

## FHFA Allows Payment Deferral for Forbearance Payments While Extending Foreclosure and Eviction Moratoria

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Original post [here](#).

On May 13, the Federal Housing Finance Agency (FHFA) [announced](#) that homeowners who take advantage of COVID-19 mortgage forbearance will have the option to defer payment of the missed amounts until the home is sold or refinanced, or the mortgage matures, once they return to making their normal monthly mortgage payments. The next day, the FHFA [announced](#) an extension of its foreclosure and eviction moratoria to June 30.

The CARES Act, passed in March, [instituted an optional 180-day moratorium](#) period, beginning on March 15, for payments on any federally-backed mortgage in response to businesses' rapid and large furloughs of workers due to social distancing and isolation orders. The 180-day period can be extended for an additional 180 days, for up to a year of forbearance.

The ability to miss mortgage payments provided much-needed relief to homeowners. However, the prospect of widespread non-payment raised liquidity concerns for mortgage servicers who service mortgage-backed securities (MBS) backed by Fannie Mae, one of the two government-sponsored enterprises (GSEs) that support the secondary market for mortgages. Servicers of Fannie Mae securities were responsible for covering 12 months of payments to MBS investors when borrowers have missed mortgage payments.

To help servicers, the FHFA [reduced](#) the number of months of advances to MBS pools that mortgage servicers with Fannie Mae loans were responsible for. Rather than the original 12 months' payments for mortgages in arrears, the FHFA required servicers to pay four months' payments, the same number of payments that servicers with Freddie Mac loans were responsible for.

However, as social distancing guidelines are extended and few Americans return to work, many homeowners may not be able to soon restart their mortgage payments or pay the deferred amounts, which may continue to increase as forbearance continues.

In response, the FHFA announced an option for homeowners to defer repayment of amounts not paid pursuant to the mortgage forbearance. Under this policy, borrowers who can return to normal mortgage payments can pay off unpaid forbearance balances when the home is sold, the mortgage is refinanced, or when the mortgage loan matures. Fannie Mae and Freddie Mac will offer this option on their mortgages beginning July 1, 2020.

Referred to as "payment deferral" by the FHFA, this new alternative is part of a range of options available to borrowers who take advantage of the forbearance. On April 27, the FHFA [announced](#) it would not require lump-sum payments at the end of forbearance. Instead, it proposed that borrowers could set up repayment plans for the forbearance amounts, modify the loans so that the missed payments are added to the end of the mortgage, or modify the loans so that they have a reduced monthly payment. Now, borrowers can pay the entire missed amount at sale, refinancing, or maturity. However, the choice of payment plan will require agreement between the servicer and borrower.

As mortgage servicers are no longer responsible for making more than four months of payments into mortgage pools, [Fannie Mae](#) and [Freddie Mac](#) will have to fill the funding gap for the remaining duration of forbearance. Freddie Mac wrote in its 10-Q statement, “we expect to advance significant amounts to cover principal and interest payments to security holders for loans in forbearance in the coming months. ... We had a \$1.2 billion provision for credit losses in 1Q 2020 due to our forecast of higher expected credit losses from our single-family credit guarantee portfolio as a result of the pandemic, but these estimates are subject to significant uncertainty and may increase substantially in the future depending on the depth and severity of the economic downturn caused by the pandemic.” Fannie Mae and Freddie Mac currently account for 62% percent of the market for first-lien mortgages, [according](#) to the Urban Institute.

Other agencies are following similar strategies. In April, Ginnie Mae [expanded](#) its Pass-Through Assistance Program (PTAP), advancing principal and interest payments for mortgage servicers whose loans are in forbearance. Under the COVID-19 PTAP extension, issuers may request PTAP assistance once per month to cover missed principal and interest payments to MBS investors.

The Veterans Administration (VA) also [allowed](#) homeowners to make missed forbearance payments at the end of the loan, rather than immediately at the end of forbearance. In that case, the balloon payment will be non-interest bearing. Homeowners with VA-backed loans can also make modifications to their loans or set up a repayment plan, as established under the CARES Act.

The Federal Housing Administration (FHA) has also [provided](#) repayment options to homeowners. Homeowners can defer paying forbearance balances until the mortgage is paid off. In requesting forbearance, homeowners authorize mortgage servicers to advance funds on their behalf, creating a [partial claim](#): an interest-free subordinate mortgage on the property that homeowners pay off once the original mortgage is paid off.

The Mortgage Bankers Association (MBA) [welcomed](#) the FHFA policy changes, saying that they improved efficiency in the mortgage process. Though the current FHFA foreclosure and eviction moratorium would have expired on May 17, on May 14, the FHFA [announced](#) an extension until at least June 30. As of May 3, 2020, the share of loans in forbearance rose to [7.91%](#), up from [0.25%](#) on March 6th. The MBA [estimates](#) that in a worst-case scenario, servicers and GSEs might need to fund as much as \$75-100 billion in advances.

Though talks to privatize the two GSEs continued as late as [February](#), on May 20, FHFA Director Mark Calabria [said](#) that the two GSEs should hold \$240 billion in capital before exiting government conservatorship--a figure far larger than the current \$23 billion in capital they collectively hold. If forbearance continues for an extended period of time, it's unclear whether Fannie Mae and Freddie Mac will need to procure funding to continue making payments to MBS pools for forborne mortgages. With the two agencies still under government conservatorship, it is possible that additional funding would come from the Treasury since, pursuant to the [Senior Preferred Stock Purchase Agreements](#) with the GSEs, Treasury in effect pledged to provide funding as needed to maintain the agencies' solvency. Under [both agreements](#), Treasury cannot commit more than \$100 billion to each GSE.