prevention

Implications for the Mortgage Market and for Reducing Wealth Disparities

Laurie Goodman

Institute Fellow, Housing Finance Policy Center, Urban Institute



Recent Research on Foreclosure Prevention

By Laurie Goodman and Jun Zhu

[*Improvements in the Loss Mitigation Toolkit can Allow for Enhanced Access to Credit*](#) (April 2024)

[*Preventing Foreclosures: What has been Done? What is to Come?*](#) (July 2024)

[*Estimating the Number of Loans Saved During the COVID-19 Pandemic Attributable to Improved Loss Mitigation*](#) (July 2024)

Recent Research on Foreclosure Prevention: Summary of Findings

- During the COVID-19 pandemic, policymakers initiated a **forbearance and deferral program**—that allowed borrowers to pause their mortgage payments as the first step of the loss mitigation “waterfall”—**to prevent a large-scale foreclosure crisis.**
- Using detailed GSE loan-level performance data, we study the effect of forbearance on reducing foreclosures:
 - Our results show that moving forbearance to the top of the loss mitigation waterfall effectively **improves the loss mitigation by 46 percent.**
 - Forbearance is **not costless**, but it is **cost effective.**
 - We estimate that forbearance program **saved 535,737 loans** during the COVID-19 pandemic.

Background: The Development of Forbearance

Pre-Financial Crisis

Loss mitigation toolkit was not standardized

Post-Financial Crisis

Loan modification processes became more streamlined

Short-term assistance (repayment & forbearance) and **permanent modification plans** were joined as part of natural disaster recovery, with forbearance at the top of the waterfall

Great Recession (2009)

Home Affordable Modification Program (HAMP) represented the first standardization of loss mitigation toolkit

COVID-19 pandemic (2020)

The **CARES Act** implemented a moratorium on foreclosures and provided 12 months (later 18 months) of forbearance on federally-backed mortgages.

Natural disaster playbook was implemented on a large scale

Background: The Development of Forbearance

The COVID Loss Mitigation Waterfall

- The borrower is in forbearance for **12 to 18 months**. As the borrower exits forbearance, **several options were available**:
 - Pay back the forborne amount in a **lump sum**;
 - **Increase monthly payments** and **repay** over 5 years;
 - Keep payments constant and **defer the forborne amount until the end** of the life of the mortgage; or
 - **Modify loan** to reduce monthly mortgage payments
- This waterfall has since been made permanent at the GSEs, with the intent to do the same at FHA. VA has made some strides.



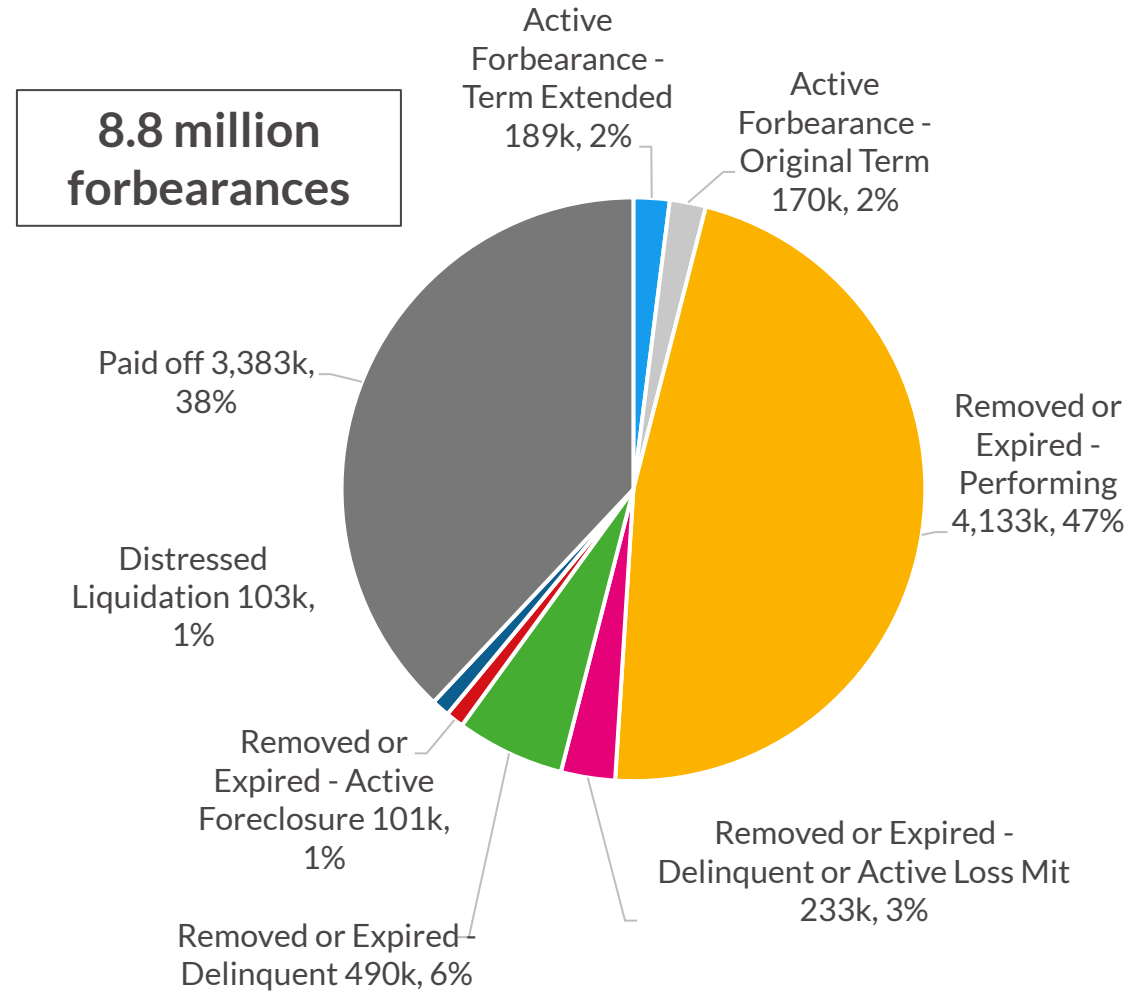
COVID-19 pandemic (2020)

