United States Government Accountability Office

Report to Congressional Committees

July 2021

COVID-19 HOUSING PROTECTIONS

Mortgage Forbearance and Other Federal Efforts Have Reduced Default and Foreclosure Risks

GAO-21-554

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Highlights

Highlights of GAO-21-554, a report to congressional committees

July 2021

COVID-19 HOUSING PROTECTIONS

Mortgage Forbearance and Other Federal Efforts Have Reduced Default and Foreclosure Risks

Why GAO Did This Study

Millions of mortgage borrowers continue to experience financial challenges and potential housing instability during the COVID-19 pandemic. To address these concerns, Congress, federal agencies, and the enterprises provided borrowers with options to temporarily suspend their mortgage payments and placed a moratorium on foreclosures. Both provisions begin to expire in the coming months.

The CARES Act includes a provision for GAO to monitor federal efforts related to COVID-19. This report examines (1) the extent to which mortgage forbearance may have contributed to housing stability during the pandemic, (2) federal efforts to promote awareness of forbearance among delinquent borrowers, and (3) federal efforts to limit mortgage default and foreclosure risks after federal mortgage forbearance and foreclosure protections expire.

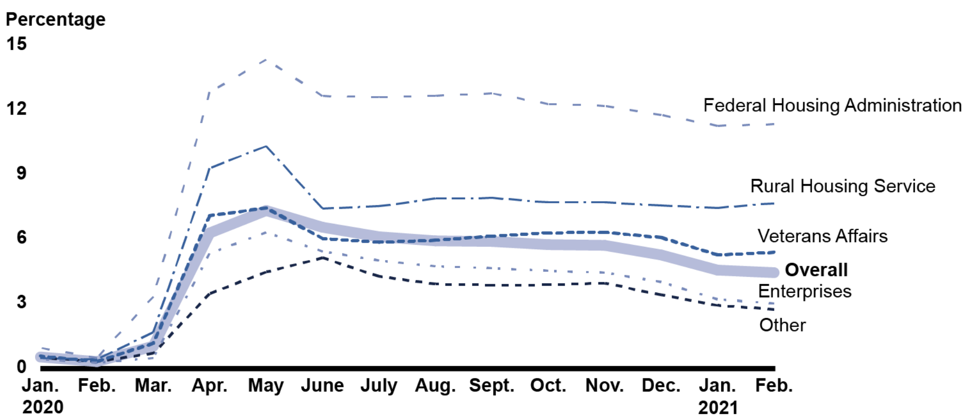
GAO analyzed data on mortgage performance and the characteristics of borrowers who used forbearance from January 2020 to February 2021 using the National Mortgage Database (a federally managed, generalizable sample of single-family mortgages). GAO also reviewed data from Black Knight and the Mortgage Bankers Association on foreclosures and forbearance repayment. In addition, GAO interviewed representatives of federal entities about efforts to communicate with borrowers and limit default and foreclosure risks. To highlight potential risks, GAO also analyzed current trends in home equity among delinquent borrowers relative to the 2007–2009 financial crisis.

View GAO-21-554. For more information, contact John Pendleton at (202) 512-8678 or PendletonJ@gao.gov.

What GAO Found

Many single-family mortgage borrowers who missed payments during the pandemic used the expanded mortgage forbearance provision in the CARES Act. This provision allowed borrowers with loans insured, guaranteed, made directly, purchased, or securitized by federal entities (about 75 percent of all mortgages) to temporarily suspend their monthly mortgage payments. Use of the forbearance provision peaked in May 2020 at about 7 percent of all single-family mortgages (about 3.4 million) and gradually declined to about 5 percent by February 2021, according to GAO's analysis of the National Mortgage Database. As of February 2021, about half of all borrowers who used forbearance during the pandemic remained in forbearance. In addition, Black and Hispanic borrowers, who were more likely to have been economically affected by the pandemic, used forbearance at about twice the rate of White borrowers. Forbearance was also more common among borrowers at a greater risk of mortgage default—specifically, first-time, minority, and low- and moderate-income homebuyers with mortgages insured by the Federal Housing Administration and rural homebuyers with loans guaranteed by the Rural Housing Service (see fig. 1).

Figure 1: Estimated Percentage of Single-Family Mortgage Loans in Forbearance, by Loan Type (January 2020–February 2021)

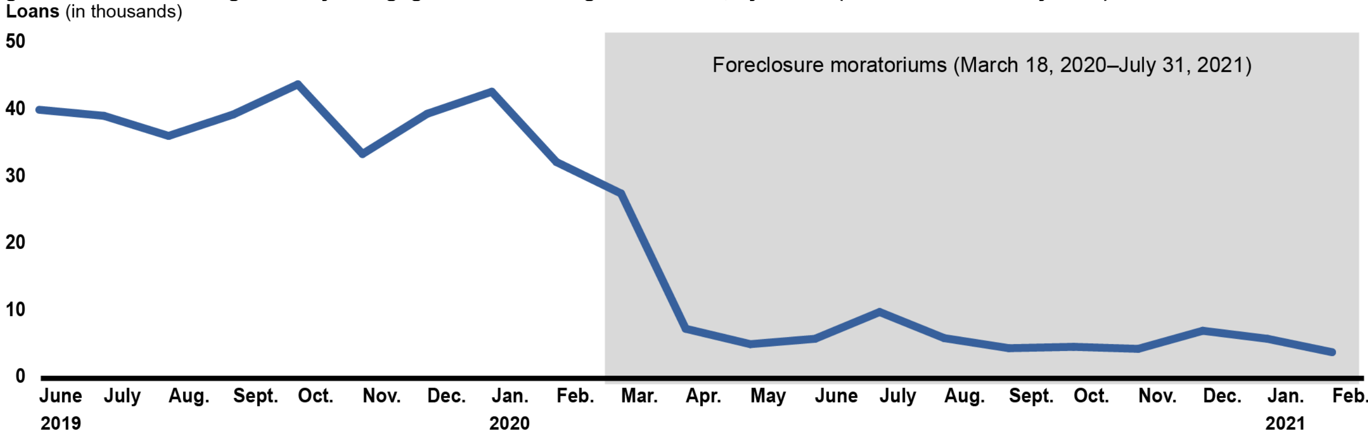


Source: GAO analysis of National Mortgage Database data. | GAO-21-554

A small percentage of borrowers who missed payments during the pandemic have not used forbearance—less than 1 percent of those covered by the CARES Act. Yet, borrowers who have not used forbearance may be at a greater risk of default and foreclosure, according to GAO's analysis of the National Mortgage Database. For example, these borrowers tended to have lower subprime credit scores, indicating an elevated risk of default, compared to borrowers who were current or in forbearance, who tended to have higher prime or near prime credit scores. Federal agencies and the government-sponsored enterprises Fannie Mae and Freddie Mac (the enterprises) have taken steps to make these borrowers aware of forbearance options, such as through direct phone calls and letters. In addition, the Consumer Financial Protection Bureau (CFPB) amended mortgage servicing rules in June 2021 to require servicers to discuss forbearance options with borrowers shortly after any delinquency.

Foreclosures declined significantly during the pandemic because of federal moratoriums that prohibited foreclosures. The number of mortgages entering foreclosure decreased by about 85 percent on a year-over-year basis from June 2019 to June 2020 and remained as low through February 2021, according to mortgage data provider Black Knight (see fig. 2).

Figure 2: Number of Single-Family Mortgage Loans Entering Foreclosure, by Month (June 2019–February 2021)



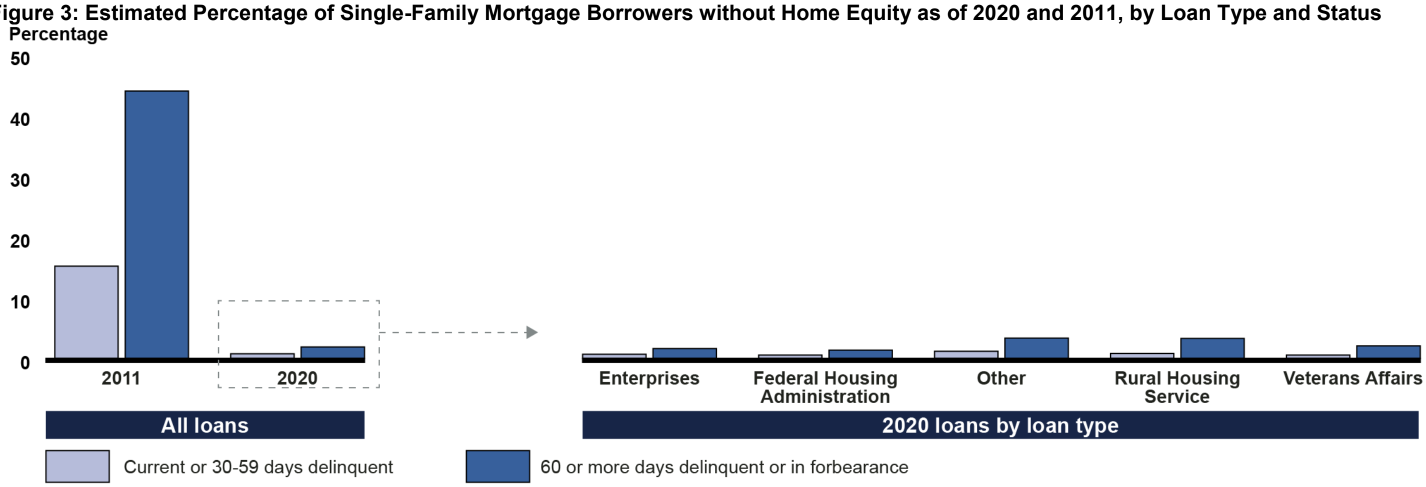
Source: Black Knight. | GAO-21-554

Note: Foreclosure data were only available through February 2021 at the time of our review. The number of new foreclosures includes vacant and abandoned properties and non-federally backed loans, which the CARES Act did not cover.

Federal entities have taken additional steps to limit pandemic-related mortgage defaults and foreclosures. Federal housing agencies and the enterprises have expanded forbearance options to provide borrowers with additional time to enter and remain in forbearance. In addition, they streamlined and introduced new loss mitigation options to help borrowers reinstate their loans after forbearance, including options to defer missed payments until the end of a mortgage. Borrowers in extended forbearances generally have large expected repayments—an average of $8,300 as of February 2021, according to the National Mortgage Database. As a result, delinquent borrowers exiting forbearance have most commonly deferred repayment, according to the Mortgage Bankers Association. Further, CFPB's amended mortgage servicing rules allow servicers to streamline processing of loss mitigation actions and establish procedural safeguards to help limit avoidable foreclosures until January 1, 2022.

The risk of a spike in defaults and foreclosures is further mitigated by the relatively strong equity position of borrowers due to rapid home price appreciation. Home equity—or the difference between a home's current value and any outstanding loan balances—can help borrowers with ongoing hardships avoid foreclosure by allowing them to refinance their mortgage or sell their home to pay off the remaining balance. According to GAO's analysis of the National Mortgage Database, few borrowers (about 2 percent) who were in forbearance or delinquent in February 2021 did not have home equity after accounting for home price appreciation. By comparison, during the peak of foreclosures in 2011 after the 2007–2009 financial crisis, about 17 percent of all borrowers and 44 percent of delinquent borrowers had no home equity (see fig. 3).

Figure 3: Estimated Percentage of Single-Family Mortgage Borrowers without Home Equity as of 2020 and 2011, by Loan Type and Status



Source: GAO analysis of National Mortgage Database data. | GAO-21-554

Contents

Abbreviations

CFPB	Consumer Financial Protection Bureau
COVID-19	Coronavirus Disease 2019
enterprises	government-sponsored enterprises (Fannie Mae and Freddie Mac)
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
HUD	Department of Housing and Urban Development
RHS	Rural Housing Service
VA	Department of Veterans Affairs

441 G St. N.W.
Washington, DC 20548

July 12, 2021

Congressional Committees

The Coronavirus Disease 2019 (COVID-19) pandemic has resulted in significant turmoil in the U.S. economy and left many citizens without stable employment income. As a result, millions of U.S. homeowners have experienced ongoing challenges meeting their mortgage payments, which has increased mortgage default and foreclosure risks. In the early months of the pandemic, an estimated 15 percent of mortgage borrowers reported slight or no confidence in their ability to make their next mortgage payment.[1]

To address these risks, Congress passed the CARES Act in March 2020, which provided over $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19.[2] The CARES Act included several provisions intended to promote housing stability among single-family mortgage borrowers, including expanded mortgage forbearance and a moratorium on foreclosures for federally backed properties.[3]

As the COVID-19 pandemic persisted, federal entities took additional steps to assist mortgage borrowers. Specifically, federal agencies that insure and guarantee mortgages, including the Federal Housing Administration (FHA), Rural Housing Service (RHS), and Department of Veterans Affairs (VA) (collectively, the agencies), as well as the government-sponsored enterprises Fannie Mae and Freddie Mac (enterprises) extended options for eligible borrowers to enter and remain

[1]Census Bureau, *Measuring Household Experiences during the Coronavirus Pandemic: Household Pulse Survey – Phase 1 (April 23–May 5)*. This estimate had a margin of error of about ± 1 percentage point at the 95 percent confidence level.

