TENNESSEE HOMEOWNERS DURING THE PANDEMIC:

Mortgage Delinquency, Forbearance, and Foreclosure

Tennessee Housing Development Agency

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KEY FINDINGS

- Tennessee and the U.S. are facing two concurrent, but seemingly contradictory, trends in mortgage delinquency. The overall share of homeowners behind on their mortgage has shrunk markedly and consistently, having declined for six consecutive months, amounting to 34 percent of the initial increase caused by the pandemic. The share of severely delinquent borrowers, however, has barely rebounded from its pandemic peak, and when isolating to FHA borrowers, who tend to be lower-income, the data do not even show the beginnings of a possible recovery.
- Homeowners who remain severely delinquent on their mortgage could potentially face difficulty moving forward. 2021 may see a sizable cohort of homeowners exit forbearance amidst sluggish economic conditions, after 12 months of unemployment and missed mortgage payments. While delinquent homeowners have more options in 2021 to avoid foreclosure than they did during the Great Recession, the prospect of a wave of severely delinquent borrowers facing foreclosure remains a source of uncertainty in the coming months.
- Regardless of Grand Division or urban/rural status, virtually every area of Tennessee has seen mortgage delinquency increase substantially during the pandemic. In recent months, however, severe delinquency has declined in urban and suburban counties, while rural Tennessee's severe delinquency rate has continued to increase.
- Tennessee's record-high unemployment at the height of Covid-19 (15.5%) was much higher than the state's Great Recession peak (10.9%). Yet the state's rate of severely delinquent mortgages has not followed suit, and is still just 57 percent of its peak during the Great Recession.

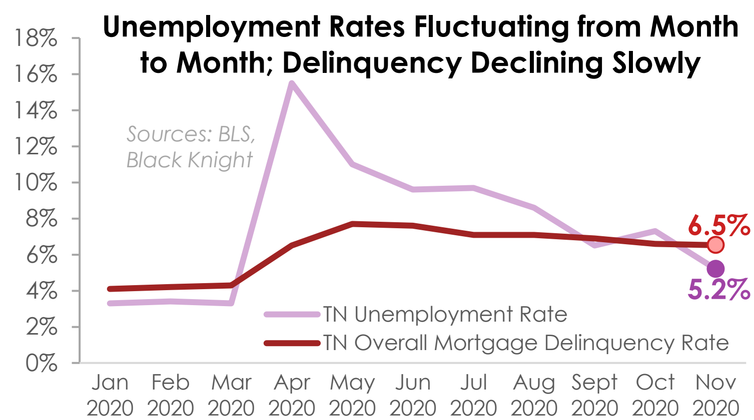
THE PANDEMIC ENVIRONMENT: UNEMPLOYMENT, MORTGAGE DELINQUENCY, AND FORBEARANCE

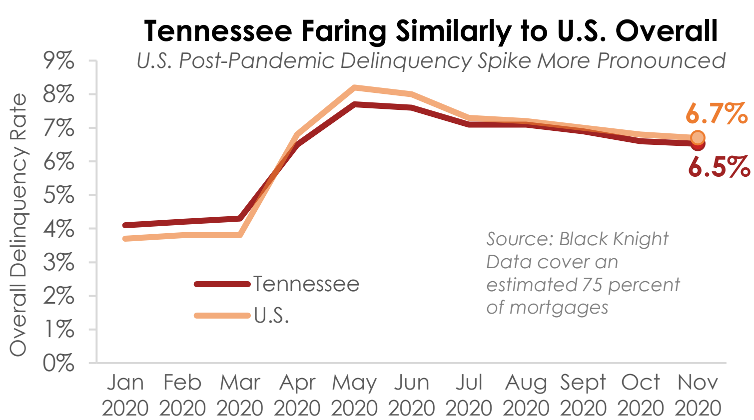
The Covid-19 pandemic has resulted in severe disruptions to Tennessee's economic and housing landscape. This report summarizes these abrupt shifts and emergent patterns in mortgage delinquency, forbearance, and foreclosure.

