TENNESSEE HOMEOWNERS DURING THE PANDEMIC:

Mortgage Delinquency, Forbearance, and Foreclosure

Tennessee Housing Development Agency

THDA RESEARCH AND PLANNING | NOVEMBER 2020 | THDA.ORG

KEY FINDINGS:

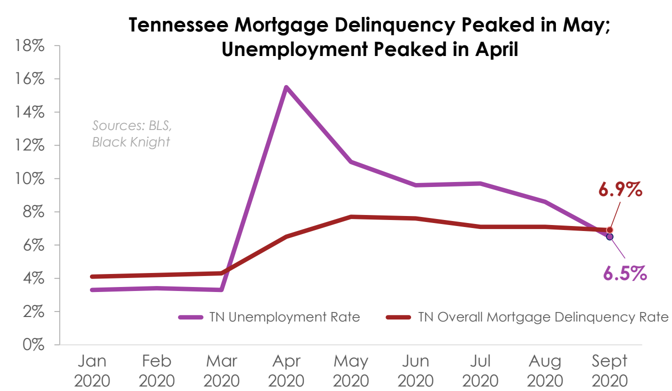
- Mortgage delinquency rates across Tennessee and the U.S. have improved slightly since their pandemic peak. However, severe delinquencies (loans delinquent for 90 days or longer) continue to trend upward, as borrowers who became non-current at the onset of the pandemic are unable to catch up.
- Tennessee's unemployment rate 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 is still just three fifths of its peak during the Great Recession.
- Regardless of Grand Division or Urban/Rural status, virtually every area of Tennessee has seen mortgage delinquency increase substantially during the pandemic. Recent data indicates that Tennessee counties with higher rates of unemployment tend to have higher rates of severe mortgage delinquency.
- Foreclosure moratoriums that cover a majority of the nation's mortgages are still in effect; once these expire, foreclosure activity is likely to pick up. Yet Tennessee homeowners facing foreclosure are in a better position to sell their home, and avoid a financial loss, than they have been at any point in the past decade.

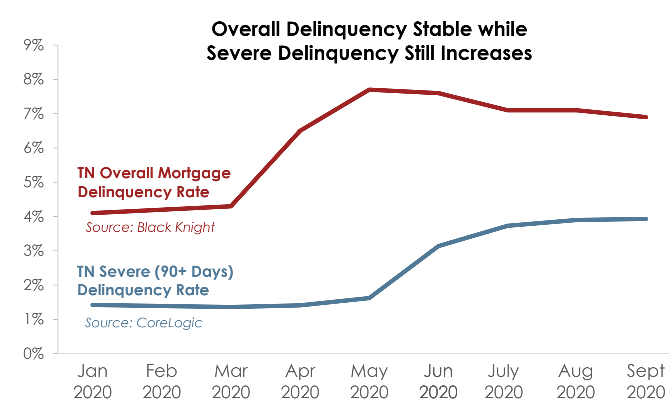
A TENNESSEE LOOK: THE PANDEMIC, UNEMPLOYMENT, AND MORTGAGE DELINQUENCY

The Covid-19 pandemic has produced abrupt shifts in 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 14.7 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] In subsequent months, unemployment rates have improved considerably, while the share of delinquent and in-forbearance homeowners has improved much more incrementally.

Data for the state of Tennessee largely mirror national trends; unemployment peaked in April, while mortgage delinquency peaked in May. Since May, Tennessee has followed a consistent pattern in the last four months of data. Overall mortgage delinquency has fallen slightly since its May peak, while severe (90+ days) delinquency has nearly tripled since March, showing an increase in each month since then. While Tennessee's recovery in employment since April has been substantial, many homeowners, who may have first missed a payment in April, May, or June, still have not caught up.