[2]Pub. L. No. 116-136, 134 Stat. 281 (2020).

[3]Pub. L. No. 116-136, div. A, § 4022, 134 Stat. at 490. Federally backed mortgages are those that federal entities insure, guarantee, directly originate, purchase, or securitize. Single-family properties are those with 1–4 dwelling units. The CARES Act also included a forbearance option for multifamily properties (5 or more units). Pub. L. No. 116-136, div. A § 4023, 134 Stat. at 491. For more information on multifamily forbearance, see GAO, *COVID-19 Housing Protections: Moratoriums Have Helped Limit Evictions, but Further Outreach is Needed*, GAO-21-370 (Washington, D.C.: Mar. 15, 2021).

in forbearance.[4] They also extended the foreclosure moratoriums through July 31, 2021.[5] In addition, the agencies and enterprises enhanced options for borrowers to repay missed payments after their forbearance ends, or to modify or refinance their loans if they continue to experience financial challenges.

The CARES Act includes a provision for us to monitor and oversee the federal government's efforts to prepare for, respond to, and recover from COVID-19.[6] This report examines (1) the extent to which mortgage forbearance may have contributed to housing stability during the pandemic, (2) what efforts federal agencies and the enterprises have taken to promote awareness of mortgage forbearance among delinquent borrowers, and (3) what efforts federal agencies and the enterprises have taken to limit mortgage default and foreclosure risks after federal mortgage forbearance and foreclosure protections expire.

To examine how mortgage forbearance may have contributed to housing stability during the pandemic, we reviewed and analyzed data on mortgage forbearance, delinquency, and borrower demographics from the National Mortgage Database (a federally sponsored database of first-lien mortgages), Black Knight (a mortgage data provider), Mortgage Bankers Association (an industry group representing the real estate finance

[4]The CARES Act allowed single-family mortgage borrowers to suspend their payments for up to 12 months and did not include a deadline for starting forbearance. The agencies and enterprises extended this provision to allow borrowers to remain in forbearance for up to 18 months depending on when they started or requested their initial forbearance. Borrowers with agency loans can request an initial CARES Act forbearance through September 30, 2021, while borrowers with enterprise loans do not have a deadline because they can continue to use forbearance options that were in place prior to the CARES Act, according to FHFA officials.

[5]The CARES Act prohibited certain foreclosure activities for not less than the 60-day period beginning on March 18, 2020. Thereafter, the agencies and enterprises initiated separate foreclosure moratoriums, which they have coordinated to extend through July 31, 2021.

[6]Pub. L. No. 116-136, div. B, § 19010, 134 Stat. 281, 579-81 (2020). We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, C*OVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021). Our next government-wide report will be issued on July 19, 2021 and will be available on GAO's website at https://www.gao.gov/coronavirus.

industry), and the federal agencies and enterprises.[7] We generally analyzed and reported data from January 2020–February 2021, covering the onset of the pandemic through the most recent month for which updated data were available from National Mortgage Database for our reporting purposes. To inform and address all objectives, we also reviewed documentation from and interviewed officials from Fannie Mae, Freddie Mac, FHA, RHS, VA, Consumer Financial Protection Bureau (CFPB) and Federal Housing Finance Agency (FHFA). See appendix I for additional information on our objectives, scope, and methodology.

We conducted this performance audit from May 2020 to June 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Role of the Federal Government and Mortgage Servicers in Mortgage Markets

Mortgage forbearance and foreclosure protections in section 4022 of the CARES Act covered federally backed mortgage loans.[8] Federal backing refers to whether a loan has been insured, guaranteed, originated directly, purchased, or securitized by a federal entity. According to Black Knight, at least 75 percent of all active single-family mortgages are backed by federal entities in either the primary or secondary mortgage markets.

In the primary mortgage market, where lenders originate mortgage loans to borrowers to purchase homes, the federal government—through FHA, RHS, and VA—operates mortgage insurance and guarantee programs to promote homeownership for certain types of borrowers. Specifically, FHA-insured loans target low-income and first-time homebuyers; RHS-

[7]For the purposes of this report, we categorized mortgage delinquency as loans that were 60 or more days past due and not in forbearance, foreclosure, or bankruptcy. We assessed the reliability of these data by interviewing knowledgeable officials, conducting data testing, and reviewing supporting documentation. We found these data to be sufficiently reliable for determining mortgage performance trends and the characteristics of associated borrowers.

[8]Pub. L. No. 116-136, div. A, §§ 4022(a)(2). Mortgage forbearance allows mortgage borrowers to temporarily suspend or reduce their mortgage payments without penalty.

guaranteed loans target low- and moderate-income rural homebuyers; and VA-guaranteed loans target eligible servicemembers and veterans of the U.S. armed forces and their surviving spouses.[9] Federal insurance and guarantee programs encourage lenders to make mortgages available to these borrowers with little or no down payment compared to a conventional mortgage (those not insured or guaranteed by the federal government) by protecting lenders against potential losses.[10] Credit risk, or the risk that a borrower will default on the mortgage by failing to make timely payments, generally increases as the mortgage's loan-to-value ratio increases.

In the secondary mortgage market, the enterprises purchase and securitize mortgages to promote the liquidity, stability, and affordability of mortgage credit.[11] The enterprises generally purchase mortgages from lenders that conform to established criteria regarding loan size, features, and underwriting standards (known as conforming loans). The enterprises hold the loans in their own portfolios or pool them as collateral for mortgage-backed securities that are sold to investors, for which the enterprises guarantee the timely payment of principal and interest. Through Ginnie Mae, a government-owned corporation within the Department of Housing and Urban Development (HUD), the federal government also guarantees the timely payment of principal and interest to investors for mortgage-backed securities backed exclusively by FHA, RHS, or VA mortgages.[12]

In general, mortgage servicers are responsible for sending borrowers monthly account statements and tax documents, answering customer service inquiries, collecting monthly mortgage payments, maintaining escrow accounts for property taxes and hazard insurance, and forwarding

[9]RHS and VA also directly originate a limited number of loans.

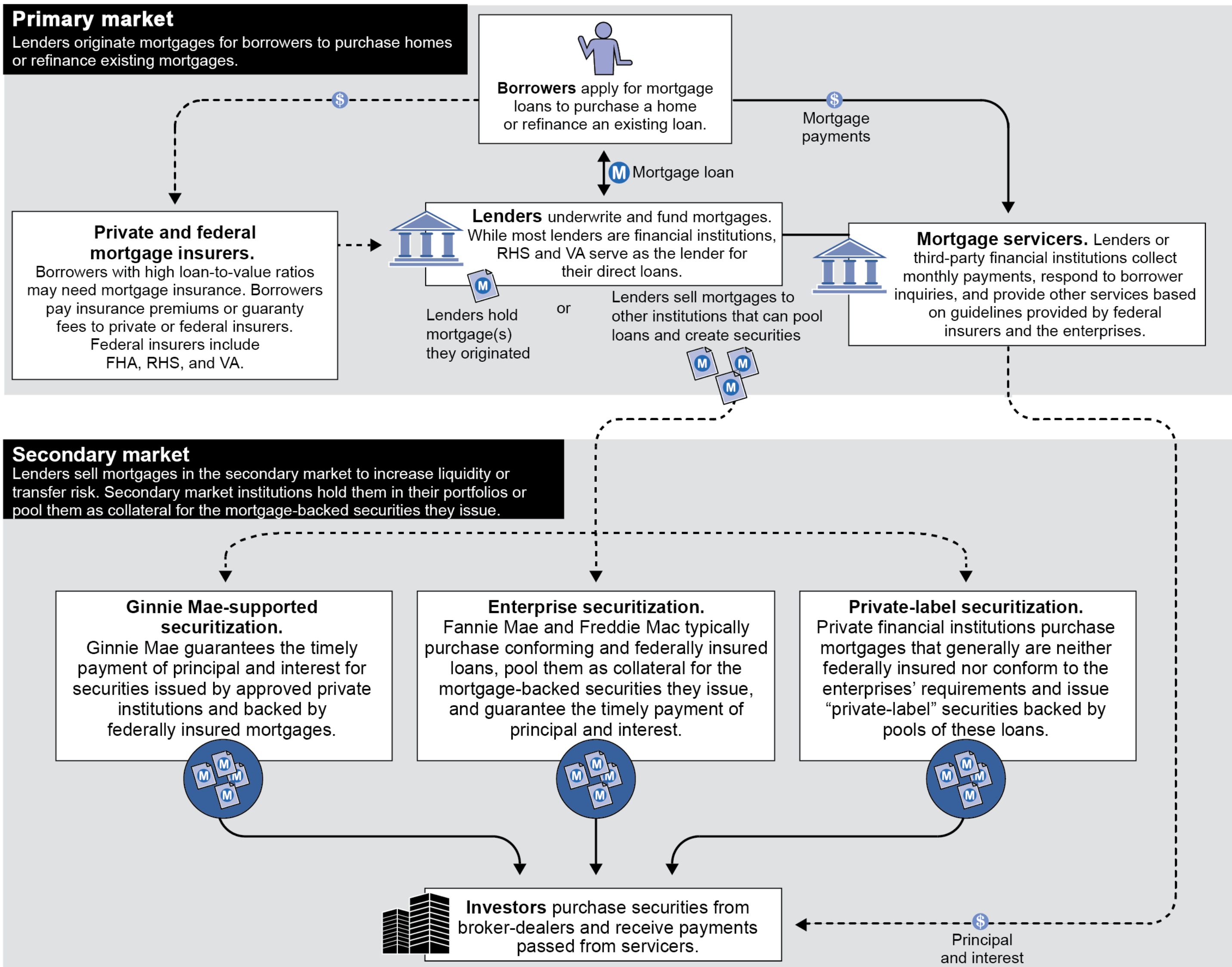
[10]Borrowers with loans guaranteed by RHS and VA are generally not required to make a down payment, and borrowers with loans guaranteed by FHA are required to make a down payment of at least 3.5 percent. For a conventional mortgage, borrowers are generally required to make a down payment of at least 20 percent or otherwise purchase private mortgage insurance, which insures the lender against mortgage default. Although they are not required to pay for additional private mortgage insurance, FHA borrowers pay an insurance premium, and RHS and VA borrowers pay a guaranty fee.

[11]The enterprises are currently under the conservatorship of FHFA.

[12]Ginnie Mae also securitizes mortgages guaranteed by HUD's Office of Public and Indian Housing. However, we excluded this program from our report because HUD could not provide information on associated loans, nor could we identify them in the data we reviewed.

proper payments to the mortgage owners. The servicer can be the same institution that originated the loan or may change over the life of a mortgage loan, as mortgage owners and servicers sell servicing rights to third-party mortgage servicers that service the loan for a fee. See figure 1 for a summary of the role of the federal government and mortgage servicers in the primary and secondary mortgage markets.

Figure 1: Role of the Federal Government and Mortgage Servicers in the Primary and Secondary Mortgage Markets



Connections that consistently exist
Connections that may exist depending on circumstances

FHA: Federal Housing Administration
RHS: Rural Housing Service
VA: Department of Veterans Affairs

Source: GAO. | GAO-21-554

Depending on the loan type, the duties of servicers can be specified through guidelines provided by the enterprises for loans in their mortgage-backed securities, or through requirements provided by the federal agencies for the loans they guarantee or insure. In addition, the

CFPB establishes servicing requirements for most mortgages, regardless of federal backing. Following the 2007–2009 financial crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which created the CFPB and granted it rule-making authority under the Real Estate Settlement Procedures Act.[13] CFPB subsequently issued a series of final rules amending the implementing regulation (Regulation X), including new requirements for servicers regarding communication with delinquent borrowers, evaluation for mortgage relief options, and procedures for initiating foreclosures, among other requirements.[14]

Mortgage Delinquency, Loss Mitigation, and Foreclosure

A mortgage loan becomes delinquent when a borrower fails to make a scheduled periodic payment.[15] In the later stages of delinquency, the loan may go into default.[16] When the borrower defaults or is at imminent risk of default, the servicer must generally evaluate the borrower for certain mortgage relief options known as loss mitigation prior to initiating foreclosure.

Loss mitigation options include home retention options and foreclosure alternatives. Home retention options allow borrowers to stay in their home and generally include repayment plans, forbearance, and loan modifications.[17] Foreclosure alternatives generally include short sales or

[13]Pub. L. No. 111-203, §§ 1002(12)(M), (14), 1011, 124 Stat. 1376. 1964 (2010) (codified at 12 U.S.C. § 5491).

[14]12 C.F.R. pt. 1024. CFPB also amended certain mortgage servicing requirements in Regulation Z, which implements the Truth in Lending Act. See 12 C.F.R. pt. 1026.

[15]As defined in Regulation X, a borrower and a borrower's mortgage loan obligation are delinquent beginning on the date a periodic payment sufficient to cover principal, interest, and, if applicable, escrow becomes due and unpaid, until such time as no periodic payment is due and unpaid. 12 C.F.R. § 1024.31.

[16]No uniform definition exists across the lending industry regarding the amount of delinquency that results in a default. One definition that can trigger adverse actions against a borrower is 90 or more days of delinquency. However, according to FHFA, under the terms of standard single-family mortgage documents, any delinquency is considered a default.

