HOUSING CONNECTION
Mortgage and Real Estate News That Matters

CFPB Updates Servicing Rules to Ease Transition from Forbearance

The government stakeholders involved in the various pandemic related forbearance programs appear to be directing their full attention to their upcoming expirations. Ginnie Mae earlier announced a new class of mortgage-based securities (MBS) to absorb loans that have been modified to return them to performing status. Now the Consumer Financial Protection Bureau (CFPB) has announced **amendments to the federal mortgage servicing regulations** to "help protect mortgage borrowers from unwelcome surprises as they exit forbearance."

CFPB said the temporary special safeguards will help ensure borrowers sufficient time to explore their options before facing foreclosure. These options include loan modifications and selling their homes. The rules cover loans on principal residences, generally exclude small servicers, and will take effect on August 31, 2021.

"As the nation shifts from the COVID-19 emergency to the economic recovery, we cannot be complacent about the dangers we still face," said CFPB Acting Director Dave Uejio. "An unchecked wave of foreclosures would drain billions of dollars in wealth from the Black and Hispanic communities hardest hit by the pandemic and still recovering from the impact of the Great Recession just over a decade ago. An unchecked wave of foreclosures would also risk destabilizing the housing market for all consumers. We are giving homeowners the time and opportunity to make informed decisions about the best course of action for them and their families, **whether that is seeking a loan modification or selling their home**. And we are giving mortgage servicers the flexibility they need to serve homeowners with dignity, while managing an unprecedented volume of borrowers seeking assistance."

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Over seven million homeowners took advantage of COVID-19 hardship forbearance. Many used the program to put their obligation to make the mortgage payments on hold while they resolved financial problems caused by the pandemic while others continued making payments, keeping their forbearance status in reserve to potential problems. Today, just over two million homeowners remain in the program and most will have been there more than a year by the time they exit. CFPB says that even during the worst of the Great Recession there weren't so many homeowners so far behind on their payments. Over 3 percent of all homeowners with a mortgage are now at least four months behind on their payments, the point at which a foreclosure may be initiated. Some 900,000 borrowers are scheduled to exit forbearance before the end of this year. The federal foreclosure moratoria are still in effect, but once they end, many of those homeowners could find themselves immediately in foreclosure.

CFPB says its new rules are **intended to foster a smooth transition out of forbearance**, requiring servicers to redouble their efforts to prevent avoidable foreclosures.

- Servicers must meet temporary special procedural safeguards to allow borrowers sufficient opportunity before foreclosures are initiated to process their options and consider their next steps as they leave forbearance.
- The new temporary rule will permit servicers to offer streamlined loan modifications to borrowers with COVID-19-related hardships without making them submit all the paperwork for every possible option. These streamlined loan modifications cannot increase borrowers' payments and have other protections built into them. This should move borrowers into affordable mortgage payment plans faster, with less paperwork servicers and borrowers.
- Servicers will be required to increase their outreach to borrowers to inform them about options for repayment or other resolutions before initiating foreclosure.

Generally, borrowers exiting forbearance will have at least three options to bring their mortgages current. They can resume regular payments while servicers may defer or move the arrearages to the end of the mortgage term. A loan modification can change the interest rate, lower the principal balance, or increase the length of the mortgage, thus lowering the monthly payments or homeowners could exist homeownership through a sale or deed in lieu.

Not all foreclosures can be avoided. The amended rules permit servicer action if a borrower has abandoned the property, was already more than 120 days behind in payments prior to March 1, 2020, when the current emergency started, or has been evaluated for all options and none can be found other than foreclosure.

CFPB says it will be working alongside other federal agencies over upcoming months as well as working with mortgage servicers and media to ensure an orderly transition to the post-pandemic housing market. **It will also significantly increase outreach to borrowers to share information about mortgage options.**