Nationwide, the height of the pandemic's impact on housing and employment came during April and May of 2020. Unemployment rates reached 14.8 percent in April, while an estimated 8.2 percent of the nation's mortgages became delinquent during the month of May. By early June, 8.6 percent of mortgages nationwide were in a forbearance plan.[1]

The story of the subsequent months has been one of partial, uneven improvement. By November 2020, Tennessee's unemployment rate had fallen to 5.2 percent, down from 15.5 percent in April. Overall mortgage delinquency, in both Tennessee and the U.S., has fallen each month since peaking in May 2020. Yet severe mortgage delinquency (90+ days delinquent) has only fallen gradually since peaking in August, and FHA-specific delinquency was still increasing as of November 2020.

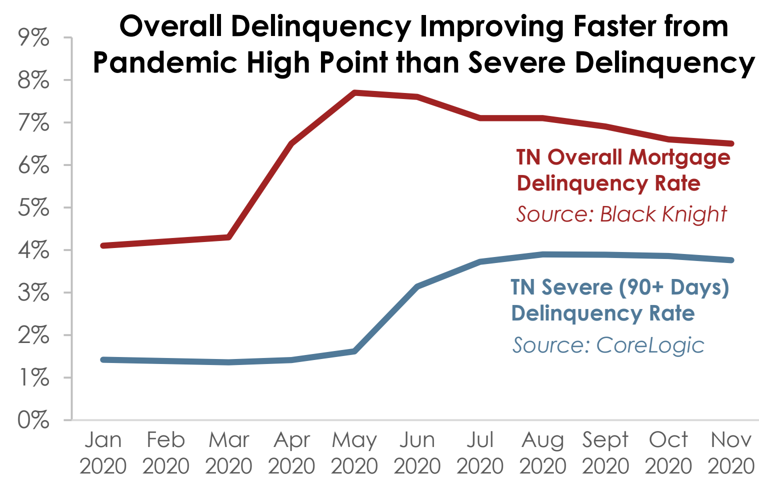
During 2021, millions of U.S. homeowners, who remain on forbearance currently, will exit their forbearance term, and while they may have sufficient ability to manage their missed payments during their 12-month forbearance term, their ability to make ongoing mortgage payments is uncertain. The job market has





[1] Under a forbearance plan, a borrower is typically able to miss mortgage payments and is usually able to repay through a gradual repayment plan at the end of the forbearance term, though details vary by loan insurer. For a more in-depth overview of forbearance, view the September report.

improved considerably since its record-setting low point during April 2020; as shown below, the employment to population ratio had recovered 62 percent of its pandemic-induced losses by November. Yet this ratio, with the release of December data, has been flat for three months. A literature review from the Bureau of Labor Statistics cautioned that the remaining economic recovery is likely to be at a much slower pace, as a) most formerly employed workers are increasingly unlikely to be recalled to their former employer, and b) continued cases of Covid-19 are a likely deterrent to a more rapid economic rebound.



As shown to the right, severe mortgage delinquency rates have been much slower to improve than overall delinquency. Most severely delinquent borrowers are under a forbearance agreement, and virtually all of these borrowers are scheduled to exit forbearance over the course of 2021. While severe delinquencies are undeniably trending in a positive direction, the pace of these improvements suggests that foreclosure moratoriums and CARES Act forbearance will expire in 2021 leaving a stubbornly high level of borrowers at risk of entering the foreclosure process.

Summarizing the Pace of Improvement Across Tennessee and the U.S., through November 2020

Category	Source	Region	February 2020 Level	Covid-19 Peak Level	November 2020 Level	Recovery from Peak to November, Relative to February 2020 Level
Unemployment Rate	B.L.S.	U.S.	3.5%	14.8%	6.7%	**72%**
Employment-Population Ratio	B.L.S.	U.S.	61.1%	51.3%	57.4%	**62%**
Mortgage Delinquency Rate	Black Knight	U.S.	3.8%	8.2%	6.7%	**34%**
Mortgage Forbearance Rate	M.B.A.	U.S.	0.25%	8.55%	5.54%	**36%**
Unemployment Rate	B.L.S.	Tennessee	3.4%	15.5%	5.2%	**85%**
Mortgage Delinquency Rate	Black Knight	Tennessee	4.2%	7.7%	6.5%	**34%**
Severe Mortgage Delinquency Rate (90+ days delinquent)	CoreLogic	Tennessee	*(THDA unable to disclose raw data values)*			**6%**
FHA-Specific Delinquency Rate	HUD Neighborhood Watch	Tennessee	11.2%	15.6%	15.6%	**0%**