[17]Loan modifications are temporary or permanent modifications to the existing loan agreement that help make payments more affordable, such as by capitalizing the past due amounts, reducing the interest rate, extending the loan term, reducing the total amount of the loan through principal forgiveness or forbearance, or a combination of these actions.

deeds-in-lieu of foreclosure.[18] The agencies and enterprises have established loss mitigation hierarchies (or waterfalls) that specify the order in which servicers should offer their loss mitigation options to borrowers.

When a mortgage is not otherwise eligible for loss mitigation, the servicer may initiate foreclosure. Foreclosure is generally a last resort because it tends to be more costly than loss mitigation and disrupts housing stability.[19] Foreclosure processes vary from state to state but generally allow the mortgage owner to obtain the title to the property and sell it to repay the loan. CFPB servicing rules prohibit servicers (with limited exceptions) from initiating a foreclosure until a borrower is more than 120 days delinquent or while the borrower's application for loss mitigation is being evaluated.[20]

Protections for Mortgage Borrowers during the Pandemic

Congress, federal agencies, and the enterprises have taken steps to protect the housing and financial stability of mortgage borrowers during the COVID-19 pandemic through expanded mortgage forbearance options and a foreclosure moratorium. Section 4022 of the CARES Act required mortgage servicers to provide borrowers with federally backed mortgages on single-family homes (1–4 units) who have experienced a financial hardship due to the COVID-19 emergency the option to suspend or reduce their mortgage payment without charging additional penalties, fees, or interest.[21] Servicers were required to provide borrowers who requested forbearance with an initial 6-month forbearance period and the option to extend it by an additional 6 months. However, the CARES Act did not define the period during which servicers were required to offer forbearance to single-family borrowers in accordance with the law.

The agencies and enterprises subsequently clarified deadlines and provided borrowers with additional time to use CARES Act forbearance. Borrowers with FHA-, RHS-, and VA-backed loans can request an initial forbearance through September 30, 2021. The enterprises have not set a

[18]In a short sale, the lender accepts the proceeds from the sale of a property for less than the unpaid balance on the loan. In deed-in-lieu of foreclosure, the homeowner transfers all interest in the property to the lender. In both cases, borrowers may still be required to make a cash contribution.

[19]Kristopher Gerardi and Wenli Li, "Mortgage Foreclosure and Prevention Efforts." *Federal Reserve Bank of Atlanta Economic Review*, vol. 95, no.2 (2010): pp.1–13.

[20]See 12 C.F.R. § 1024.41(f)(1) and 12 C.F.R. § 1024.41(f)(2).

[21]Pub. L. No. 116-136, div. A, § 4022, 134 Stat. at 490.

similar deadline because borrowers with enterprise-backed loans will continue to have access to 12-month forbearance options that were in place prior to the CARES Act, according to FHFA officials. In addition, some borrowers who are currently nearing the end of forbearance can request an additional extension beyond the 12 months provided in the CARES Act. Specifically, borrowers with enterprise-backed loans who were in forbearance as of February 28, 2021, and borrowers with FHA-, RHS-, or VA-backed loans who requested an initial forbearance on or before June 30, 2020, may be eligible for an additional 6 months of forbearance (up to 18 months in total).

Section 4022 of the CARES Act also temporarily prohibited most foreclosures of federally backed properties.[22] Specifically, the act prohibited servicers from initiating judicial or non-judicial foreclosure processes, moving for a foreclosure judgment or order of sale, or executing a foreclosure-related eviction or foreclosure sale for not less than 60 days beginning on March 18, 2020.[23] Thereafter, the agencies and enterprises initiated separate foreclosure moratoriums, which they have coordinated to extend through July 31, 2021.

Mortgage Forbearance Has Been Widely Used, Especially among Higher-Risk Borrowers

Millions of mortgage borrowers took advantage of mortgage forbearance during the pandemic. Since forbearance options were expanded for borrowers with federally backed loans through the CARES Act in March 2020, overall forbearance rates peaked in May 2020 at about 7 percent of active mortgage loans (about 3.4 million), according to our analysis of the

[22]Pub. L. No. 116-136, div. A, § 4022(c)(2), 134 Stat. at 491. The foreclosure moratorium excluded foreclosures of vacant and abandoned properties.

[23]In judicial foreclosure states, lenders file a lawsuit and the court determines a foreclosure judgment based on hearings and documentation filed by the lender and homeowner. An order of sale is one judgment that generally orders the sale of the property at auction to satisfy the remaining debt. In nonjudicial foreclosure states, lenders initiate foreclosure out of court through a trustee that may provide the borrower directly with a notice of default and sale.

National Mortgage Database.[24] Use of forbearance dropped sharply in June 2020 among borrowers with federally backed loans, as many borrowers who entered into forbearance immediately after the option became available did not extend their forbearance.[25] Use of forbearance gradually declined through February 2021 to about 5 percent of active mortgages (about 2.1 million).

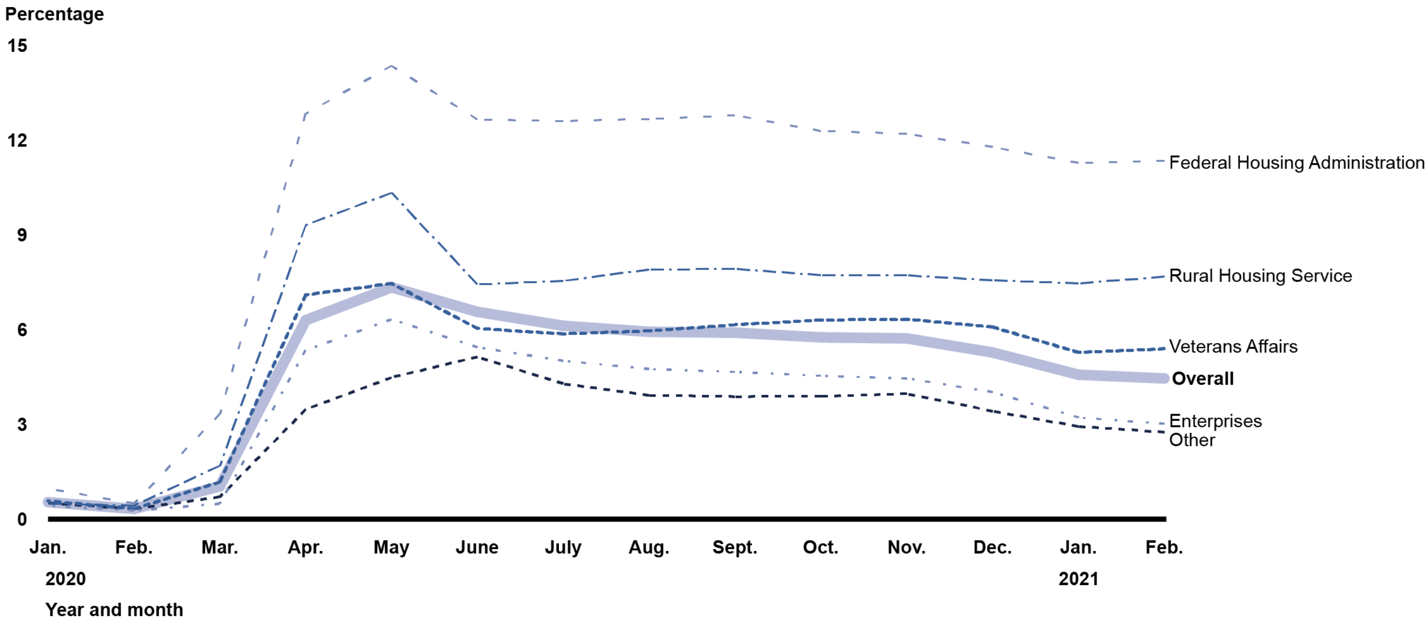
Use of forbearance varied across loans backed by the agencies and enterprises (see fig. 2) and tended to be higher among federally backed loans targeted towards higher-risk borrowers. Loans insured by FHA—targeted to first-time, minority, and low- and moderate-income homebuyers—had the highest rate of forbearance. Forbearance rates peaked at about 14 percent among FHA loans in May 2020 and declined to about 11 percent by February 2021.[26] In addition, forbearance rates were also relatively higher among RHS loans—targeted to low- and moderate-income, rural borrowers—about 8 percent as of February 2021. At the same time, the rate of forbearance among conventional loans backed by the enterprises was about 3 percent.

[24]Pub. L. No. 116-136, 134 Stat. 281 (2020). The CARES Act required mortgage servicers to offer up to 12 months of forbearance to borrowers with loans backed by federal agencies and the enterprises, which they subsequently expanded to 18 months for certain borrowers. Although not required by the CARES Act, some servicers offered the same or similar forbearance options to borrowers with non-federally backed loans during the early stages of the pandemic. Prior to the CARES Act, mortgage forbearance was the primary option for borrowers with unresolved hardships; however, it was not used as frequently because delinquency rates were relatively low, according to FHFA. The National Mortgage Database was developed by FHFA and CFPB and is updated quarterly for a nationally representative, 5-percent sample of closed-end, first-lien residential mortgages in the United States. The sample had roughly 2.3 million loans that were active each month from January 2020–February 2021. Unless otherwise noted, the maximum margin of error among all values we reported was ± 1 percentage point at the 95 percent confidence level. See app. I for more information on our methodology.

[25]Although the CARES Act specified that initial and extended forbearance periods shall be granted for up to 6 months each, some mortgage servicers offered forbearance periods in 3-month increments, according to Black Knight and the Mortgage Bankers Association.

[26]According to our analysis of the National Mortgage Database, forbearance rates were also higher among loans made to first-time homebuyers in general and homes in low- and moderate-income Census tracts—key groups FHA commonly serves.

Figure 2: Percentage of Mortgage Loans in Forbearance by Loan Type, January 2020–February 2021



Source: GAO analysis of National Mortgage Database data. | GAO-21-554

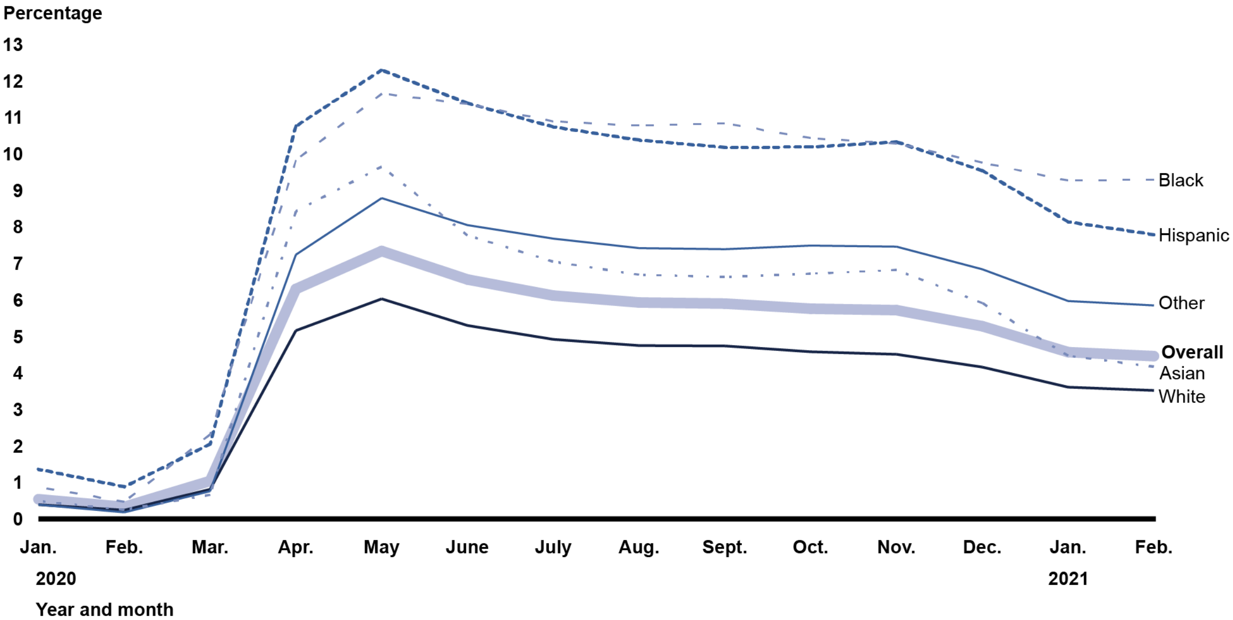
Note: Loan types include federally backed single-family mortgages insured, guaranteed, purchased, or secured by the Federal Housing Administration (FHA), Rural Housing Service (RHS), Department of Veterans Affairs (VA), Fannie Mae and Freddie Mac (enterprises), as well as non-federally backed conventional mortgages (Other). Percentages have a maximum margin of error of ± 0.4 percentage points or less at the 95 percent confidence level.

