



White House Announces Expanded COVID Relief Options for Homeowners

With the federal moratorium on mortgage foreclosures nearing an end, the White House has announced a **series of steps to help homeowners** who have suffered COVID-19 related financial hardships stay in their homes. Some 1.75 million homeowners (private sources put the number closer to 1.9 million) remain in forbearance programs with many now in the last three months of their 18 month eligibility.

The White House previously extended the foreclosure moratorium for homeowners with government-backed mortgages to July 31 and the forbearance enrollment window through September 30, 2021 and provided up to three months of additional forbearance for certain borrowers. Over the course of the pandemic nearly 7.2 million households took advantage of forbearance.

The relief announced on Friday is specific by guarantor and is. In some cases, it expands on earlier relief. It is intended to align the opportunities available to borrowers with loans from the Department of Housing and Urban Development (HUD), Department of Veterans Affairs (VA), and Department of Agriculture (USDA) with those authorized by the Federal Housing Finance Agency (FHFA) for the GSEs Fannie Mae and Freddie Mac. With over 160 million Americans fully vaccinated and an improving economy, Americans are getting back to work. Many are exiting forbearance with their pre-pandemic earnings restored and able to resume their monthly mortgage payments. For those homeowners, where agencies have the authority, they will continue requiring mortgage servicers to allow borrowers to move missed payments to the end of the mortgage **at no additional cost to the borrower**.

The announcement notes, however, that many homeowners will need deeper assistance, some because they are earning less than before the pandemic. Enhanced assistance will be offered, especially to those looking for work, re-training, having trouble catching up on back taxes and insurance, or are continuing to experience hardship for other reasons. The new steps offered by HUD, USDA, and the VA will aim to provide homeowners with a roughly 25 percent reduction in borrowers' monthly principal and interest (P&I) payments to enable them to **remain in their homes and build equity long-term**.

HUD's Federal Housing Administration (FHA) has announced enhanced loss mitigation tools and simplified a COVID-19 Recovery Modification for its borrowers that will offer appropriate relief while preserving the agency's flexibility for future crises. FHA will require mortgage servicers to offer a no cost option to eligible homeowners who can resume their current mortgage payments. For all borrowers that cannot resume their monthly mortgage, HUD will enhance servicers' ability to provide all eligible borrowers with a 25 percent P&I reduction which recent analysis shows will result in fewer foreclosures. FHA/HUD will implement the following options over the next few months:

- **Standalone Partial Claim:** HUD will provide borrowers who can afford to resume their payments an option to continue those payments by with a zero interest, subordinate lien (also known as a partial claim) that is repaid when the mortgage insurance or mortgage terminates, such as upon sale or refinance. (This is a little murky, but we assume the lien is for the arrearages accrued during forbearance.)
- **Recovery Modification:** For homeowners who cannot resume making their current monthly mortgage payments, the COVID-19 Recovery Modification extends the term of the mortgage to 360 months at the current interest rate and targets reducing the borrowers' monthly P&I portion of their monthly mortgage payment by 25 percent. This could be combined with a partial claim if that option is available.



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These options augment COVID protections HUD published last month which included the foreclosure moratorium and forbearance enrollment extensions, and the COVID-19 Advance Loan Modification: a product that is directly mailed to eligible borrowers who can achieve a 25 percent reduction to the P&I of their monthly mortgage payment through a 30-year loan modification.

The USDA's COVID-19 Special Relief Measure provides alternatives for borrowers to help them achieve up to a 20 percent reduction in their monthly P&I payments. These include an interest rate reduction, term extension and a mortgage recovery advance, which can help cover past due mortgage payments and related costs. Borrowers will first be assessed for an interest rate reduction, then for a combination rate reduction and term extension if more help is needed. If needed, a third option, adding a mortgage recovery advance will be used to reach the 20 percent reduction target.

VA's new COVID-19 Refund Modification also aims for a 20 percent reduction in the monthly P&I payment, and, with multiple tools, some larger reductions may be possible. Under the new COVID-19 Refund option, the VA can purchase a borrower's COVID-19 arrearages from the servicer and, if needed, additional amounts of loan principal. There will be an overall cap corresponding to 30 percent of the borrower's unpaid principal balance as of the first day of the borrower's COVID-19 forbearance. Similar to VA's COVID-19 partial claim option, the COVID-19 Refund will be established as a junior lien, payable to VA at 0 percent interest. In addition, servicers can now achieve significant reductions in the dollar amount for monthly payments by modifying the loan and adding up to 120 months to the original maturity date (meaning the total repayment term can be up to 480 months).

These steps bring federal agency options into **closer alignment with payment reduction and loan modification options** for borrowers with Fannie Mae and Freddie Mac mortgages. FHFA's existing COVID loss mitigation options for the GSEs provide servicers with homeownership retention tools which include an option allowing borrowers to resume their pre-COVID monthly payment while deferring up to 18 months of missed mortgage payments into a non-interest-bearing balloon loan to be paid when the homeowner sells or refinances the property. Borrowers requiring more significant help may receive a loan modification that targets up to a 20 percent reduction in their monthly mortgage payments. This Flex Modification (Flex) capitalizes all past due amounts, extends the mortgage up to 40 years and in some cases lowers the interest rate and provides for principal forbearance.

In addition to the options set forth above, federal agencies are taking additional steps to support borrowers as the economic and public health recovery continues.

- The Homeowner Assistance Fund (HAF) is a component of the Biden Administration's American Rescue Plan. It provides \$9.961 billion to states, the District of Columbia, territories, and Tribes for relief to homeowners impacted by the COVID-19 crisis. These funds can be used for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes. Homeowners can access these funds in addition to the payment reduction options discussed above, providing additional payment reduction to borrowers who need it and to borrowers whose mortgages are not backed by federal agencies.
- An Extended Term Option was announced earlier by Ginnie Mae. This is a new secondary market product which will allow securitization for modified loans. It will provide government agencies the flexibility to extend mortgage terms to up to 40 years for borrowers who could benefit from the monthly payment reduction this would allow.

Borrowers who are not currently in forbearance **still have an opportunity to access relief**. HUD, VA, and USDA have announced that they will continue to allow homeowners who have not taken advantage of forbearance to enter a plan through September 30, 2021. Homeowners with Fannie Mae or Freddie Mac-backed mortgages will also continue to be eligible for COVID-related forbearance.

The White House says these new loan modifications and payment reduction options will only help borrowers if they have the necessary information to understand them. They can find up-to-date information at consumerfinance.gov/housing. It is also important that borrowers contact their servicer or housing counselor as soon as possible to learn more about their options.