Sources: Bureau of Labor Statistics (unemployment, employment/population ratio); Black Knight (mortgage delinquency); Mortgage Bankers Association Forbearance and Call Volume Survey (forbearance); CoreLogic MarketTrends (severe mortgage delinquency); HUD NeighborhoodWatch (FHA-specific delinquency)

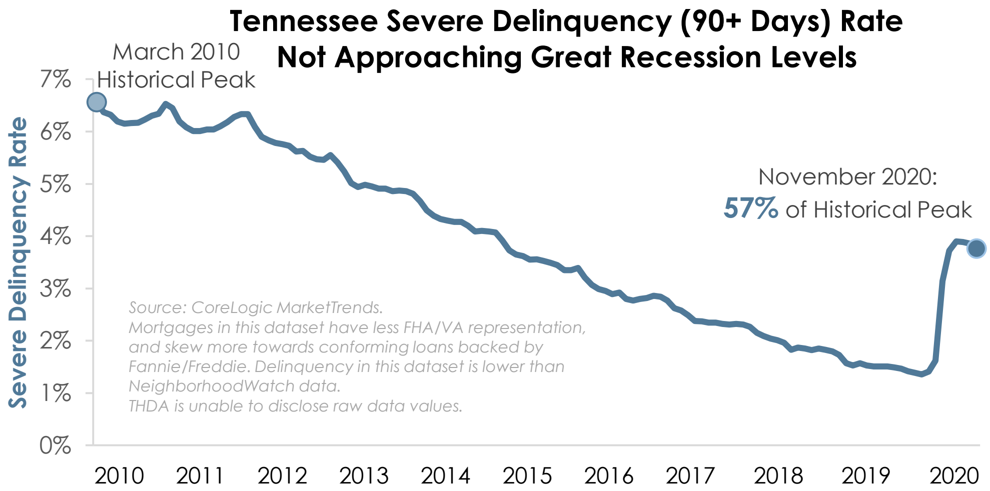
"Recovery" is calculated by dividing the interval of improvement from a pandemic peak to November 2020, as a percentage of the spike induced by the pandemic. The national unemployment rate increased by 11.3 percentage points (3.5% to 14.8%) as the pandemic shut down businesses, and has fallen 8.1 percentage points from that peak level (14.8% to 6.7%); this improvement interval equals 72 percent of the initial downturn. A value of 100% in this column would mean that the category has returned to February 2020 levels.

The above table leaves the following takeaways:

- The employment landscape has improved considerably since reaching record-setting low points in April 2020. Unemployment rates, it should be noted, do not include discouraged former workers who have dropped out of the labor force. When one examines employment-to-population ratio, which controls for labor force participation, the recovery since April is slightly less impressive. Despite a strong pace of rebound to this point, a 62 percent recovery of employment-population ratio amounts to a lot of lingering economic hardship.
- There are two concurrent, but seemingly contradictory, trends in mortgage delinquency. The overall share of homeowners behind on their mortgage has shrunk markedly and consistently, having declined for six consecutive months, amounting to 34 percent of the initial increase caused by the pandemic. The share of severely delinquent borrowers, however, has barely rebounded from its pandemic peak, and when isolating to FHA borrowers, who tend to be lower-income, overall delinquency and forbearance are still increasing.
- The ability to identify a subset of borrowers who are struggling, and may continue to struggle, should not mask the overall reduction in mortgage delinquency. However, the reverse is also true; the overall reduction in mortgage delinquency should not mask the substantial cohort of severely delinquent borrowers, with limited recovery to this point, who may exit forbearance during 2021 amidst sluggish economic conditions and facing a risk of foreclosure.

Among U.S. states, Tennessee finished November 2020 ranked 28th highest in mortgage delinquency and 32nd highest in unemployment. Consistent with prior months, Tennessee finished November with a lower delinquency rate than 12 of the 16 states in the South.