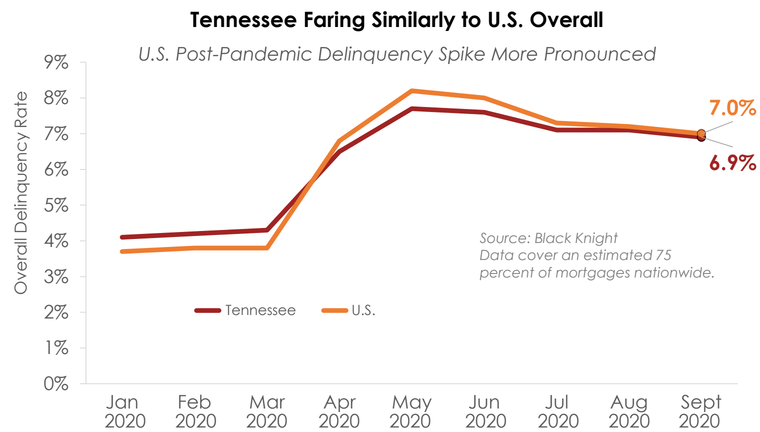


Although severe delinquency continues to increase in Tennessee, its pace of increase has slowed for the second consecutive month. The expiration of enhanced unemployment benefits in late July may yet prove problematic for homeowners' financial struggles. However, at the national level, mortgage delinquency rates have fallen during both August and September, as shown to the right. Data on FHA loans suggested otherwise, as delinquencies among FHA borrowers increased slightly during the months of August and September—a

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 last month's report.]

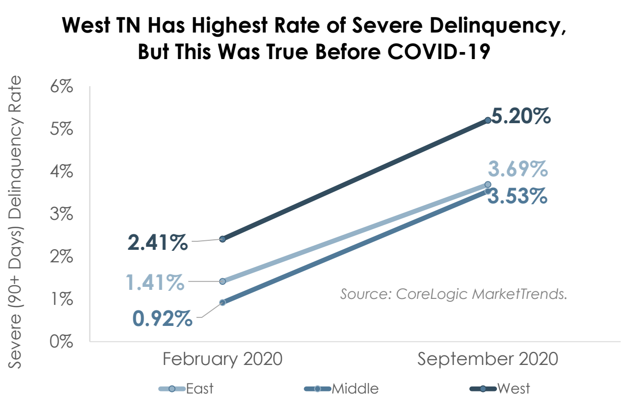
condition that held in Tennessee as well as the nation overall. Taken together, the end of enhanced unemployment benefits in late July has not caused an immediate collapse in mortgage payments. However, the lingering possibility of future pandemic-related shutdowns or upticks in unemployment is cause for caution going forward.

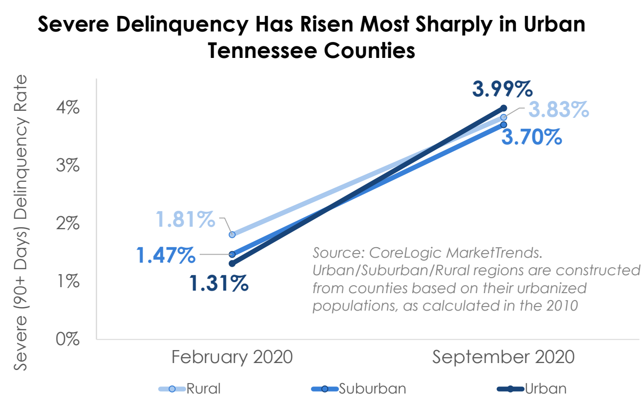
Among U.S. states, Tennessee finished September 2020 ranked 26th in mortgage delinquency and 11th in unemployment. Notably, Tennessee also finished September with a lower delinquency rate than 12 of the 16 states in the South.[2]

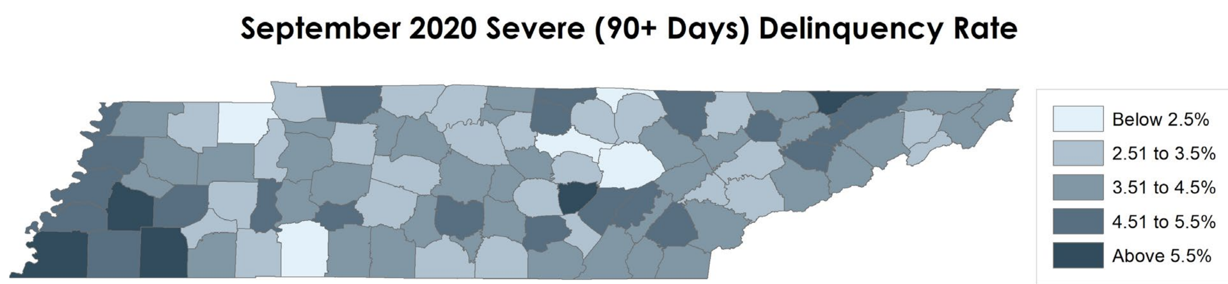


SEVERE DELINQUENCY ACROSS TENNESSEE COUNTIES[3]