Black and Hispanic borrowers were about twice as likely to take up forbearance relative to White borrowers for each month since March 2020, according to our analysis of the National Mortgage Database (see fig. 3).[27] In addition, while Black and Hispanic borrowers accounted for about 7 and 11 percent, respectively, of all borrowers during each month in 2020, they comprised about 14 and 20 percent of borrowers in forbearance as of February 2021. By comparison, White borrowers represented about 76 percent of borrowers in 2020 but about 60 percent of those in forbearance. According to several recent studies, Black and Hispanic borrowers were more likely to have been economically affected by the pandemic. For example, according to a study by researchers at the Federal Reserve Bank of Philadelphia, non-White borrowers had

[27]Race and ethnicity are categorized based on the race and ethnicity of the primary borrower with whom each loan's status is associated in Experian records.

significantly higher rates of missed mortgage payments, even after controlling for certain risk factors, such as credit score and loan-to-value ratio.[28] While forbearance has helped, economic recovery could be more difficult for borrowers in these groups, which could have longer-term implications on homeownership and other economic indicators.

Figure 3: Percentage of Mortgage Borrowers in Forbearance by Race and Ethnicity, January 2020–February 2021



Source: GAO analysis of National Mortgage Database data. | GAO-21-554

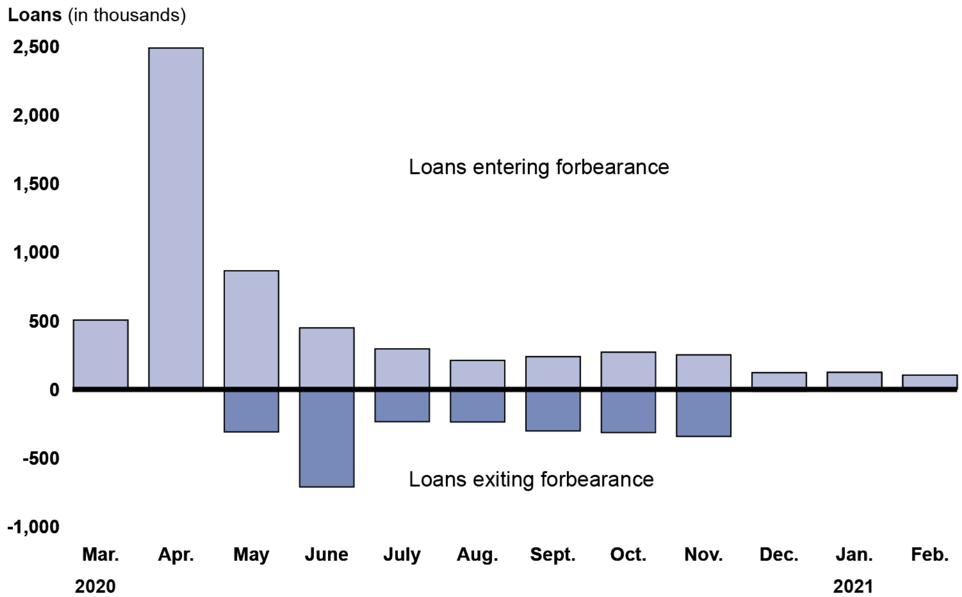
Note: Race and ethnicity are categorized based on the race and ethnicity of the primary borrower with whom each loan's status is associated in Experian records. Other includes American Indian, Native Hawaiian or Pacific Islander, and borrowers of two or more non-Black races. Percentages have a maximum margin of error of ± 0.6 percentage points or less at the 95 percent confidence level.

Nearly half of the loans that entered forbearance since March 2020 remained in forbearance as of February 2021, according to our analysis of the National Mortgage Database. Roughly two-thirds of the 5.9 million loans that entered forbearance between March 2020 and February 2021 (the latest data available at the time of our reporting) entered forbearance by May 2020. However, only about 55 percent of these loans had exited

[28]Xudong An et al., *Inequality in the Time of COVID-19: Evidence from Mortgage Delinquency and Forbearance*, WP-21-09, Consumer Finance Institute (Philadelphia, PA: February 2021).

forbearance as of February 2021 (see fig. 4). As we discuss later, borrowers who stayed in forbearance for longer periods have missed multiple payments that they will need to repay after forbearance.

Figure 4: Number of Mortgage Loans Entering and Exiting Forbearance, March 2020–February 2021



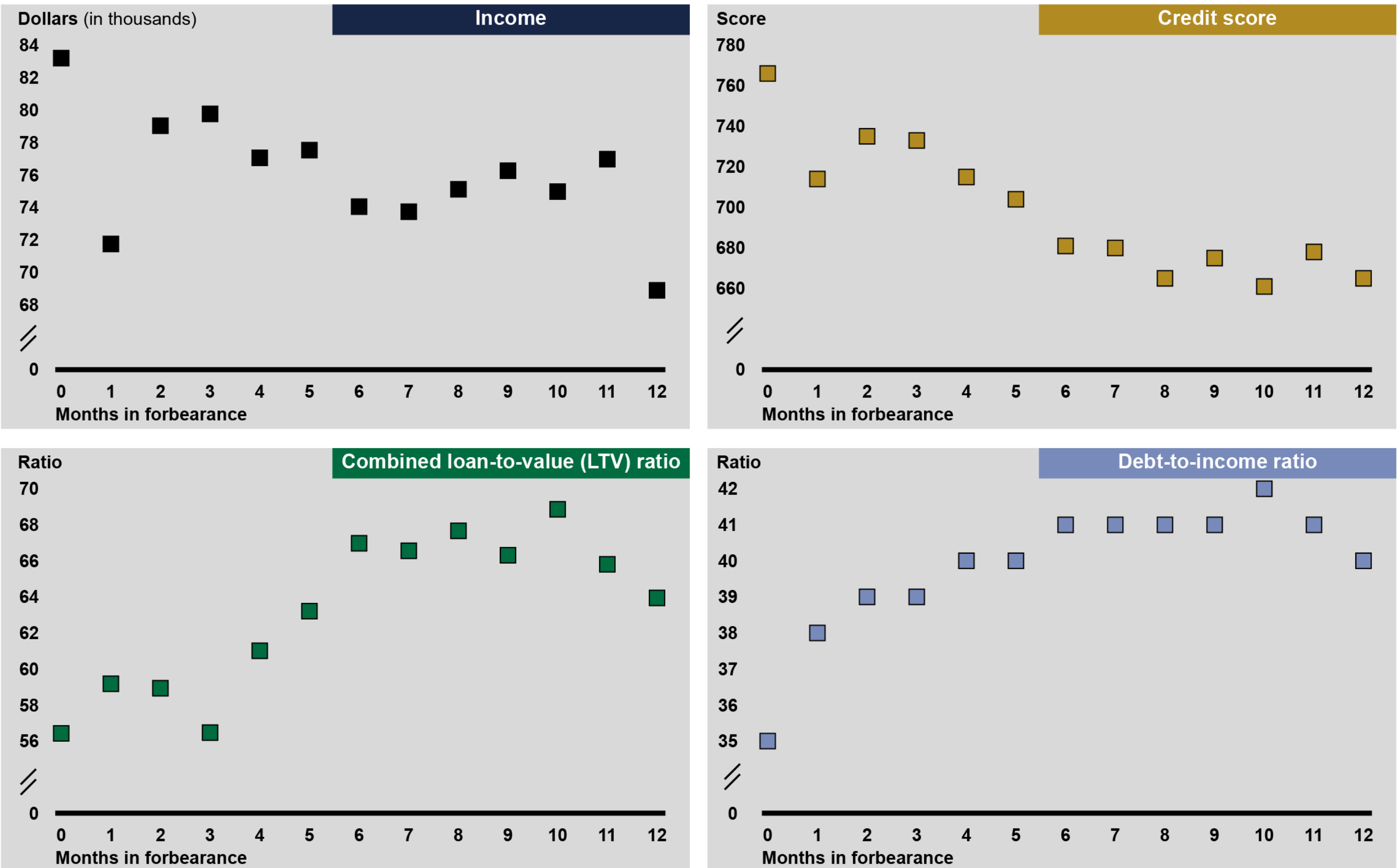
Source: GAO analysis of National Mortgage Database data. | GAO-21-554

Note: Forbearance entry and exit was estimated by the first and last month during which a loan was in forbearance, according to the National Mortgage Database. Loans that were still in forbearance as of February 2021 were shown as not yet having exited forbearance. At the 95 percent confidence level, loan counts have a margin of error of ± 1 percent, except forbearance exits during April 2020, which has a margin of error of less than ± 5 percent.

Borrowers who remained in forbearance for longer durations tended to have lower incomes and increasingly higher-risk financial characteristics. Specifically, borrowers in forbearance for longer periods tended to have lower incomes and credit scores, and higher ratios of debt-to-income and loan-to-value.[29] For example, median incomes, credit scores, and combined loan-to-value ratios were comparable among borrowers who exited forbearance after 3 months and those who never used forbearance. However, these median values among borrowers remaining in forbearance for 5 or more months tended to have notably lower incomes and credit scores and higher combined loan-to-value- and debt-to-income ratios. Further, the financial characteristics tended to deteriorate among borrowers for each additional month in forbearance (see fig. 5).

[29]We compared total duration in forbearance among four borrower and loan characteristics: real income, recent credit score, mark-to-market combined loan-to-value ratio, and debt-to-income ratio. Borrower income was reported at loan origination and adjusted to real 2019 dollars. Borrower credit score was the most recent VantageScore 3.0, which was developed by the three main credit-reporting bureaus (Experian, TransUnion and Equifax). VantageScore 3.0 ranges from 300–850 and accounts for payment history, percent of credit used, credit balances, age and type of credit, recent credit inquiries, and available credit amount. We reported the most recent credit score available as of the fourth quarter of 2020. If a recent credit score was not available from the fourth quarter of 2019 to the fourth quarter of 2020, we used the credit score at origination. We estimated mark-to-market combined loan-to-value ratio by summing outstanding balances across first liens and closed- and open-end second liens (if applicable) on the property as of the fourth quarter of 2020. We then divided this amount by the home value reported at origination inflated to estimated December 2020 values using FHFA’s county-level House Price Index. Debt-to-income ratio was the amount reported at the time the loan was originated. For more information on our methodology, see app. I.

Figure 5: Mortgage Borrowers Generally Had Lower Incomes and Higher-Risk Financial Characteristics the Longer Their Loans Were in Forbearance, March 2020–February 2021



Source: GAO analysis of National Mortgage Database data. | GAO-21-554

Note: Credit score is the primary borrower's most recent quarterly VantageScore 3.0, which ranges from 300–850. If a recent credit score was not available from the fourth quarter of 2019 to the fourth quarter of 2020, we used the credit score at origination. Mark-to-market combined loan-to-value ratio was estimated by inflating home values at origination to fourth quarter 2020 values using the Federal Housing Finance Agency House Price Index at the county level and includes the outstanding balance on first and (if applicable) closed- and open-end second liens from the fourth quarter of 2020. Borrower income was reported at loan origination and adjusted to real 2019 dollars. Debt-to-income ratio was reported at origination. Median values have a relative margin of error of ± 2 percent of the median or less at the 95 percent confidence level.

These factors suggest that the forbearance provision included in the CARES Act has targeted and helped limit mortgage default risks among borrowers with greater financial needs. At the same time, these factors also suggest that many borrowers may need additional loss mitigation or other assistance to resolve missed payments after forbearance expires.

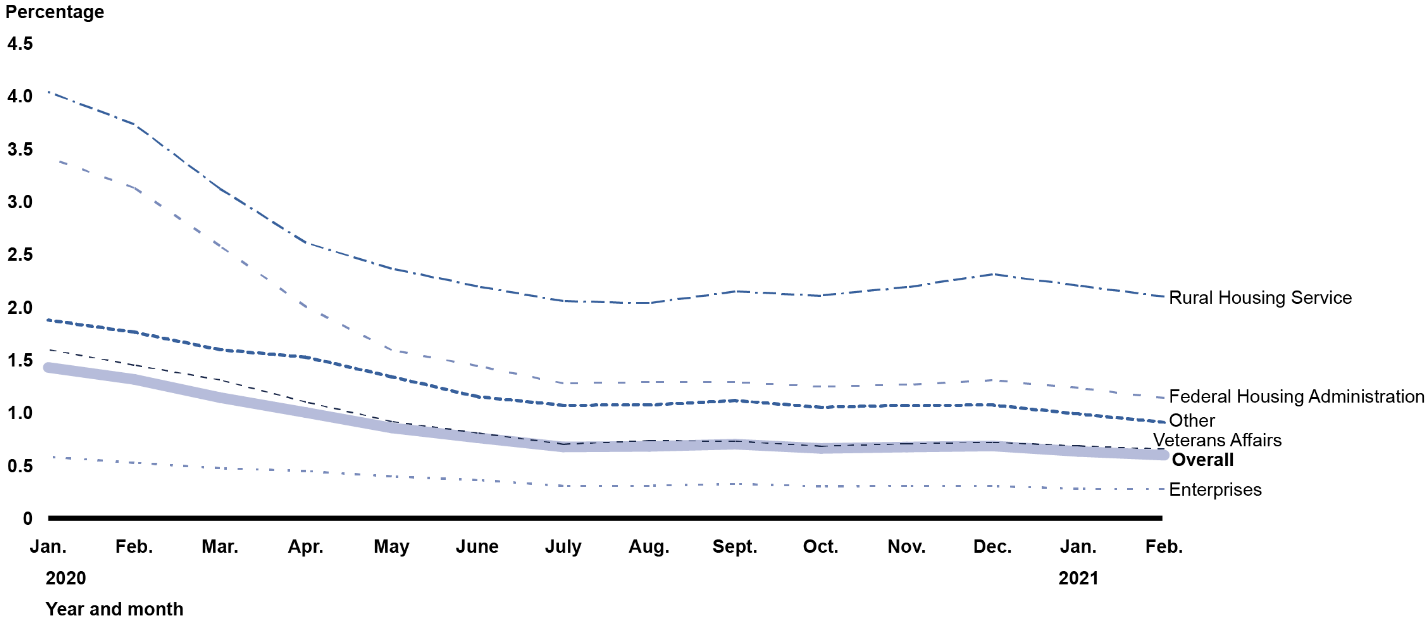
Agencies and Enterprises Have Promoted Awareness of Mortgage Forbearance among Delinquent Borrowers

Relatively Few Borrowers with Delinquent Loans Have Not Used Forbearance

Relatively few eligible borrowers who have missed mortgage payments during the pandemic have not used forbearance. When the use of forbearance peaked in May 2020, about 267,000 federally backed loans (less than 1 percent) were behind two or more payments and were not in forbearance, according to our analysis of the National Mortgage Database. Further, the number of delinquent loans not in forbearance has decreased. By February 2021, only about 189,000 federally backed loans (0.5 percent) were delinquent but not in forbearance.

