GSE Activity Report

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Forbearance Phenomena

Last week, we analyzed a Federal Reserve study showing that unemployment is still inexorably linked to mortgage-default risk. Here, we turn to a new Fed study assessing the broken link between unemployment and house prices. It confirms that foreclosures during the 2007-09 crisis exacerbated housing-market distress, although it fails to acknowledge another study critical to its analysis: one we assessed showing that forbearance at the time in California also had surprisingly significant macroeconomic benefits.

Will forbearance now do a similar trick? This paper seems rushed together, but its answer is that, over the short-term, forbearance now is alleviating housing-price declines due to over-supply. As it rightly notes, it's now impossible to project what at least a year of forbearance will do to the market since the market is still in the midst of forbearance.

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