Virtually every area of Tennessee, regardless of region or urban/rural status, has been adversely impacted by the pandemic. Ninety-four of the state's 95 counties experienced an increase in severe delinquencies between February and September 2020; the median county, in







fact, saw severe delinquencies increase by 131% over this six-month span. As a result, all three Grand Divisions experienced significant increases in severe delinquency—but there are regional trends worth noting.

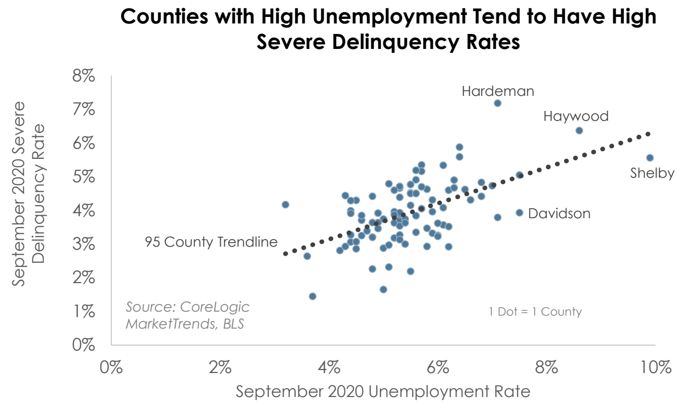
West Tennessee's high rate of severe delinquency is heavily influenced by Shelby County, which is the state's most populous county, and has the state's fifth highest rate of severe delinquency. However, the trend extends to the region's suburban and rural areas as well; eight of the state's top 16 counties for severe delinquency rate are in West Tennessee. As a result, the region has the state's highest rate of severe mortgage delinquency by a considerable margin. As shown in the graphic on the prior page, however, West Tennessee had the highest rate of severe delinquency before the pandemic. When examining the urban/suburban/rural breakdown, urban Tennessee counties have clearly been the most impacted, with increases in rural Tennessee having been the least pronounced.

2 Using the U.S. Census Bureau's definition of the Southern region. Of the 16 states in the region, only Virginia, North Carolina, and Kentucky have lower rates of mortgage delinquency. View the August Black Knight report for all 50 states.

3 Data in this section is focused on severe mortgage delinquency, rather than overall delinquency (from Black Knight) is not available by county

Unemployment appears to be a significant factor in counties with higher rates of severe delinquency. Tennessee county-level unemployment rates, as shown to the right, correlate with severe delinquency rates during the month of September.

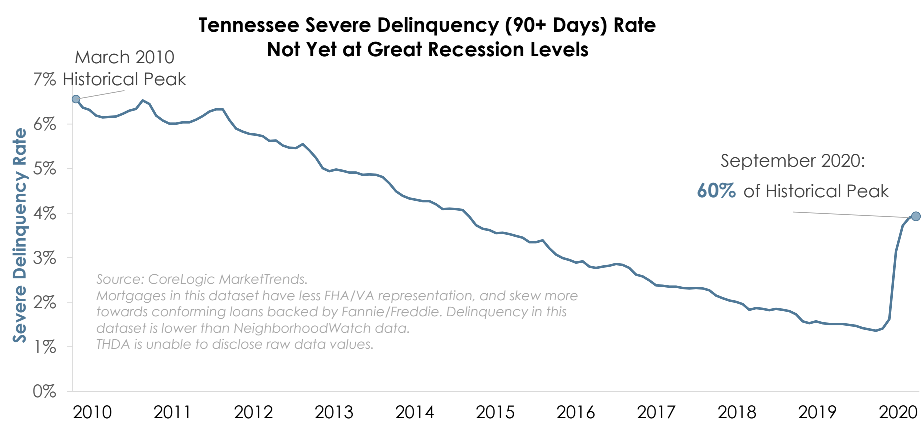
In some counties, the pandemic's sudden shock to employment had a particularly pronounced impact on mortgage delinquency. Sevier County, for instance, experienced an unemployment rate of 29.1 percent during April 2020, the highest of any county in Tennessee. It is perhaps unsurprising, then, that Sevier County went from having the 88th highest rate of severe delinquency in February to having the 25th highest rate by August.[4] The recovery in Sevier County is already underway, however; in September, the county's unemployment rate fell to its February 2020 level, and the county's severe delinquency rate fell from 25th highest in Tennessee to 39th.