A somewhat greater share of delinquent borrowers with RHS loans, compared to other loan types, appears to have missed an opportunity to use forbearance. Among federally backed loans that were behind two or more monthly payments as of February 2021, about 2 percent of RHS loans (about 21,000) were not in forbearance, compared to about 0.3 percent (about 71,000) among the enterprises (see fig. 6).

Figure 6: Percentage of Mortgage Loans That Were Behind Two or More Payments and Not in Forbearance, by Loan Type, January 2020–February 2021



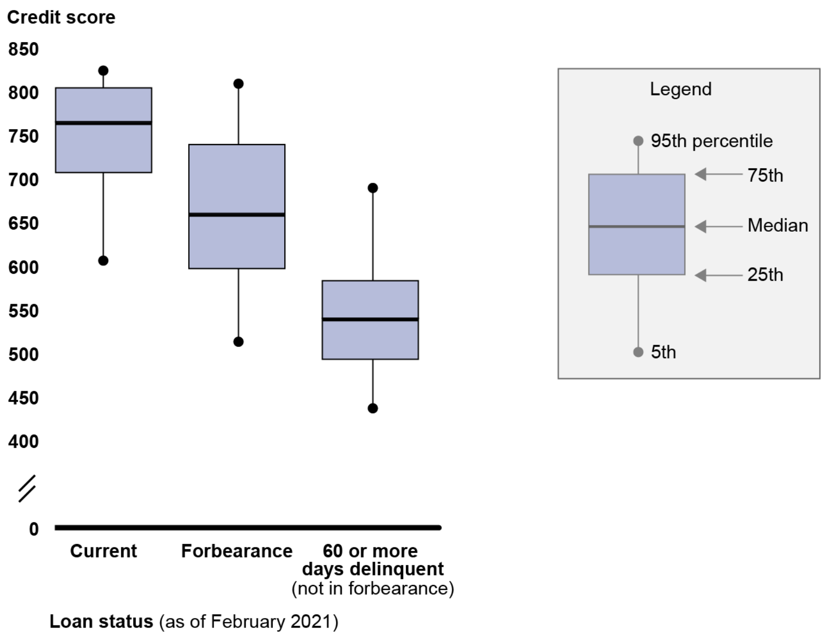
Source: GAO analysis of National Mortgage Database data. | GAO-21-554

Note: Other includes conventional loans not guaranteed by Fannie Mae and Freddie Mac (the enterprises). Delinquent loans exclude those in foreclosure or bankruptcy. Percentages have a maximum margin of error of ± 0.4 percentage points or less at the 95 percent confidence level.

The financial characteristics of delinquent borrowers who have not used forbearance suggest that they may be at higher risks of mortgage default and foreclosure. Credit scores are designed to predict the likelihood that a borrower will repay their loan on time, and the risk of mortgage default generally increases among borrowers with lower credit scores.[30] As shown in figure 7, borrowers with loans in forbearance tended to have higher near prime credit scores (660 at the median) compared to borrowers with delinquent loans not in forbearance, who tended to have lower subprime credit scores (540 at the median). Borrowers with current loans tended to have higher prime credit scores (765 at the median).

[30]See, for example, GAO, *Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis,* GAO-12-296 (Washington, D.C.: June 28, 2012).

Figure 7: Distribution of Credit Scores among Mortgage Borrowers by Delinquency and Forbearance Status, as of February 2021



Source: GAO analysis of National Mortgage data. | GAO -21-554

Note: Loan status is as of February 2021, and current loans include those that were not more than 59 days delinquent as of February 2021. Credit score is the primary borrower's most recent quarterly VantageScore 3.0, which ranges from 300–850. If a recent credit score was not available from the fourth quarter of 2019 to the fourth quarter of 2020, we used the credit score at origination.

Delinquent borrowers covered under the CARES Act did not use forbearance for several reasons. Some borrowers may have been unaware of the option. For example, Fannie Mae found that about 56 percent of single-family borrowers they surveyed from April through June 2020 were not familiar with forbearance or other mortgage relief options.[31] In addition, some borrowers may have been deterred from using forbearance because they did not fully understand the terms or repayment options. In the months after the passage of the CARES Act, the Offices of Inspector General for FHFA and HUD found that servicers of enterprise and FHA loans, respectively, inconsistently provided borrowers with complete information on mortgage forbearance and

[31]Fannie Mae, *National Housing Survey, COVID-19: The Need for Consumer Outreach and Home Purchase/Financing Digitization* (August 2020).

repayment options.[32] Specifically, according to their findings, some servicers' websites suggested that borrowers were required to provide documentation of a financial hardship or that they would need to repay the forbearance in one lump sum—neither of which are required by the CARES Act. Further, some borrowers may not have used forbearance because they were afraid to contact their servicer. According to CFPB officials, servicers have historically had challenges establishing contact with a certain segment of borrowers, especially after the wave of foreclosures that followed the 2007–2009 financial crisis. These borrowers may lack trust in their servicer and be hesitant to proactively engaging with them. As we will discuss, the agencies and enterprises have taken steps to address information and awareness concerns.

Agencies and Enterprises Have Directly Communicated to Delinquent Borrowers to Promote Awareness of Mortgage Forbearance

The agencies and enterprises have taken steps to address information and awareness concerns regarding forbearance among delinquent borrowers. CFPB worked with the agencies and enterprises to develop a housing assistance website that launched in May 2020, which targeted struggling borrowers and summarized information on mortgage forbearance in multiple languages, including how to request forbearance and options to repay missed payments.[33] CFPB's website clarified that borrowers did not need to provide documentation to their servicer to request forbearance, and that lump sum repayment was not required after forbearance. The agencies and enterprises also published similar information on their respective websites. In addition, the enterprises issued sample scripts to their mortgage servicers that provided a model for communicating with borrowers about forbearance.

In addition, the agencies and enterprises conducted direct outreach to delinquent borrowers who have not used forbearance and may be less likely to visit government websites or contact their servicer for assistance. According to agency and enterprise officials:

[32]Federal Housing Finance Agency, Office of Inspector General, *Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers* (July 27, 2020); and Department of Housing and Urban Development, Office of Inspector General, *Some Mortgage Loan Servicers' Websites Continue to Offer Information about CARES Act Loan Forbearance That Could Mislead or Confuse Borrowers, or Provide Little or no Information at all* (Sept. 30, 2020).

[33]Consumer Financial Protection Bureau, *Help for homeowners and renters during the coronavirus national emergency*, last modified March 25, 2021, www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/.

- The enterprises sent about 21,000 letters in December 2020 to borrowers who had missed two or more payments and were not in forbearance to notify them of available mortgage relief options.
- HUD's Office of Housing Counseling and FHA disseminated a media kit and hosted a series of webinars for about 1,600 housing counseling agencies from November 2020 through March 2021 that focused on establishing contact with struggling borrowers and encouraging them to contact their servicer.
- RHS's Customer Service Center, which services loans provided directly by the agency, used an automated dialing system to call borrowers at various stages of delinquency to inform them of forbearance and other mortgage relief options.
- VA loan technicians directly contacted borrowers when they became delinquent for 120 days to discuss forbearance and other loss mitigation options.
- CFPB worked with industry and advocacy groups to develop marketing materials for an outreach campaign designed to help servicers communicate over various types of media to struggling borrowers who had not opted into forbearance.[34]

Data suggest that these efforts have helped and that forbearance has effectively targeted borrowers who struggled to make payments during the pandemic. For example, according to Fannie Mae, its outreach effort resulted in about 11 percent of the delinquent borrowers initiating forbearance and another 16 percent resolving their delinquency by repaying missed payments (as of February 2021). In addition, far fewer borrowers who became delinquent during the pandemic have not used forbearance compared to those who were delinquent prior to the pandemic. According to Black Knight, about 27 percent of borrowers who missed three or more monthly payments or were in foreclosure before the pandemic (or about 194,000 borrowers) were not in forbearance or another loss mitigation option as of February 2021.[35] By comparison, among borrowers who missed three or more monthly payments or entered foreclosure after the pandemic started, only about 2 percent (or about 35,000 borrowers) were not in forbearance or another loss mitigation option.

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[34]See www.covidhelpforhome.org.

[35]Black Knight, *Mortgage Monitor: February 2021 Report.*

CFPB Modified Early Intervention Requirements for Servicers to Further Promote Awareness of Mortgage Forbearance among Delinquent Borrowers

CFPB also modified early intervention requirements for servicers to increase awareness of forbearance among delinquent borrowers. CFPB's regulations implementing the Real Estate Settlement Procedures Act (Regulation X) require that servicers contact delinquent borrowers at periodic intervals and inform them of available loss mitigation options. For example, servicers must attempt to establish live contact with a borrower and inform them of their loss mitigation options no later than the 36th day of delinquency, and again no later than 36 days after each payment is due while the borrower remains delinquent.[36] A similar requirement exists for written notifications.[37]

In June 2021, CFPB finalized amendments to Regulation X that temporarily require servicers to discuss COVID-19 mortgage forbearance and related information with borrowers during live contact.[38] For borrowers with a COVID-19 hardship who are not in forbearance, servicers are generally required to inform them of available forbearance programs and the actions they must take to be evaluated. For borrowers who are already in forbearance, servicers are required to inform them of their forbearance expiration date; options for forbearance extensions, repayment, and other loss mitigation; and actions they must take to be evaluated for such options prior to the end of the forbearance. In both cases, servicers are also required to provide borrowers at least one way they can find contact information for homeownership counseling services.

[36]See 12 CFR § 1024.39(a).

[37]See 12 CFR § 1024.39(b).

[38]Consumer Financial Protection Bureau, *Protections for Borrowers Affected by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act (RESPA), Regulation X*, June 25, 2021. These requirements expire on October 1, 2022.

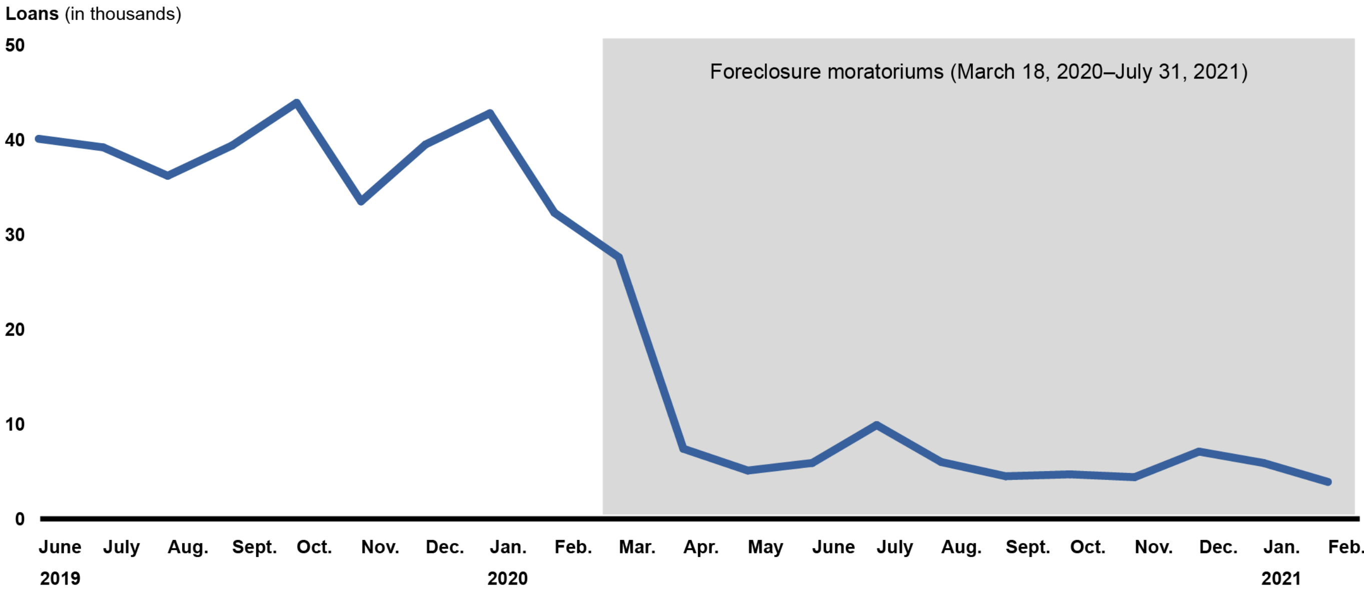
Foreclosures Have Declined during Moratoriums, and Agencies and Enterprises Have Taken Steps to Further Limit Default and Foreclosure Risks

Federal Moratoriums Have Limited Foreclosures during the Pandemic, but Risks Remain as Delinquency Grows among Borrowers in Forbearance

New foreclosures have declined and remained low during the pandemic because of federal foreclosure moratoriums.[39] New foreclosure starts among all single-family loans in June 2020 declined by about 85 percent from the prior June (from about 40,000 to about 6,000), and remained about 85 percent lower year-over-year for each month through February 2021, on average, according to our analysis of data published by Black Knight (see fig. 8).