PUTTING THE COVID-19 DELINQUENCY INCREASE IN HISTORICAL CONTEXT



As the economic impact of the pandemic broke records, concerns mounted for homeowners across Tennessee and the U.S. These concerns remain valid—after all, the last recession triggered a historic wave of foreclosure activity. Tennessee's unemployment rate at the height of Covid-19 (15.5%) was much higher than the state's Great Recession peak (10.9%).[2] Yet available data show that severe mortgage delinquency is, as of November, only at 57 percent of the state's historical peak during the Great Recession.[3]

Fears of a worst-case scenario have not yet materialized. The trajectory of employment during the pandemic is likely a contributing factor. During the Great Recession, it took 65 months for Tennessee's unemployment rate to fall from its peak (10.9%) to 6.5 percent. During the pandemic, however, it took just five months for unemployment to fall from 15.5 to 6.5 percent. While this is still nearly twice as high as pre-Covid unemployment rates, and data on the employment-population ratio are less impressive, the pace of recovery appears to have helped many homeowners recover on their mortgage.[4]

The outlook for Tennessee homeowners is favorable in relation to the Great Recession. Foreclosure rates[5] have yet to show any sign of increase during the pandemic. Nationwide moratoriums on foreclosure, applying to a majority of active mortgages, and now extended through June 2021, have likely forestalled any otherwise-expected foreclosure increase. However, the state's severe delinquency rate has still nearly tripled since March, and while it has begun to needle downward, it may once again increase in future months. The nation's current set-up, with widespread availability of forbearance, and extended foreclosure moratoriums, amidst a spike in delinquencies, is without a true historical precedent. The fact remains that a higher incidence of severe delinquency has historically corresponded to a higher incidence of foreclosure activity (for more on this, see pg. 4 of last month's report).

It is likely, however, that Tennessee homeowners are better positioned to avoid foreclosure, should their lender initiate proceedings, than they were during the Great Recession. This is primarily due to the ability of a distressed borrower to either refinance their home amid low interest rates, or sell their home without incurring a financial loss. Negative equity, or when a borrower owes more on their mortgage than the underlying home is

About Forbearance:

- With the passage of the CARES Act in March 2020, foreclosures were put on hold for most mortgages nationwide, and millions of homeowners became eligible for forbearance.
- Mortgage-holders who have experienced financial hardship due to Covid-19 are legally allowed to seek and obtain forbearance for up to 12 months.
- Under forbearance, a borrower can usually repay missed mortgage payments through a gradual repayment plan at the end of the forbearance term; details vary by loan insurer.
- This set-up, of widespread forbearance availability and extended foreclosure moratoriums amid an economic downturn, is without true historical precedent.
- A recent executive order extended CARES Act forbearance terms and foreclosure moratoriums through June 2021.
- Millions of homeowners have entered into forbearance since the CARES Act; many have since exited, but millions more remain.
- Through mid-November 2020, an estimated 2.77 million homeowners nationwide were in forbearance, with 84% of these being delinquent on their mortgage.
- Data can tell us how many borrowers remain in forbearance, and can give us an idea of how many of these borrowers are behind on their mortgage. What is not clear from the data are how behind these borrowers are; some borrowers may exit their forbearance term in July 2021 having missed 15 months of payments, while others may only be several months delinquent.
- Millions of borrowers may exit forbearance plans post-June with a repayment plan in place, and are able to resume ongoing payments. However, a slow pace of economic recovery could threaten struggling borrowers' ability to resume payments, weakening the forbearance policy's goal of preventing foreclosures.

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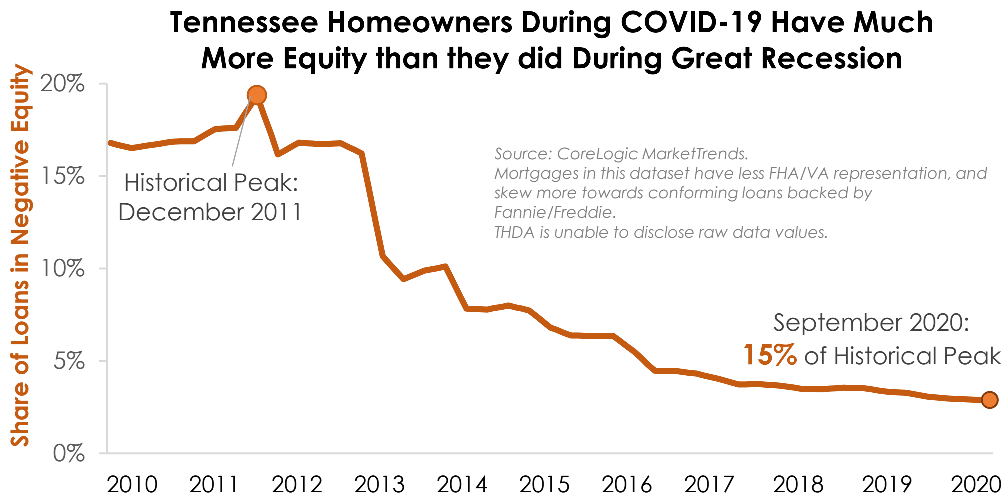
[2] Tennessee's Great Recession unemployment peak came during June 2009.

