HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Equity and Rates Versus The Biggest Forbearance Expiration Wave Yet

Both CoreLogic and Black Knight have looked at the million plus home loans that are still in forbearance as the majority of those borrowers are quickly approaching the end of their eligibility. While their analyses have taken different tacks, they agree that servicers will need to work with borrowers to ease the exit from forbearance and prevent a wave of foreclosures.

CoreLogic says nearly **three out of four** of the remaining 1.7 million loans it estimates remain in forbearance (this is 200,000 to 300,000 more than the estimates from Black Knight and the Mortgage Bankers Association) will reach the maximum 18 month forbearance limit at the end of September. The company categorizes its analysis on a comparison between loans that are behind in their payments with those that, despite being in forbearance, have not fallen into arrears.

That a number of homeowners apparently entered forbearance as "insurance" was noted early in the pandemic, but this is the first indication we have seen that this has continued to the present in significant numbers. CoreLogic says that as of August 1, one half of GSE loans in forbearance and two thirds of federally insured loans (FHA, VA, USDA) in the program have missed payments, typically 12 of them.

Borrowers who are behind on payments generally have **much higher** unpaid principal balances as well as larger scheduled monthly payments than those who have stayed current. This is true even before arrearages are considered. For GSE-backed loans, those who are behind in payments have a median unpaid principal balance (UPB) that is 87.7 percent of the original loan with a scheduled payment of about $1,054 each month. When missed payments are added to the unpaid principal it rises to 93 percent. Among loans that are current the median UPB is 82 percent with a scheduled payment of $957.

Jason Wood
Mortgage Advisor & VA Loan Specialist, VA Loan Guy
www.valoanguyusa.com
P: (760) 350-3989
M: (760) 217-0820
2714 Loker Ave. W.
Carlsbad CA 92010___
317293

VA Loan Guy®

EQUAL HOUSING LENDER

These differences hold true for **federally insured loans**. Forbearances that are behind on payments have a median UPB of 91 percent and 96 percent before and after missed payments, with a higher monthly payment of $811, compared to a UPB of 88 percent and a $760 monthly payment among the current borrowers.

CoreLogic found **only slight differences** in key underwriting risk attributes at the time of origination between current and non-current forborne loans suggesting there are no clear signs of adverse risk selection on the non-performance portion. FICO scores, debt-to-income or loan-to-value ratio varied by only a few points between the two categories within each of the loan types.

The company also looked at the average mortgage rates and spread to prevailing market rates. The spread is calculated based on a loan's type and term against corresponding market rates. In GSE backed forbearance plans, the average mortgage rate is 4.625 percent among the loans that are behind on payments and 4.5 percent for current loans, resulting in a deep "in-the-money" spread of more than 1.5 percent. This positive difference between the existing loan rate and refinancing rate means that many loans in forbearance plans may be able to reduce their mortgage rate by **refinancing**.

A slightly smaller spread exists for federally insured loans. The median rate is 4.25 percent with spreads of 1.0 percent and 0.9 percent respectively among non-current and current loans.

While all exiting borrowers with modest or deep in-the-money interest spread **could** benefit from a rate reduction regardless of which of lender-backed exit strategies are chosen, it will be **particularly** helpful to those who can no longer afford to resume regular payments or require a loan modification - such as extending the maturity of the loan - to bring down post-forbearance payments.

The wave of borrowers **exiting** the program over the next few weeks will be the program's **largest**, representing those who entered the program in April 2020 shortly after it became available. Exit-related servicing demand - from contacting borrowers to handling borrowers request and working with borrowers through different options - could become overwhelming for servicers. Many borrowers will likely require assistance finding an affordable and sustainable exit plan so as to avoid foreclosure and remain in their homes.

Black Knight, as part of its August Mortgage Monitor, looked at what has been touted as a safeguard against widespread post-forbearance foreclosures and says, "holding equity in one's home might not be the blanket backstop to foreclosure activity everyone hopes."

Rising home prices have left only 7 percent of those in forbearance with less than 10 percent equity in their homes even after 18 months of deferred payments are added to their mortgage balance. During the Great Recession homeowners with little equity were most likely to be referred for foreclosure, but since 2010 borrowers who are 120 days in arrears have similar rates of foreclosure starts regardless of equity.

Even so, those with high equity are about 40 percent less likely to face involuntary liquidation of their hopes through foreclosure, short sales, or deeds-in-lieu than those with less equity if they refinance, or more likely sell their homes. However, the company found that even those with large amounts of equity who could sell their homes don't always do so. Among those with loan to value ratios below 60 percent, nearly a third who were referred for foreclosure did ultimately lose their homes.

Ben Graboske, president of Black Knight Data & Analytics says of those who fail to take advantage of selling through traditional channels, "Whether due to lack of understanding of their equity positions or the foreclosure process in general is unclear. But given the large number of high equity homeowners currently struggling to make their payments, this represents a significant challenge for the industry: how to educate struggling homeowners on the post-forbearance, foreclosure and - if needed - home sale processes, to limit unneeded stress on homeowners and the market alike."

Clouding the future of these borrowers even further, Black Knight says the white-hot housing market that has been driving increased equity has begun to show signs of cooling, with the annual appreciation through August down slightly from that in July. Early reports on September sales suggest that cool down has continued.