[39]The CARES Act prohibited servicers of federally backed mortgage loans from initiating any judicial or nonjudicial foreclosure process, moving for a foreclosure judgment or order of sale, or executing a foreclosure-related eviction or foreclosure sale for not less than the 60-day period beginning on March 18, 2020. Pub. L. No. 116-136, div. A, § 4022(c)(2), 134 Stat. at 491.Thereafter, the agencies and enterprises initiated separate foreclosure moratoriums, which they have coordinated to extend through July 31, 2021.

Figure 8: Number of Mortgage Loans Entering Foreclosure, by Month (June 2019–February 2021)



Source: Black Knight. | GAO-21-554

Note: Foreclosure data were only available through February 2021 at the time of our review. Foreclosure starts include any active loan that was not in foreclosure in the prior month that moved into foreclosure in the current month. The figure includes vacant and abandoned properties and private loans that were not federally backed—neither of which were covered by the CARES Act foreclosure moratorium.

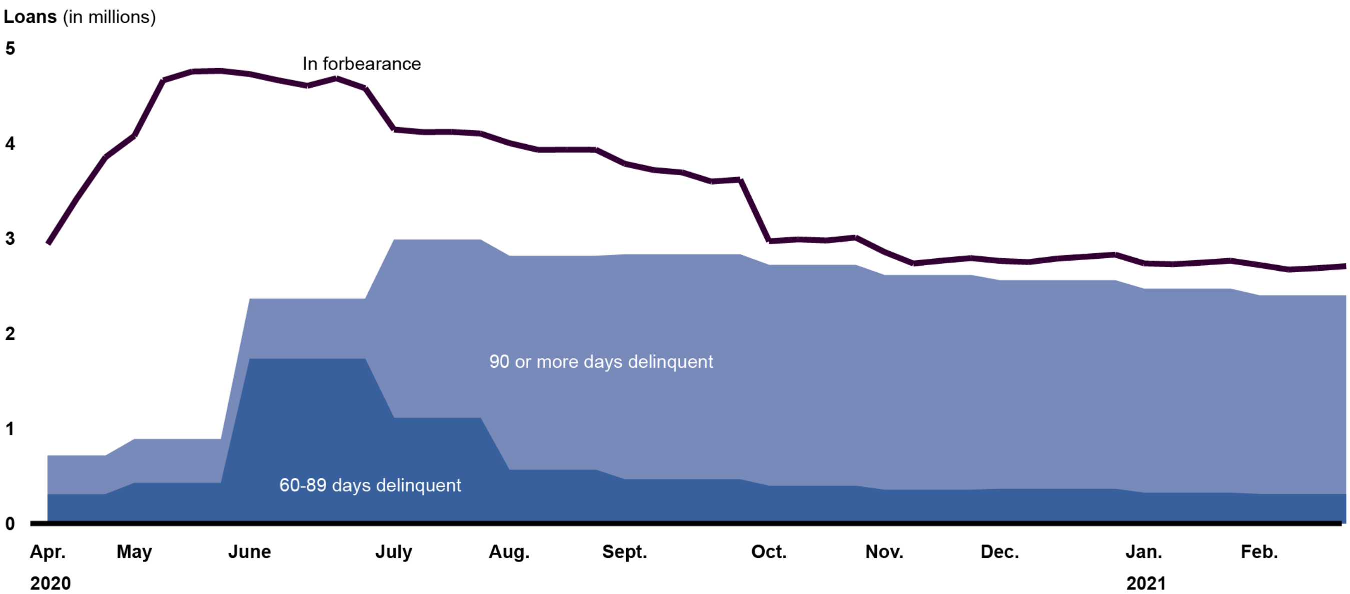
Some foreclosure activity has continued during the moratoriums, which only cover federally backed loans—about 80 percent of all single-family loans, according to data from the National Mortgage Database. In addition, the moratoriums exclude those properties with federally backed loans that are vacant or abandoned. Because of these exclusions, about 16,200 new foreclosures were initiated in the fourth quarter of 2020, according to Black Knight. Federally backed mortgages comprised nearly half of these new foreclosures, which was similar to pre-pandemic trends. For example, according to our analysis of FHA, FHFA, and Black Knight data, loans backed by the enterprises and FHA comprised about 46 percent of new foreclosure starts in the fourth quarter of 2020 (or about 7,500 loans), as compared to about 49 percent of new foreclosure starts in the fourth quarter of 2019 (or about 57,500 loans).

Foreclosure activity will likely increase when the moratoriums end and forbearance provisions expire. Servicers have delayed processing a backlog of foreclosures that would have occurred regardless of the pandemic. Specifically, about 15 percent of foreclosures that would have been expected based on recent historical trends have been processed each month since the start of the moratoriums, on average, according to our analysis of Black Knight data.

The risk of an increase in foreclosures also exists due to the increasing rate of delinquency and missed payments among borrowers in forbearance. When the use of forbearance peaked in May 2020 at about 4.8 million borrowers, about 900,000 had missed two or more payments, according to Black Knight—equivalent to about 19 percent of those in forbearance.[40] Although use of forbearance has since declined, a greater share of borrowers have missed payments. By February 2021, about 2.4 million borrowers had missed two or more payments—equivalent to about 90 percent of the 2.7 million in forbearance (see fig. 9). According to our analysis of the National Mortgage Database, borrowers with loans in forbearance as of February 2021 had missed—and will eventually need to repay—an average of eight monthly mortgage payments, totaling $8,300 on average.

[40]Black Knight reported forbearance on a weekly basis and delinquency as of the end of each month. Delinquency counts reflect borrowers' status as of their due dates. Counts of borrowers who had missed two or more payments as of May, for example, reflect borrowers who missed payments in March and April.

Figure 9: Number of Mortgage Loans in Forbearance and Length of Delinquency, April 2020–February 2021



Source: Black Knight. | GAO-21-554

Note: Delinquent borrowers include those in forbearance and not in forbearance. Black Knight reported forbearance on a weekly basis and delinquency as of the end of each month. Delinquency counts reflect borrowers' status as of their due dates. Counts of borrowers who had missed two or more monthly payments as of May, for example, reflect borrowers who missed payments in March and April.

Many of these borrowers may be at risk of default and foreclosure when the moratoriums end if they do not contact their servicer at the end of their forbearance. Borrowers are still considered delinquent under Regulation X if they do not make a payment during forbearance except when their forbearance agreement modifies the underlying mortgage agreement.[41] According to CFPB officials, many do not. In addition, mortgage servicing rules generally allow servicers to begin processing foreclosures after 120 days of delinquency (or four months of missed payments).[42] As a result, borrowers who cannot afford to immediately

[41]For the purposes of Regulation X, a preexisting delinquency period could continue or a new delinquency period could begin even during a forbearance program that pauses or defers loan payments if a periodic payment sufficient to cover principal, interest, and, if applicable, escrow is due and unpaid according to the loan contract during the forbearance program.

[42]See 12 C.F.R. § 1024.41(f)(1)(i). With limited exceptions, mortgage servicers can make the first notice or filing required by applicable law for any judicial or nonjudicial foreclosure process when a loan is more than 120 days delinquent.

repay their missed payments after forbearance—likely to be many given the extent of delinquency and missed payments—must contact their servicer to discuss loss mitigation options to avoid default and foreclosure.

Agencies and Enterprises Have Taken Steps to Limit Default and Foreclosure Risks

Extended Forbearance Options

The agencies and enterprises have extended options for borrowers to enter and stay in forbearance. Specifically, the agencies and enterprises extended their deadlines to allow borrowers who requested forbearance as of June 30, 2020 (for agency loans) or were in an active forbearance plan as of February 28, 2021 (for enterprise loans) to extend forbearance by an additional 6 months (18 months in total). In addition, borrowers with agency loans who have not used forbearance can opt into an initial forbearance through September 30, 2021. The enterprises have not provided a deadline because borrowers with enterprise-backed loans will continue to have access to 12-month forbearance options that were in place prior to the CARES Act, according to FHFA officials. Because of these extensions, borrowers with long-term delinquencies who are at a heightened risk of default—those who entered forbearance early in the pandemic and those who never entered forbearance—have the option to continue forbearance after the foreclosure moratoriums end.

Enhanced Options to Reinstate Loans after Forbearance

The agencies and enterprises have also introduced new options, or expanded existing options, to help borrowers reinstate their loans after forbearance to avoid default. Borrowers who cannot reinstate their loan after forbearance through one lump-sum repayment must work with their servicer to arrange a repayment or other loss mitigation options.[43] Although these options differ across the agencies and enterprises, they generally include the following:

- **Repayment plans.** Borrowers who are able to resume their regular payments and repay missed payments in the near term can do so through a repayment plan. A repayment plan is an agreement between a borrower and their servicer to repay the missed amount over time in addition to regular monthly payments. While under a

[43]Borrowers are not required to repay missed payments in a lump sum after forbearance.

repayment plan, the borrower's monthly payment will increase for a certain period until the forbearance is repaid.

- **Payment deferral.** Borrowers who can afford to resume their regular payment but cannot afford to repay missed payments in the near term may be eligible to defer repayment. A payment deferral allows the borrower to resume their regular monthly payment but defer repayment of the missed payments until a later date.[44] Under payment deferral options provided by the enterprises, FHA, and RHS, missed payments are placed at the end of the mortgage through a noninterest-bearing secondary lien or balloon payment, which becomes due when the borrower sells or transfers ownership of their property, or when they refinance or pay off the loan.

  The enterprises, FHA, and RHS have expanded their payment deferral options to allow borrowers affected by the pandemic the option to defer repayment of all missed payments while in forbearance. In addition, VA finalized a new payment deferral program in May 2021 that will be available to VA borrowers in July 2021.[45] VA did not previously offer its borrowers a payment deferral option, and its new program—known as the COVID-19 Veterans Assistance Partial Claim Payment Program—is similar to options provided by FHA, RHS, and the enterprises.

- **Loan modification.** Borrowers who can no longer afford their regular payment or repay missed payments in the near term may be eligible to modify their loan. Loan modifications help make monthly payments more affordable by adjusting certain aspects of the existing mortgage, such as lowering the interest rate or extending the loan term. For example, a borrower exiting forbearance who has experienced a longer lasting change in income may be able to lower their monthly payments by having their servicer capitalize the missed payments into the outstanding balance and extend the loan term (effectively increasing the number of remaining payments).

  The agencies and enterprises have taken steps to expand and streamline loan modifications during the pandemic. In June 2021, the enterprises expanded eligibility for interest rate reductions through their Flex Modification programs to borrowers with permanent COVID-

[44]We refer to these loss mitigation options as payment deferrals, which is the enterprises' option. FHA's comparable option is known as a partial claim, and RHS's comparable option is known as a mortgage recovery advance.

[45]Department of Veterans Affairs, *Loan Guaranty: COVID-19 Veterans Assistance Partial Claim Payment Program*, 86 Fed. Reg. 28692 (May 28, 2021).

19 hardships regardless of their loan-to-value ratio.[46] FHA also introduced new loan modification options for borrowers affected by COVID-19 that do not require a trial period and have flexible or reduced documentation requirements. For example, FHA introduced its COVID-19 Advance Loan Modification in June 2021, which modifies the mortgage term and rate to reduce monthly principal and interest payments by at least 25 percent for borrowers who have missed three or more monthly payments or are exiting forbearance. FHA also revised its loss mitigation hierarchy to allow servicers to offer loan modifications more quickly to struggling borrowers. In addition, VA and RHS have allowed servicers to use streamlined loan modification options during the pandemic that have limited documentation requirements and are otherwise reserved for natural disasters.

