Policy Brief

JPMorgan Chase & Co.
INSTITUTE

Is Mortgage Forbearance Reaching the Right Homeowners during the COVID-19 Pandemic?

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COVID-19 devastated the US labor market, threatening homeowners' ability to stay current on their mortgages. In contrast to mortgage programs during the Great Recession, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided most homeowners with up to twelve months of payment relief, requiring only an attestation of COVID-related hardship. However, the CARES Act was silent on non-federally backed mortgage holders and those experiencing non-COVID related hardship. Additionally, a Fannie Mae survey shows that half of borrowers were not aware of mortgage relief options and that many were worried about potential balloon payments after forbearance ends.

Using administrative banking data, we tackled the following critical questions in order to understand the e ectiveness and impact of forbearance as a policy tool. **How well did this forbearance policy intervention work? Did those most in need utilize the program? Did it reach all those who might have benefited? And what evidence is there, if any, of moral hazard of homeowners with less apparent need taking advantage of the program? How did forbearance impact other financial outcomes?**

Policy Implications

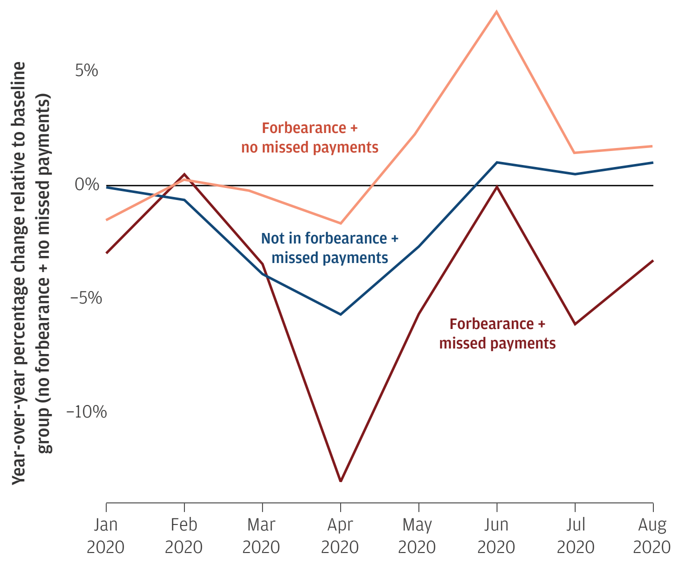
1. **CARES Act mortgage forbearance policies helped homeowners experiencing financial hardship in a material way.** They were able to miss payments without adversely a ecting their credit scores and were able to maintain their cash bu ers in a world with a lot more economic uncertainty.

2. **There is little evidence of material moral hazard as a result of mortgage forbearance so far.** With a policy like this, a small degree of moral hazard is almost inevitable, but that cost must be weighed against the benefit of p oviding many more homeowners with more immediate relief than if the policy had required substantial documentation and paperwork.

3. **As a small fraction of homeowners facing hardship did not benefit from forbearance as defined under the CARES Act, policymakers might consider specifying that balloon payments would not be required when forbearance ends, expanding forbearance to non-federally backed loans, and encouraging additional efforts to increase awareness of the availability of forbearance.** Survey evidence shows that one main impediment to homeowners getting forbearance was confusion around whether balloon payments would be required when forbearance ends.[1]

4. **So far the CARES Act forbearance policies appear to have been a large step in the right direction relative to policies during the Great Recession.** However, in a world with scarce resources, we must also remember that homeowners are generally higher-income, while this recession disproportionately a ected lower-income renters. The final su cess of this forbearance program will depend critically on the results of exit options.

Median total income trends by forbearance and missed payments since April

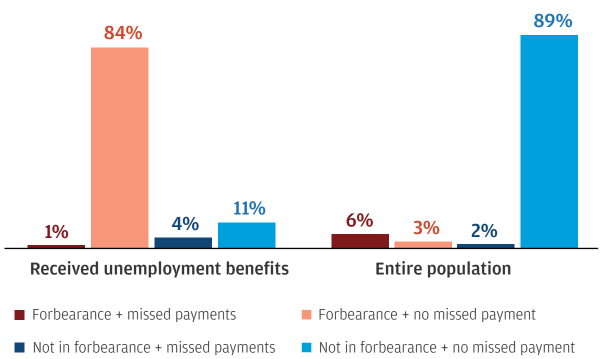


Source: JPMorgan Chase Institute

Finding 1: A third of homeowners in forbearance made all payments to date while a small fraction of homeowners not in forbearance have missed payments. Many homeowners signed up for forbearance as a precaution. Others may not have had forbearance options available, may have been experiencing difficulties not elated to COVID, may not have known about forbearance, or may have been worried about future balloon payments.

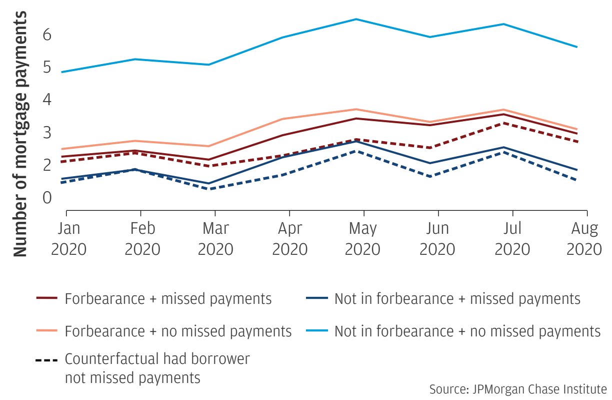
Finding 2: Families using forbearance to miss mortgage payments had larger drops in income than other homeowners and the distribution of their income changes was similar to those who missed payments without forbearance. If there had been widespread moral hazard, we would expect income changes for those in forbearance to have been much more similar to those not in forbearance.

Share of population in forbearance or with missed payment(s) by unemployment insurance receipt



Source: JPMorgan Chase Institute

Median liquid asset trends by forbearance and missed payments since April – levels



Source: JPMorgan Chase Institute

Finding 3: Families in forbearance were more likely to have lost labor income and received unemployment benefits than families not in forbearance. Relative to the broader population, those who received unemployment insurance income were overwhelmingly more likely to be in forbearance but making their mortgage payments.

Finding 4: Forbearance helped families maintain their cash buffers. Homeowners missing payments and/or in forbearance had significa tly lower levels of liquid assets to start with than their counterparts. Savings levels broadly went up, but those in forbearance had smaller increases. If those missing payments had been required to make their payments, their liquid assets would have gone up even less.

Without further government income or stimulus support or significant labor market improvements, mortgage forbearance may be an especially important relief option for homeowners.

1 https://www.hsgcenter.org/wp-content/uploads/2020/07/Survey-results-Forbearance-and-Delinquency2.pdf

For more information, visit https://www.jpmorganchase.com/institute/research/household-debt/report-did-mortgage-forbearance-reach-the-right-homeowners