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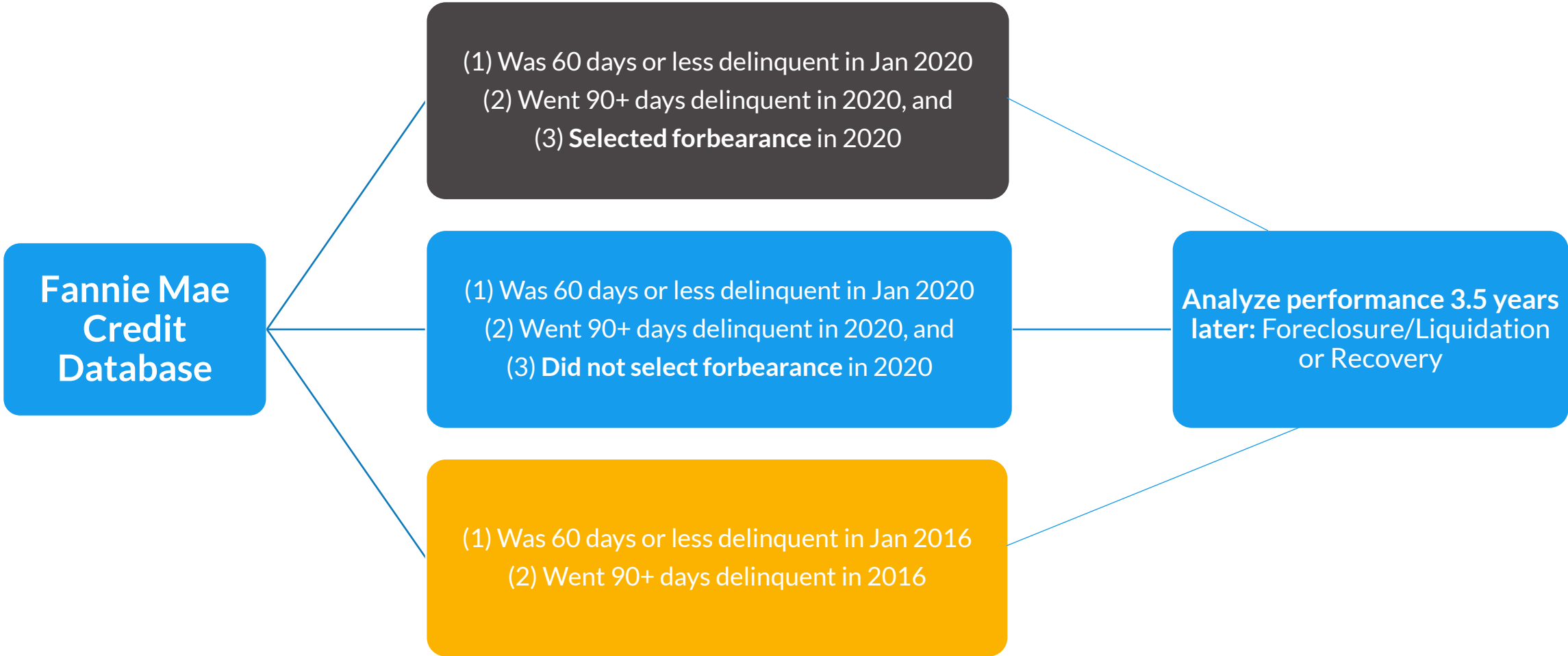
Estimates of Forbearance Outcomes