The American Rescue Plan Act of 2021 also provided RHS with $39 million in additional funding to refinance its direct loans, which the agency will focus on borrowers who previously received forbearance.[47] RHS officials told us they anticipate that many direct borrowers will experience pre-foreclosure processing and need to refinance their existing loan debt to avoid foreclosure when the moratorium ends.[48]

Status of Forbearance Exits and Unresolved Delinquencies

Borrowers who exited forbearance with missed payments most commonly resolved their delinquency through expanded payment deferral options. According to the Mortgage Bankers Association, about 26 percent of borrowers who used mortgage forbearance during the pandemic and exited as of February 2021 resolved their missed payments through a payment deferral option. About another 15 percent reinstated their loan through a lump sum repayment, and about 8 percent initiated or completed a loan modification. In addition, about 28 percent of borrowers who exited forbearance as of February 2021 did not have missed payments to repay because they continued to make regular payments while in forbearance (see fig. 10). This trend suggests that many

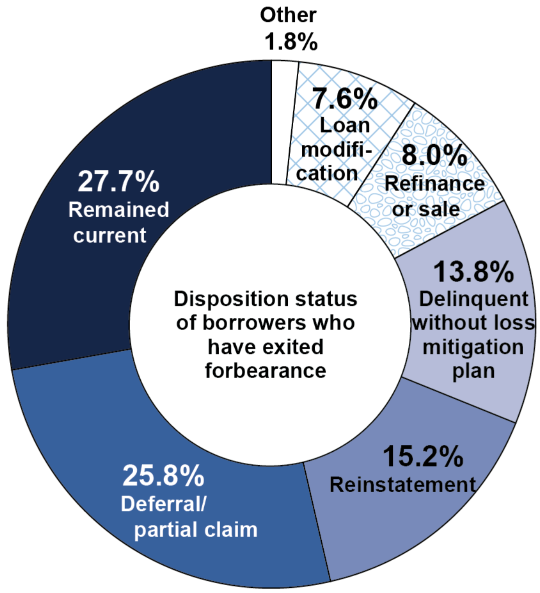
[46]Previously, the enterprises required borrowers to have a loan-to-value ratio or 80 percent or more to be eligible for an interest-rate reduction. Loan modifications through the Flex Modification programs do not require documentation for borrowers who have missed three or more monthly payments.

[47]Pub. L. No. 117-2, tit.III, § 3207, 135 Stat. 4, 67 (2021).

[48]RHS' Section 502 Direct Loan Program provides mortgage payment assistance directly to rural borrowers with low and very low incomes who are not otherwise able to obtain a loan. Section 502 borrowers generally are not required to make a down payment and carry a greater credit risk.

borrowers used forbearance in the early months of the pandemic to hedge against financial uncertainty.

Figure 10: Percentage of Mortgage Borrowers Who Have Exited Forbearance by Disposition Status, June 2020–February 2021



Source: Mortgage Bankers Association. | GAO-21-554

Note: Other includes repayment plans, short sales, and deed-in-lieu of foreclosure transfers, among others.

Borrowers have resolved their delinquencies in different ways after forbearance depending on the repayment and loss mitigation options made available to them. For example, FHA requires servicers to evaluate all eligible borrowers exiting forbearance for a payment deferral first before other loss mitigation options while RHS does not. As a result, by February 2021, about 21 percent of FHA borrowers who exited forbearance had resolved their missed payments through a payment deferral, as compared to less than 1 percent of RHS borrowers, based on data provided by both agencies. Instead, according to their data, a greater share of RHS borrowers resolved their missed payments through loan modifications (about 37 percent of those who had exited forbearance) compared to less than 3 percent among FHA borrowers.

At the same time, some borrowers who have exited forbearance have not yet resolved their delinquency.[49] About 14 percent of borrowers who exited forbearance as of February 2021 remained delinquent without entering into a loss mitigation option, according to the Mortgage Bankers Associations. Further, post-forbearance delinquency was higher among certain loan types, based on data provided by the agencies and enterprises. For example, about 20 percent of RHS borrowers who had exited forbearance by February 2021 had not resolved their delinquency through repayment or loss mitigation. By comparison, about 5 percent of Fannie Mae borrowers and 7 percent of Freddie Mac borrowers had exited forbearance and not resolved their delinquency through repayment or loss mitigation (by February 2021 and December 2020, respectively). Some of these borrowers may be at risk of default and foreclosure when the foreclosure moratoriums end. As we discussed previously, borrowers can still be considered delinquent under Regulation X while in forbearance, and mortgage servicing rules generally allow servicers to begin processing foreclosures after 120 days of delinquency (or 4 months of missed payments).

CFPB Efforts to Streamline Loss Mitigation Processing and Limit Foreclosures

CFPB has taken several steps in recent months to streamline loss mitigation processing and modify foreclosure review requirements to assist borrowers exiting forbearance in the second half of 2021. In June 2021, CFPB finalized amendments to Regulation X that allow servicers to offer streamlined loan modifications to delinquent borrowers affected by COVID-19 without completing certain application review and borrower notification requirements.[50] CFPB previously amended Regulation X earlier in the pandemic to allow servicers to streamline application review requirements for payment deferrals.[51] In addition, the June 2021 amendments establish temporary procedural safeguards until January 1,

[49]Some borrowers who are delinquent after forbearance may also be in the process of working with their servicer to determine a suitable loss mitigation option. For example, FHA allows its servicers 120 days to complete a loss mitigation action after forbearance ends.

[50]Consumer Financial Protection Bureau, *Protections for Borrowers Affected by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act (RESPA), Regulation X*, June 25, 2021. Eligible loan modifications must meet certain criteria, and servicers must comply with several safeguards designed to protect borrowers against any harm that could eventually result from accepting loan modifications based on the evaluation of an incomplete application.

[51]Consumer Financial Protection Bureau, *Treatment of Certain COVID-19 Related Loss Mitigation Options Under the Real Estate Settlement Procedures Act (RESPA) Regulation X*, 85 Fed. Reg. 39055 (June 30, 2020).

2022 that are intended to limit avoidable foreclosures and which must be met before a servicer can initiate a foreclosure for a mortgage that became delinquent during the pandemic.[52]

CFPB has also prioritized its oversight of loss mitigation to encourage servicers to limit avoidable foreclosures as forbearance options and foreclosure moratoriums begin to expire. In late March 2021, CFPB published a compliance bulletin targeted to mortgage servicers in anticipation of a rapid increase in borrowers needing loss mitigation assistance after forbearance.[53] In the bulletin, the agency urged servicers to dedicate sufficient resources and staff to ensure they can communicate clearly with borrowers, effectively manage borrower requests for assistance, promote loss mitigation, and ultimately reduce avoidable foreclosures and foreclosure-related costs. CFPB plans to consider these factors in evaluating the effectiveness of servicers' efforts to manage loss mitigation and whether to take enforcement of supervisory actions to address regulatory violations

Home Price Appreciation and New Federal Assistance for Homeowners May Further Mitigate Default and Foreclosure Risks

Appreciation in home prices and new homeowner assistance funds may also help limit default and foreclosure risks after pandemic housing protections expire. Appreciation in property values helps borrowers more quickly build equity in their homes (or the difference between any outstanding loans on the property and its current market value). For borrowers who continue to experience challenges after forbearance, having home equity will provide many with the option to refinance their home with a new mortgage that lowers their monthly payment. Alternatively, home equity can help borrowers with a more permanent hardship, such as loss of income due to the death of a spouse, sell their property to repay their mortgage and potentially collect sales proceeds. By comparison, borrowers with no or negative equity in their property—meaning they owe more than the value of their property—are generally at a heightened risk of default and foreclosure.

Home prices have appreciated steadily since the collapse of the U.S. housing market during the 2007–2009 financial crisis. Between the first

[52]Specifically, servicers may proceed with a foreclosure if (1) the borrower submitted a completed loss mitigation application and the servicer is permitted to make the first notice or filing under 12 C.F.R § 1024.41(f)(2); (2) the property securing the mortgage loan is abandoned under state or municipal law; or (3) the servicer has conducted specified outreach and the borrower is unresponsive.

[53]Consumer Financial Protection Bureau, *Bulletin 2021-02: Supervision and Enforcement Priorities Regarding Housing Insecurity* (Mar. 31, 2021).

quarter of 2011 and the first quarter of 2021, U.S. home prices appreciated by about 78 percent nationally, according to FHFA's seasonally adjusted House Price Index. Sparked in part by historically low interest rates, increased homebuyer demand, and a low inventory of homes for sale, home prices have grown faster on a year-to-year basis during the pandemic than at any point during the past 30 years—about 12 percent from February 2020 to February 2021.

Because of this rapid appreciation, few borrowers do not have equity in their homes.[54] Specifically, about 1.9 percent of borrowers (about 44,000) who were at a higher risk of default and foreclosure—those still in forbearance or delinquent but not in forbearance—had no or negative equity as of February 2021, according to our analysis of the National Mortgage Database.[55] On average, borrowers who were in forbearance or delinquent but not in forbearance had about 64 percent equity available in their properties. A somewhat greater share of borrowers with RHS and VA loans had no or negative equity compared to borrowers with FHA and enterprise loans, likely due in part to differences in down payment requirements.[56] However, these rates were still low compared to past foreclosures crises. For example, at the peak of foreclosures in 2011 after the 2007–2009 financial crisis, about 17 percent of all borrowers—and 44

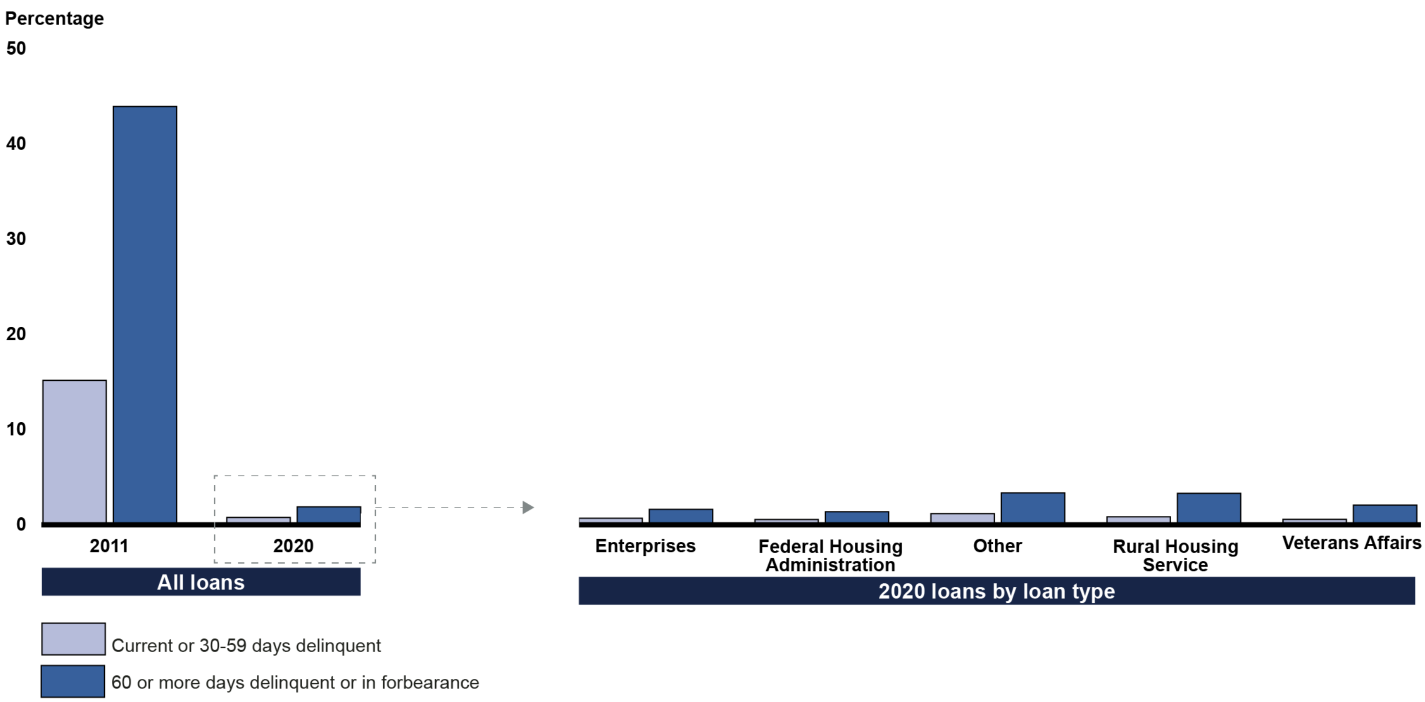
[54]The Urban Institute similarly found that relatively few borrowers had negative home equity in early 2021. See Michael Neal and Laurie Goodman, *The Predicted Foreclosure Surge Likely Won't Happen, Even among Financially Vulnerable Borrowers* (Urban Institute, Feb. 11, 2021).

[55]Borrower home equity was estimated by comparing the home value recorded at origination with its appreciated value using the FHFA's December 2020 county-level House Price Index. This estimate includes closed- and open-end first and second liens, if applicable. Delinquent borrowers include those who were 60–180 days delinquent but not in bankruptcy or foreclosure. Estimates of 2011 homeowner equity do not include second liens. See app. I for additional information on our methodology. We did not review the amount of equity borrowers would need to break even on a sale after accounting for closing costs. According to Black Knight, borrowers in forbearance may need at least 10 percent in home equity to sell their homes and avoid foreclosure by paying off the remaining mortgage and covering closing costs.