[3] This comparison is limited by available data; THDA has access to historical MarketTrends data beginning in March 2010. This means that months during 2008 and 2009 may very well have shown higher severe delinquency rates, which would make March 2010 not the "true" historical peak during the Great Recession. Nationwide, according to Black Knight, overall mortgage delinquency did peak in 2010.

[4] Although a deeper analysis would help quantify this, it is likely that the pandemic's impacts on unemployment have been disproportionately adverse towards renter households. The fact that Tennessee's homeowners are faring well *in relation* to the Great Recession, thus far, should not be extrapolated towards Tennessee's renter population.

[5] "Foreclosure rates" refers to the share of mortgages who are in some stage of the foreclosure process. It is not synonymous with "completed foreclosures". It is entirely possible that a loan that enters the foreclosure process (after a pre-foreclosure filing, for instance) does not result in a completed foreclosure. Both categories are useful in an analysis of the pandemic's impact on homeowners going forward.

worth, is far less common than it was seven to ten years ago. As shown to the right, roughly 1 in 6 Tennessee borrowers were in negative equity from March 2010 through April 2013. At the end of September 2020, roughly 1 in 35 borrowers were. Among delinquent borrowers, the incidence of negative equity is likely to be higher, but the data do not allow for an estimate specific to these borrowers. It is likely, however, that negative equity among delinquent borrowers is much lower than it was during the Great Recession.



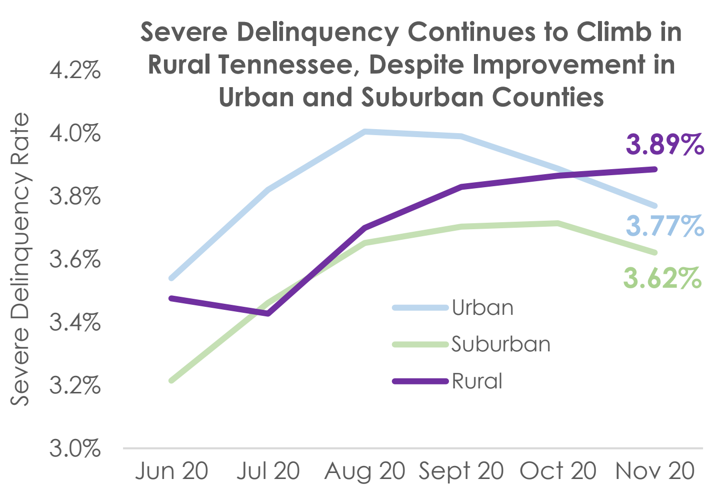
To summarize, homeowners facing foreclosure are in a better position to sell their home than at any point in the past decade. They also have more potential homebuyers, and higher overall home prices, than they did even before the pandemic. National data maintained by the [Mortgage Bankers Association](#) show that home sales have been at a considerably higher volume during 2020 than they were in 2019; home sales during the mid-December 2020 were [26% higher](#) than they were during mid-December 2019. Nationwide [data on home sales prices](#) also show increases in the aftermath of the pandemic. This is a fundamental difference from the Great Recession. Home sales prices decreased steadily from April 2007 to March 2011; it was not until March 2016 that home prices matched their April 2007 levels. In contrast, Covid-19 has seen home prices increase; after remaining flat from April to May, the past six months have each been record-setting highs in the FHFA nationwide home price index.