Current status of COVID-19 related forbearances



Source: ICE, McDash Flash Data through Feb 13, 2024

The Impact of Forbearance on Transition into Foreclosure



Liquidation Rates, Overall

Group	Loan Count	Liquidation Rate
Forbearance in 2020	487,726	3%
No Forbearance in 2020	18,950	15%
2016	69,606	23%

Liquidation Rates, by Loan Characteristics

Group	FICO	MTMLTV <-70		MTMLTV 70<-80		MTMLTV 80<-90		MTMLTV >90	
		N	Liq. rate	N	Liq. rate	N	Liq. rate	N	Liq. rate
Forbearance in 2020	<700	102345	3.7%	30917	3.9%	20088	4.8%	11402	5.7%
	700-750	87083	2.2%	32332	2.1%	22482	2.9%	15421	3.5%
	>750	103049	1.4%	27569	1.3%	17072	2.1%	10273	1.9%
	All	292477	2.4%	90818	2.5%	59642	3.3%	37096	3.7%
No Forbearance in 2020	<700	6386	14.3%	1114	16.2%	657	21.5%	255	31.4%
	700<750	3745	12.6%	776	16.6%	438	21.2%	261	25.7%
	>750	3791	11.9%	570	18.8%	307	24.1%	158	32.9%
	All	13922	13.2%	2460	16.9%	1402	22.0%	674	29.5%
2016	<700	24682	17.8%	6767	23.9%	4226	29.2%	3609	38.8%
	700<750	9788	18.4%	3092	27.2%	2159	30.2%	1308	43.4%
	>750	7086	20.9%	2063	34.1%	1314	39.5%	677	49.0%
	All	41556	18.5%	11922	26.5%	7699	31.2%	5594	41.1%

Note: MTMLTV = mark-to-market loan-to-value.

Liquidation Rates by Loan Characteristics

Liquidation Rates, MTMLTV >90, FICO <700

Group	Loan Count	Liquidation Rate
Forbearance in 2020	11402	5.70%
No Forbearance in 2020	255	31.40%
2016	3609	38.80%

Note: MTMLTV = mark-to-market loan-to-value

Liquidation Rates, by Home Price Appreciation

Group	FICO	HPA < 0		HPA 0 - 20%		HPA >20%	
		N	Liq. rate	N	Liq. rate	N	Liq. rate
Forbearance in 2020	<700	11819	4.8%	106491	4.0%	46442	3.8%
	700-750	11402	2.6%	100884	2.4%	45032	2.3%
	>750	10202	1.5%	91455	1.5%	56306	1.5%
	All	33423	3.1%	298830	2.7%	147780	2.5%
No Forbearance in 2020	<700	619	23.4%	4400	17.2%	3393	12.1%
	700-750	331	23.0%	2725	16.1%	2164	11.3%
	>750	297	21.5%	2282	15.9%	2247	11.5%
	All	1247	22.9%	9407	16.6%	7804	11.7%
2016	<700	15082	28.0%	17082	20.0%	7120	14.1%
	700-750	5070	31.4%	8169	23.0%	3108	12.5%
	>750	3185	38.7%	5767	25.8%	2188	14.3%
	All	23337	30.2%	31018	21.9%	12416	13.8%

Note: HPA = Home Price Appreciation

Liquidation Rates by Home Price Appreciation

Liquidation Rates, Home Price Appreciation 0 – 20%, FICO <700

Group	Loan Count	Liquidation Rate
Forbearance in 2020	106491	4.00%
No Forbearance in 2020	4400	17.20%
2016	17082	20.00%

Regression Results

$$\Pr(L_i = 1) = \Pr(\alpha + \mu * F_i + \gamma * Group_i + X_i' \beta + \varepsilon_i)$$

Parameter	(1)		(2)		(3)	
	Estimate	Standard Error	Estimate	Standard Error	Estimate	Standard Error
Forbearance	-18.8%***	0.0008	-11.7%***	0.001	-10.6%***	0.001
Group: 2020			-6.3%***	0.001	-3.8%***	-0.002
Other Controls	No		No		Yes	