PUTTING THE COVID-19 DELINQUENCY INCREASE IN HISTORICAL CONTEXT

As the economic impact of the pandemic broke records earlier this year, 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%).[5] Surveys by the Census Bureau signal homeowner anxiety over their ability to make future mortgage payments.[6] Yet available data show that severe mortgage delinquency is, thus far, only at 60 percent of the state's historical peak during the Great Recession.[7]

Fears of a worst-case scenario have not yet materialized. While severe delinquency may continue to increase, the recovery of employment during Covid-19 is likely the principal reason. 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, the pace of recovery appears to have helped many homeowners recover on their mortgage.[8]



The outlook for Tennessee homeowners is favorable in relation to the Great Recession. However, the state's severe delinquency rate has still nearly tripled since March, with the potential to continue to climb in future months. The fact remains that a higher incidence of severe delinquency has historically corresponded to a higher incidence of foreclosure activity. Questions remain about how this cohort of delinquent borrowers will fare in a pandemic environment of lingering uncertainty.

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4 Warren County is another example, although perhaps less straightforward. While Sevier County's April 2020 (the peak month of unemployment in Tennessee) unemployment rate was 1st statewide at 29.1%, Warren County ranked second at 25.1%. Interestingly, CoreLogic's MarketTrends data on severe delinquency (referenced above) does not show much of a spike. However, HUD's Neighborhood Watch data, which focuses exclusively on FHA loan performance, shows Warren County to have had the second highest delinquency rate of any metro or micropolitan area in Tennessee during September 2020. To summarize, Warren County's dramatic unemployment spike caused FHA homeowners to become delinquent at a high rate, but homeowners with conventionally-insured mortgages (which are disproportionally represented in CoreLogic data) have been less impacted.

5 Tennessee's Great Recession unemployment peak came during June 2009.

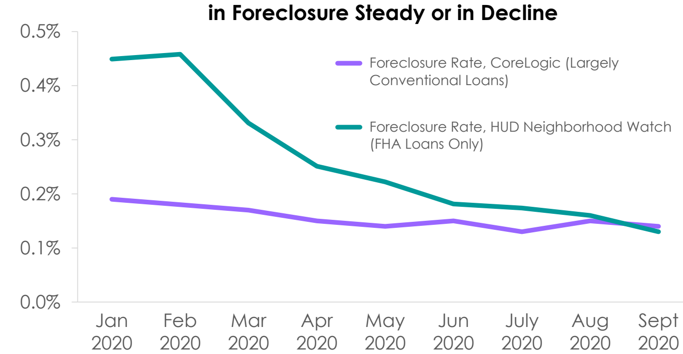
6 Source: Census Pulse Survey. View the data here. 12.5 % of homeowners surveyed nationwide expressed slight to no confidence in their ability to make next month's mortgage payment.

7 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.

8 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.