[56]Borrowers with loans guaranteed by RHS and VA are generally not required to make a down payment, and borrowers with loans insured by FHA are required to make a down payment of at least 3.5 percent. By comparison, conventional loans, which the enterprises typically purchase, require borrowers to make a down payment of at least 20 percent of the purchase price to avoid private mortgage insurance requirements. However, the enterprises can purchase loans with a loan-to-value ratio of up to 97 percent—comparable to a down payment of about 3 percent for a recently originated loan.

percent of borrowers with delinquent loans—had negative home equity (see fig. 11).[57]

Figure 11: Percentage of Mortgage Borrowers without Home Equity as of 2020 and 2011, by Loan Type and Loan Status



Source: GAO analysis of National Mortgage Database data. | GAO-21-554

Note: Other includes conventional loans not guaranteed by Fannie Mae and Freddie Mac (the enterprises). Borrower home equity was estimated by comparing the home value recorded at origination with its appreciated value using the Federal Housing Finance Agency's December 2020 county-level House Price Index. 2020 estimates include closed- and open-end first and second liens, if applicable. Loan status is as of February 2021. Forbearance status was not available for 2011. Some delinquent loans in 2011 may have been in forbearance, and some loans in forbearance in 2021 may not be delinquent because borrowers continued to make payments. Percentages have a maximum margin of error of ± 0.4 percentage points at the 95 percent confidence level.

In addition, new financial assistance is available that will further limit default and foreclosure risks among homeowners who continue to struggle. The American Rescue Plan Act established the Homeowner Assistance Fund, which provides nearly $10 billion to assist borrowers who experienced a financial hardship during the pandemic (after January

[57]Forbearance status was not available for 2011. Some delinquent loans in 2011 may have been in forbearance, and some loans in forbearance in 2021 may not be delinquent because borrowers continued to make payments.

21, 2020).[58] The funds are available to eligible state, territorial, and tribal governments and are intended to help prevent mortgage delinquencies, defaults, and foreclosures, among other outcomes. According to the Department of the Treasury's guidance, eligible entities that receive funds can use them to help borrowers make mortgage payments, reinstate their mortgage after forbearance, or facilitate a mortgage interest rate reduction, among other eligible expenses. We will monitor Treasury's efforts to administer and oversee these funds in future reports.

Agency Comments

We provided a draft of this report to CFPB, Department of Agriculture, HUD, VA, FHFA, and the enterprises for review and comment. We received and incorporated technical comments from CFPB, FHFA, the enterprises, and VA, as appropriate. Department of Agriculture and HUD told us they did not have comments on the draft.

We are sending copies of this report to the appropriate congressional committees, the Acting Director of CFPB, Secretary of Agriculture, Secretary of HUD, Secretary of VA, Acting Director of FHFA, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

John H. Pendleton
Director, Financial Markets and Community Investment

[58] Pub. L. No. 117-2, tit. III, § 3206, 135 Stat. 4, 63 (2021).

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Appendix I: Objectives, Scope, and Methodology

This report examines (1) the extent to which mortgage forbearance may have contributed to housing stability during the pandemic, (2) what efforts federal agencies and the enterprises have taken to promote awareness of mortgage forbearance among delinquent borrowers, and (3) what efforts federal agencies and the enterprises have taken to limit mortgage default and foreclosure risks after federal mortgage forbearance and foreclosure protections expire. The federal entities in our review are the Consumer Financial Protection Bureau (CFPB), Department of Agriculture's Rural Housing Service (RHS), Department of Housing and Urban Development's Federal Housing Administration (FHA), Department of Veterans Affairs (VA), Federal Housing Finance Agency (FHFA), and the government-sponsored enterprises Fannie Mae and Freddie Mac (enterprises).

To examine how mortgage forbearance has contributed to housing stability during the pandemic, we reviewed and analyzed data on mortgage forbearance and delinquency, borrower characteristics, and homeowner equity using data from National Mortgage Database.[1] We used data from January 2020–February 2021 to cover the onset of the COVID-19 pandemic through the most recent data available at the time of our reporting.[2] We analyzed the following:

[1]The National Mortgage Database program is jointly funded and managed by FHFA and CFPB. It is a de-identified, loan-level database of closed-end first-lien residential mortgages that is (1) representative of the market as a whole; (2) contains detailed, loan-level information on the terms and performance of mortgages, as well as characteristics of the associated borrowers and properties; (3) is continually updated; and (4) has a historical component dating back before the 2007–2009 financial crisis. According to FHFA officials who manage the database, the core data represent a statistically valid random sample of 1-in-20 closed-end, first-lien mortgages in the credit files of Experian, one of the three national credit bureaus. We assessed the reliability of these data by interviewing agency officials, testing for errors, and reviewing technical documentation, and we found them reliable for reporting mortgage performance trends and borrower characteristics. The sample had roughly 2.3 million loans that were active each month from January 2020–February 2021. We calculated margins of error at the 95 percent confidence level for all values we report. Unless otherwise noted, all values have a maximum margin of error of ± 1 percentage point. Due to the large sample size and low margins of error, we did not conduct additional statistical significance testing when making comparisons across different populations.

[2]Most data on loan performance were available on a monthly basis. In a few cases, we used quarterly data when monthly data were not available, such as for house prices and borrower credit scores. Data are both at the loan- and borrower-level, however, this analysis uses loan-level data and the borrower characteristics reported here reflect the primary borrower of each loan.

- **Mortgage forbearance and delinquency.** We analyzed forbearance and delinquency rates across loan types—enterprise, FHA, RHS, VA, and private loans—and borrower characteristics. We determined forbearance and delinquency rates by applying the “stale account rule” to the database’s indicator variables for forbearance and loan performance.[3] We reported delinquency as any loan that was behind two or more monthly payments (60 or more days delinquent) and not in forbearance to capture loans in deeper stages of delinquency and exclude loans with one missed payment but which became current the following month.[4]

  We estimated a loan’s entry into forbearance based on the first month during which it was shown as being in forbearance since March 2020 (after applying the stale account rule). We estimated exit from forbearance based on the last month in which the loan was reported as being in forbearance, according to National Mortgage Database definitions. We did not consider loans in forbearance as of February 2021—the most recent period available at the time of our reporting—to have exited forbearance. To estimate missed payments of borrowers with loans in forbearance, we calculated the average cumulative difference between all scheduled payments and all actual payments made on these loans in forbearance.

- **Borrower characteristics.** We analyzed loan status and performance across borrower characteristics. We based selected borrower characteristics—race, ethnicity, first-time homebuyer status, and credit score—as well as loan status and performance information on the primary borrower associated with each loan and with whom the Experian records are associated. We categorized borrower race and ethnicity based on codes in the database. We considered any Hispanic borrower regardless of race as its own race category. We considered Black borrowers to additionally include borrowers of two

[3]Unless otherwise noted, we reported loans in forbearance as any loan in forbearance regardless of performance status, including loans in forbearance that may still have been current on payments. Forbearance status is based on mortgage servicer records reported to Experian that indicate whether a loan’s performance or status for a given month included a deferred payment, was affected by natural or declared disaster, was reported as being in forbearance, or had a required payment of $0 (with some restrictions). However, not all loans were reported to Experian each month, such as in the event of a disputed credit report or if the servicer only reports quarterly. In such cases, the stale account rule applies a month-by-month lookback period for up to 3 months until a status is available.

[4]We also excluded loans in foreclosure or bankruptcy from delinquency rates.

races of which at least one was Black. We also separately created a race category “other,” which includes American Indian, Native Hawaiian or Pacific Islander, and two or more non-Black races. These race categories represented a relatively small share of borrowers in the database.

In addition, we adjusted borrower income for inflation, which was recorded at loan origination, to real 2019 dollars using the Consumer Price Index for All Urban Consumers as reported in the National Mortgage Database.[5] For recent borrower credit scores, we used the most recently reported credit score from fourth quarter 2019–fourth quarter 2020 provided in the database for each primary borrower.[6] If an updated credit score was unavailable, we used the borrower’s credit score reported at loan origination. We also determined whether homes were located in low- and moderate-income census tracts using definitions and 2019 data included in the National Mortgage Database that are based on data maintained by the Federal Financial Institutions Examination Council for purposes of the Community Reinvestment Act.[7]

- **Homeowner equity.** We analyzed homeowner equity across loan status, including loans in forbearance and delinquency. To estimate mark-to-market home value (fair current values) as of the fourth quarter of 2020, we adjusted home values recorded at loan origination to December 2020 values using FHFA’s House Price Index at the county level.[8] We estimated homeowner equity and mark-to-market

[5]The Consumer Price Index is produced by the Bureau of Labor Statistics and measures changes in prices of all goods and services purchased for consumption by urban households.

[6]National Mortgage Database uses VantageScore 3.0, which was developed by the three main credit-reporting bureaus (Experian, TransUnion and Equifax). The VantageScore 3.0 ranges from 300–850 and accounts for payment history, percent of credit used, credit balances, age and type of credit, recent credit inquiries, and available credit amount.

[7]Community Reinvestment Act regulations use data on family income in a census tract relative to family income in the surrounding metropolitan or nonmetropolitan area where the tract is located to determine whether a tract is low- or moderate-income. A census tract is low-income if median family income in the tract is less than 50 percent of the median family income in the surrounding metropolitan or rural area, and it is moderate-income if median family income in the tract is at least 50 percent but less than 80 percent of median family income in the surrounding metropolitan or rural area. See, e.g., 12 C.F.R. § 345.12.

[8]FHFA’s House Price Index is a broad measure of the movement of single-family house prices. It is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or refinancing on the same properties.

loan-to-value ratio—or combined loan-to-value ratio, if applicable—by summing the outstanding loan balance of each closed-end first-lien mortgage and any applicable closed- or open-end second liens associated with each first-lien mortgage as of the fourth quarter of 2020. We then divided the sum of outstanding balances by adjusted home values to estimate the updated homeowner loan-to-value (or combined loan-to-value) ratios—the inverse of which indicates the amount of homeowner equity. We only considered open mortgages that were current, in forbearance, or 30–180 days delinquent as of February 2021 (subject to the stale account rule) and excluded loans in foreclosure or bankruptcy.

Similarly, we estimated fourth quarter 2011 mark-to-market homeowner equity by adjusting home values at origination to fourth quarter 2011 values using the FHFA's House Price Index. However, because of data limitations, homeowner equity for 2011 does not include second liens, which may result in a more conservative estimate of historical homeowner equity. We only considered open mortgages that were current or 30–180 days delinquent as of the fourth quarter of 2011.

To further analyze mortgage performance trends, we analyzed data from industry groups, federal agencies, and the enterprises. Specifically, we tracked and analyzed forbearance, delinquency, loss mitigation, and foreclosure trends in weekly and monthly reports published by Black Knight (a mortgage data provider) that summarized its *Mortgage Monitor* reports, and weekly press releases published by the Mortgage Bankers Association (an industry group representing the real estate finance industry) that summarized its *Forbearance and Call Volume Survey*.[9] In addition, we collected and analyzed data from FHA, RHS, and the enterprises on the disposition of borrowers after forbearance, such as the

[9]See, for example, Black Knight, *Mortgage Monitor: February 2021 Report*, Apr. 5, 2021, https://cdn.blackknightinc.com/wp-content/uploads/2021/04/BKI_MM_Feb2021_Report.pdf; and Mortgage Bankers Association, *Share of Mortgage Loans in Forbearance Decreases to 5.20 Percent*, Mar. 8, 2021, https://www.https://www.mba.org/2021-press-releases/march/share-of-mortgage-loans-in-forbearance-decreases-to-520-percent. For both data sources, we interviewed knowledgeable representatives and reviewed technical documentation. We found both data sources to be sufficiently reliable for describing forbearance and loan performance trends.

percentage that remained delinquent or used available loss mitigation options.[10]

To inform all objectives, we interviewed officials from CFPB, FHA, FHFA, RHS, VA, and the enterprises. We also reviewed documentation we collected from them, such as loss mitigation and mortgage servicing guidelines. In addition, we reviewed relevant sections of the CARES Act and American Rescue Plan Act of 2021, as well as federal mortgage servicing regulations.

Lastly, we interviewed a selection of stakeholders to inform our background research and identify emerging issues. We selected these stakeholders based on internal and stakeholder recommendations to ensure appropriate coverage of relevant parties. These stakeholders were the Brookings Institution, Falcon Capital Advisors, Housing Policy Council, Mortgage Bankers Association, National Consumer Law Center, National Council of State Housing Agencies, National Fair Housing Alliance, National Housing Law Project, National Housing Resource Center, National Low Income Housing Coalition, and National Multifamily Housing Council.

[10]VA was not able to provide data we requested on loss mitigation options and delinquency status after forbearance. For data collected from the agencies and enterprises, we interviewed knowledgeable agency and enterprise officials and found each data source to be sufficiently reliable for describing loss mitigation and delinquency trends.

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contact

John H. Pendleton, (202) 512-8678 or pendletonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Cory Marzullo (Assistant Director), Brandon Kruse (Analyst in Charge), Marianne Anderson, Silvia Arbelaez-Ellis, Chelsea Carter, Lilia Chaidez, Justin Fisher, John McGrail, Marc Molino, Shenandoah Sowash, Matthew Rabe, and Farrah Stone made key contributions to this report.

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