Implications for Expanding the Credit Box

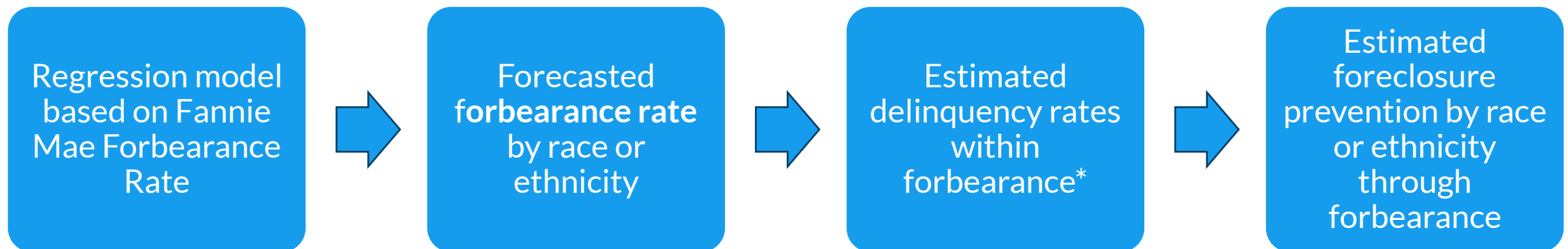
$$\text{Loss Rate}_i = D_i * L_i * S_i$$

If we reduce the **transition rate (L)** by 46% (10.6/23) we can sustain a higher level of **90+ delinquencies (D)** by the same amount, holding **loss severity (S)** constant. So, we generate at least **300,000 additional loans per year**.

Loss Severity, by Loan-to-Value Ratio (LTV)

Origination Year	LTV <60	LTV 60-80	LTV >80	All
1999-2004	27%	41%	26%	34%
2005-2008	41%	53%	36%	47%
2009-2010	28%	38%	20%	33%
2011-2017	15%	25%	9%	16%
2018 and after	4%	7%	4%	5%
All	37%	49%	31%	42%

Improved Loss Mitigation: Estimated Number of Loans Saved During COVID-19



*Not all loans that opted for forbearance needed it

Forbearance Rates, by Delinquent Status and Race or Ethnicity

Forbearance Rates, by Delinquent Status

DQ status	Counts	Forbearance Rate
Current	13,161,682	4.9%
D30	432,204	85.5%
D60	48,112	81.2%
D90+	63,866	65.7%
Total	13,705,864	8.0%

Forbearance Rates, by Race or Ethnicity

Race or Ethnicity	Forbearance Rate
White	11.8%
Black	19.9%
Latino	16.4%
Asian	10.3%
Other	14.5%

Forbearance Loans, by Race or Ethnicity

Race or Ethnicity	Share of loans	# of loans	Forbearance Rate	Forbearanced loans	% Borrowers who need forbearance	# forbearanced borrowers who need forbearance
White	69.4%	35,663,189	11.8%	4,206,830	74.0%	3,114,526
Black	8.9%	4,579,347	19.9%	911,519	78.8%	718,696
Latino	12.1%	6,217,656	16.4%	1,016,898	76.4%	776,666
Asian	5.5%	2,808,135	10.3%	290,474	75.6%	219,496
Other	4.1%	2,126,172	14.5%	308,167	76.0%	234,290
Total	100%	51,394,498		6,733,887		5,063,675

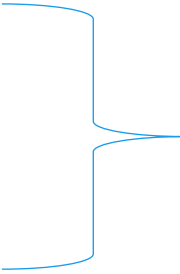
Saved Mortgage Loans Due to Forbearance Program, by Race or Ethnicity

Race or Ethnicity	# Forborne Borrowers Who Need Forbearance	Home Price Appreciation Effect Loan Count <small>Assumes 8% liquidation differential due to house price appreciation</small>	Forbearance Effect Saved loans <small>Assumes 23% liquidation in normal times * 46% reduction</small>
White	3,114,526	249,162	329,517
Black	718,696	57,496	76,038
Latino	776,666	62,133	82,171
Asian	219,496	17,560	23,223
Others	234,290	18,743	24,788
Total	5,063,675	405,094	535,737

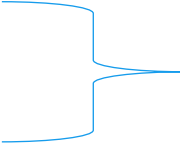
Forbearance Savings Far Outweigh the Costs

- **Forbearance has costs.** Consider three categories of borrowers:

1. Borrower who elects forbearance and **is saved because of it**
2. Borrower who elects forbearance but **would not have defaulted in any event**
3. Borrower who elects forbearance and **defaults anyway**



For Borrowers 1 and 2,, the missed payments are deferred to the end of the life of the mortgage.



For Borrower 3, forbearance merely extends the liquidation timeline.

Using reasonable parameters, we estimate forbearance costs are about **25%** of the total savings.

Conclusion and Implications

- The introduction of **forbearance and payment deferral** resulted in a sizeable decline – **46 percent** – in the transition rate from serious delinquency to liquidation.
- We estimate that **over 535,000 borrowers** were saved from liquidation during the pandemic due to this program. A disproportionate number of these borrowers were **Black and Hispanic**.
- This drop in the rate of transition from serious delinquency to foreclosure could allow for a very sizeable expansion of the credit box – **an additional 300,000 loans a year** – but that does not seem to be happening.
- **Making these programs permanent** is a game changer in terms of the ability of troubled borrowers to be able to retain their homes. And, the savings from forbearance **far outweigh the costs**.



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Survey





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