

FORBEARANCE – WHAT WE KNOW TODAY

One option in the news today is the forbearance option. The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) grants borrowers forbearance options on Federally Backed Mortgage Loans which the Act defines to include any loan which is secured by a first or subordinate lien on residential real property designed principally for the occupancy of from 1 – to 4- families that is:

- (A) Insured by the Federal Housing Administration...;
- (B) Insurance under section 255 of the National Housing Act;
- (C) Guaranteed or insured by the Department of Veterans Affairs;
- (D) Guaranteed or insured by the Department of Agriculture;
- (E) Made by the Department of Agriculture; or
- (F) Purchased or securitized by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.

If your borrower’s loan does not meet the definition of Federally Backed Mortgage Loan (i.e. Jumbo or Non-QM Loans), your borrowers have no legal right to forbearance.

Forbearance allows the mortgage servicer or lender to pause or reduce the customer’s payment for a limited period of time. However, it’s important to tell the customer:

Forbearance does not erase what you owe – you will have to repay any missed or reduced payments in the future.

During the forbearance period, there are no additional fees, penalties or added interest to the loan and late payments and delinquencies will NOT be reported to the credit agencies. At the end of the forbearance period, the loan must be brought current through deferment, reinstatements, repayment plan or modification to avoid a negative credit impact.

Negative Impacts

At this time, Fannie Mae considers a forbearance the same as a delinquency and forbearance may affect the customer's opportunity for a conventional refinance in the future. Per Fannie Mae, a borrower in forbearance can be late up to 59 days before they would no longer be eligible for a FNMA conventional refinance. This is based on the AUS Approval allowing a 1x30 mortgage late. At or after 60 days, the consumer wouldn't be eligible for a FNMA refinance (60 days delinquent).

Additionally, depending on the repayment plan and/or modification after forbearance, late fees and delinquencies may be applicable and reportable to the credit agencies.

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