

Governments Extend Mortgage Forbearance and Other Relief as Virus Endures

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Original post [here](#).

As coronavirus cases continue to rise around the world, governments have started to extend [mortgage forbearance](#) and other relief policies that they launched back in March and April when the crisis began.

These policies, intended as a temporary relief for people facing sudden loss of income, allow homeowners and renters to temporarily suspend payments of mortgages or rent for a fixed duration.

On June 17, the US Federal Housing Finance Agency (FHFA) [extended](#) its foreclosure moratorium for borrowers with mortgages backed by Fannie Mae and Freddie Mac, the major government-sponsored enterprises, and its eviction moratorium for borrowers whose landlords have government-backed mortgages. Set to expire on June 30, the measures will now extend through at least August 31, though there is an opportunity for more extensions. The [CARES Act](#) allows borrowers to ask their mortgage servicer to forbear on payments for six months, extendible to up to one year.

Similarly, the National Bank of Costa Rica [extended](#) its original two-month moratorium on mortgage payments, due to expire in May, through December 31. The Vietnamese government [extended](#) deferral of land taxes for 12 months, lengthening an original term of [five months](#). Greece [extended](#) its rent reductions for an additional month beginning in May.

Italy has [expanded availability](#) of its forbearance vehicle. As part of the Italian government's "Cura Italia" package, through the [Gasparrini Fund](#), individuals can apply for suspended mortgage payments on "first home" mortgages--mortgages taken out for an individual's primary residence. Recently, eligibility expanded to freelance workers and self-employed workers. If an individual has experienced at least a [33% drop](#) in business from the last quarter of 2019 as a result of closures or restrictions on their business activities, they are eligible to suspend payments on mortgages worth up to €400,000.

Forbearance is largely a temporary measure that assumes a quick return to economic normalcy. Balances from extended ongoing forbearance can ultimately become too large to quickly pay off. As these measures extend longer than expected, losses have accrued. In the US, [8.48%](#) of mortgages are in forbearance, up from [0.25%](#) on March 6, prior to the emergency shelter-in-place orders.

Ongoing forbearance has proven [challenging in the commercial real estate sector](#), where payment delinquencies in commercial real estate (CRE) mortgages have caused shortfalls in CRE cash flows. As forbearance continues as the dominant stability strategy

for residential mortgage relief, unpaid balances can loom and remain unresolved when forbearance ends if repayment strategies aren't thoughtfully constructed.

As mentioned in a [previous blog post](#), forbearance relief can create secondary problems once the forbearance period ends. For example, in Ireland during the Global Financial Crisis (GFC), the country's initial response relied largely on the broad implementation of [short-term mortgage forbearance](#). However, the response did not account for the underlying problem of excessive mortgage debt, leaving many residential mortgages underwater. Paired with increased unemployment, many homeowners exiting forbearance did not have the means to repay their accrued unpaid mortgage balances, sending many underwater mortgages into arrears. Only years after the GFC did the government encourage large-scale permanent mortgage restructuring.

One solution [promoted by](#) Fannie Mae and Freddie Mac allows consumers to move lump-sum payments to the end of their mortgage terms. Consumers can set up repayment plans or modify loans to extend the term of the mortgage by adding on missed payments at the end, reducing their monthly payments, or increasing the term of the mortgage permanently. Additionally, homeowners can pay the entire missed amount at sale, refinancing, or maturity.

Rather than continuing forbearance, some countries have attempted to tackle the fundamental economics of a mortgage, providing subsidized interest rates for homeowners facing prolonged cash flow troubles. Mongolia has [resumed](#) its Affordable Housing Finance Program temporarily, to provide subsidized mortgages to prospective homeowners. In Denmark, the government has effectively [banned](#) predatory mortgage lenders by instituting caps on interest rates in mortgage financing.

As phased reopening continues, and in some countries COVID-19 case totals decrease, economic recovery provides promise in mitigating cash flow woes and providing homeowners in forbearance with the ability to begin repayment of unpaid balances. However, with risks of another spike in cases causing shutdowns again in some countries, forbearance periods may be more prolonged than originally expected or intended and we may yet see additional creative solutions to address the potential problems after forbearance.