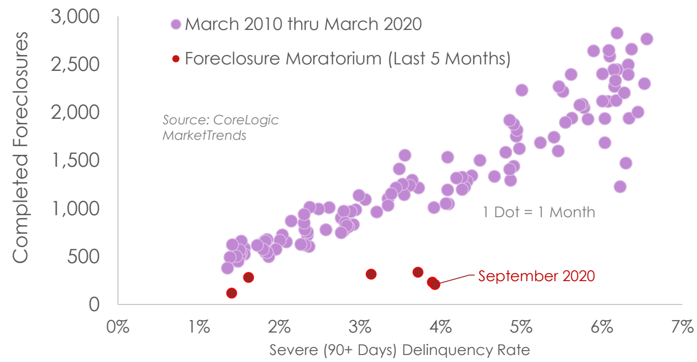
Foreclosure rates,[9] as shown to the right, have yet to show any sign of increase during the pandemic. Nationwide moratoriums on foreclosure, applying to a majority of active mortgages, and now extended through December 31, have likely forestalled any otherwise-expected foreclosure increase. The current moratoriums prevent servicers from both a) initiating the foreclosure process with delinquent borrowers, and b) completing the foreclosure process with borrowers who had already been in foreclosure before the pandemic.[10]

Moratoriums Have Kept the Share of Mortgages in Foreclosure Steady or in Decline



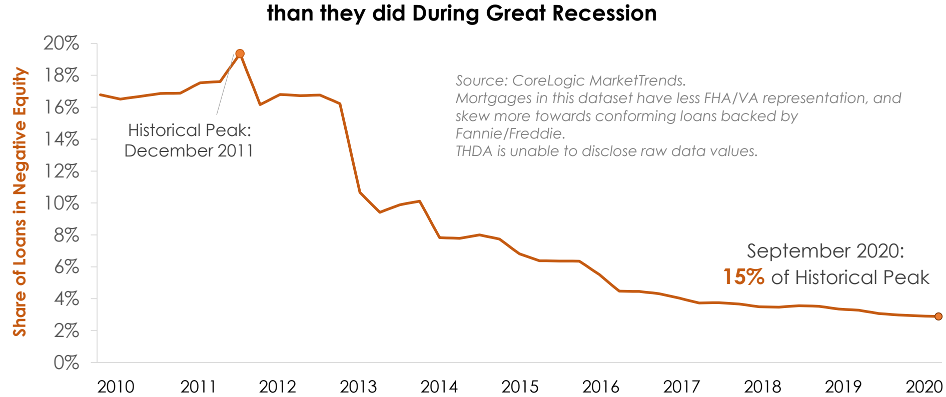
Historically, severe delinquency rates at Tennessee's September 2020 level have resulted in 1,000 to 1,500 completed foreclosures a month. Likely due to moratoriums in place, CoreLogic estimates that fewer than 200 completed foreclosures during September 2020. In fact, the past six months are the lowest six months on file for pre-foreclosure filings and completed foreclosures. It is feasible, then, that the expiration of moratoriums in January 2021 may initiate a spike in pre-foreclosure filings. Another spike could occur as millions of homeowners nationwide exit their 12-month forbearance terms under the CARES Act, possibly during March or April of 2021.

Delinquency Rates at Current Levels Have Historically Yielded Higher Foreclosure Activity



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 sell their home without incurring a financial loss. Negative equity, or when a borrower owes more on their mortgage than the underlying home is worth, is far less common than it was seven to ten years ago. As shown on the following page, 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.

Underwater Borrowers During COVID-19 Have Much More Equity than they did During 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 the summer months of 2020 than they were the year before; home sales during the last week of September 2020 were 22% higher than they were during the last week of September 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 four 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 during 2021. Yet the ability of Tennessee's severely delinquent homeowners to avoid foreclosure has perhaps never been higher.

9 "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.

10 The moratoriums, which extend through December 31, 2020, apply to FHA, VA, and USDA mortgages, while the moratorium for loans backed by Fannie/Freddie have been extended through January 31, 2021. As a result, there are still many mortgages that are not covered by moratoriums; foreclosures may still begin to increase before these moratoriums expire at the end of 2020.

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.

TRACKING LOCAL-LEVEL DATA ON MORTGAGE PERFORMANCE DURING THE PANDEMIC

Analyzing Severe Delinquency in Tennessee, September 2020	Tennessee FHA Loan Performance through October 2020
CoreLogic MarketTrends XLSX	**HUD NeighborhoodWatch** XLSX
• 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.	• 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. • Data do not just include 90+ day delinquency and foreclosure; they also include 30- and 60-day delinquency, as well as forbearance totals. • Data are released a month ahead of CoreLogic MarketTrends data.