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News Release

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MEDIA CONTACT:
Angela Waugaman
703-714-0644
Angela_Waugaman@FreddieMac.com

Freddie Mac Research Shows that Forbearance Has Helped Mitigate the Damage to Homeowners During the Pandemic

MCLEAN, Va. (November 17, 2020) – According to Freddie Mac's (OTCQB: FMCC) latest Insight, without forbearance, many households may have defaulted or been forced to sell their homes during the COVID-19 pandemic. These forced sales could have depressed the housing market, leading to further defaults.

Mortgage forbearance temporarily removes the obligation for borrowers to make their monthly mortgage payment. Forbearance plans are typically used by borrowers who experienced a sudden loss of employment, a reduction in income or damage from a natural disaster.

"Mortgage forbearance provides liquidity to households and plays a vital role in mitigating the damage to homeowners during times of crisis whether it be a hurricane, wild fire, or health epidemic," said Sam Khater, Freddie Mac's Chief Economist. "Research on this topic is important because it will help us prepare for the next several months as we continue to navigate the COVID-19 pandemic, and beyond."

Insight Highlights:

- Forbearance rates in the COVID-19 period (March 2020 to June 2020) are similar in level to those experienced in those areas impacted by the major storms in 2017 (August 2017 to December 2017), but much higher than the Baseline period (January 2019 to February 2020). The forbearance rate is 5.6% during the COVID-19 period and 5.8% during the 2017 Storms period. In contrast, in the Baseline period, the forbearance rate is only 0.09%, even though the Baseline spans a longer time horizon.

- While loans with high loan-to-value (LTV) ratios are more likely to be in forbearance, almost all loans in forbearance have positive equity.
- Forbearance rates decline for borrowers with higher FICO scores.
    - In the COVID-19 period, the rate increases by a factor of about 5.6 going from loans with FICO scores in the highest category (800+) at 2.0% to the lowest category (<620) at 11.1%.
    - This rate increases by a factor of 13 in the 2017 Storms period (from 1.3% to 17.4%) and by a factor of 18 in the Baseline period (from 0.02% to 0.36%).
- Forbearance rates are generally higher for borrowers with higher debt-to-income (DTI) ratios.
    - In the COVID-19 period, the rate increases by a factor of about 3 going from loans with DTI in the lowest category (≤ 25%) at 2.7% to the highest category (46%+) at 8.3%.
    - This rate increases by a factor of 2 in the 2017 Storms period (from 3.5% to 7.2%) and by a factor of 2.2 in the Baseline period (from 0.05% to 0.11%).
- Borrowers with a higher monthly payment are more likely to enter forbearance during the COVID-19 and 2017 Storms periods.

The primary data source for the Insight was internal loan-level servicing information for Freddie Mac mortgages. We explored the forbearance rates over three different periods: the COVID-19 crisis (March 2020 to June 2020); the 2017 Storms (August 2017 to December 2017 for disaster areas); and the Baseline (January 2019 to February 2020). For the 2017 Storms period, we considered the forbearance rate only among those loans eligible for disaster-related forbearance programs. The analysis is restricted to 30-year fixed-rate mortgages, which were current and not in forbearance the month prior to the start of the observation period.

Since the beginning of the COVID-19 crisis, Freddie Mac has taken numerous actions to help struggling homeowners and renters with financial hardships related to

COVID-19. For more information, visit our consumer education website, My Home® by Freddie Mac, that provides a comprehensive guide to owning, renting and getting help in multiple languages.

Freddie Mac makes home possible for millions of families and individuals by providing mortgage capital to lenders. Since our creation by Congress in 1970, we've made housing more accessible and affordable for homebuyers and renters in communities nationwide. We are building a better housing finance system for homebuyers, renters, lenders, investors, and taxpayers. Learn more at FreddieMac.com, Twitter @FreddieMac, and Freddie Mac's blog FreddieMac.com/blog.

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