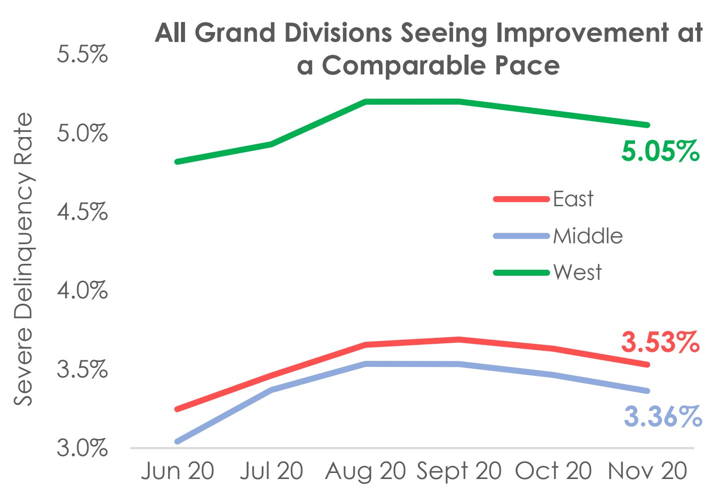
Taken together, the Covid-19 pandemic may well result in an increase in completed foreclosures starting in July 2021. Yet the ability of Tennessee's severely delinquent homeowners to avoid foreclosure has perhaps never been higher. This is not merely theoretical conjecture; data from Black Knight show that, off the 4.77 million homeowners nationwide who became delinquent post-Covid and entered forbearance, a full [11 percent of these households had either refinanced or sold their home](#), choosing not to wait for forbearance to run its course or accumulate more missed payments.

SEVERE DELINQUENCY ACROSS TENNESSEE COUNTIES[6]

Each of Tennessee's 95 counties, regardless of region or urban/rural status, has been adversely impacted by the pandemic. The median county, in fact, saw severe delinquencies increase by 124 percent from February through November. West Tennessee had the highest rate of severe delinquency well before the pandemic began, and this remains the case presently; six of the state's top seven counties for severe delinquency are in West Tennessee. All three Grand Divisions, however, are seeing severe delinquency drop at a comparable pace over the past two months.

While at a statewide level, Tennessee's severe delinquency is trending downwards, rural Tennessee counties are continuing to trend upwards. This is something of a reversal from trends earlier in the pandemic. Through August 2020, urban Tennessee counties had been the most adversely impacted, from a severe delinquency perspective. By the end of October, urban and rural Tennessee (as aggregated regions of counties) had virtually equivalent severe delinquency rates. During November, 27 of the state's 55 rural counties saw an increase in severe delinquency, while just two of the state's 17





[6] Data in this section is focused on severe mortgage delinquency, rather than overall delinquency, because overall delinquency (from Black Knight) is not available by county.

urban counties saw an increase. Nonetheless, differences among urban counties remain considerable; Shelby County (the most populous in Tennessee) ranks 6th in the state for county-level severe delinquency rates.

LOCAL AND REGIONAL DATA & ADDITIONAL RESOURCES

Between the three datasets on mortgage performance cited in this report, each have its own advantages. Black Knight offers broad coverage of active mortgages, and a 50 state comparison. CoreLogic offers similarly broad coverage of mortgages, with data on each of the state's 95 counties, as well as 10 years of historical data. HUD's NeighborhoodWatch data only includes FHA loans, but offers more detail on mortgage forbearances and early-stage delinquencies, as well as data specific to metropolitan and micropolitan areas.

Because of their enhanced value as datasets with county and region-specific data, THDA Research and Planning has produced summary Excel files on CoreLogic MarketTrends data and HUD's NeighborhoodWatch data.

<table>
<tr><th colspan="2">Tracking Local-Level Data on Mortgage Performance During the Pandemic</th></tr>
<tr><td>Analyzing Severe Delinquency in Tennessee, November 2020</td><td>Tennessee FHA Loan Performance through December 2020</td></tr>
<tr><td>CoreLogic MarketTrends</td><td>HUD NeighborhoodWatch</td></tr>
<tr><td>XLSX</td><td>XLSX</td></tr>
<tr><td>• Data include all of Tennessee's Government Sponsored Enterprise (GSE) loans, which include some, but not all, FHA and VA loans. More than 600,000 loans in total.
• Data are broken out by County.
• Data span more than 10 years, allowing for comparison to the Great Recession.
• Data only include 90+ day delinquency and foreclosure.</td><td>• Data include all of Tennessee's FHA loans; more than 200,000 in total.
• Data are broken out by Metropolitan and Micropolitan Statistical Areas. Metropolitan Statistical Areas are multi-county regions, while most Micropolitan regions are a single county.
• In addition to 90+ day delinquency and foreclosure, the data also include 30- and 60-day delinquency, as well as forbearance totals.</td></tr>
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