

Understanding What the Coronavirus Aid, Relief, and Economic Security (CARES) Act Means for You and Your Mortgage

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, puts in place two protections for homeowners with federally backed mortgages. Federally backed mortgage include FHA loans, VA loans, USDA loans, and those that are owned or backed by Fannie Mae and Freddie Mac.

First, the law provides for a foreclosure moratorium. Your lender or loan servicer cannot initiate foreclosure or foreclosure-related eviction action for 60 days after March 18, 2020 (May 17, 2020). It prohibits lenders and servicers from beginning a judicial or non-judicial foreclosure against you, or from finalizing a foreclosure judgment or sale, during this time.

The law also provides a right to forbearance for homeowners who are experiencing a financial hardship due to the COVID-19 emergency. Read more at: <https://www.consumerfinance.gov/about-us/blog/guide-coronavirus-mortgage-relief-options/>

The CARES Act does not require non-government-backed lenders and servicers to provide relief; however, regulators believe most will adopt similar policies. To find out, contact your loan servicer and ask what programs they are implementing to help homeowners impacted by the coronavirus outbreak.

Forbearance could lead to problems with your mortgage later, so be careful.

Access any funds you can from other sources before obtaining a mortgage forbearance. One source to consider is your 401k or IRA. The CARES Act has loosened rules on tapping into retirement accounts if you have a coronavirus related hardship. Read more: <https://www.marketwatch.com/story/should-you-use-the-cares-act-to-access-your-retirement-funds-2020-04-08>

If your mortgage payment includes escrow items (i.e., property taxes and homeowner's insurance, etc.) these unpaid amounts will create an escrow shortage and, possibly, lead to the servicer/lender buying forced placed insurance. Forced placed insurance is usually more costly than your own insurance policy and only protects the lender.

If you have an escrow account, try to negotiate a deal with your servicer which allows you to pay your own property taxes and homeowner's insurance during any forbearance period. Servicers concerned about their own cash flow may be open to this idea. See: <https://www.businessreport.com/realestate/home-mortgage-industry-worried-by-forbearance-relief-promised-in-cares-act>

At a minimum, if you cannot make your full mortgage or escrow payments at this time, set aside any funds you can in a dedicated savings account to use later to get caught up.

If your mortgage does not include an amount for property taxes, homeowner's insurance, homeowner's association dues, etc., you should continue to pay those items even if you cannot make your monthly mortgage payment. Otherwise, your mortgage servicer may force open an escrow account to protect its own interest.

You cannot be reported to credit bureaus for late or missed payments provided you are in a forbearance program, so your credit rating will not be negatively impacted. This applies until the later of July 25, 2020, or 120 days after the emergency period is ended.

Monitor your credit report carefully. Subscribe to a credit reporting service, many of which are free.

Never just stop making your mortgage payments. If you cannot pay - or can only pay a portion - contact your mortgage servicer immediately.

Make sure you understand what will happen at the end of any forbearance plan. Your lender may require you to pay back all uncollected amounts in one lump sum. If you are not prepared to make a large payment in six months (or a year, if you got an extension), you could end up in default.

Other possible payback options include increasing your monthly mortgage payment to catch up the balance due or tacking the total on at the end of the loan.

At the end of the forbearance period, you may qualify for additional assistance if needed. This could include reducing your monthly payments or some other type of loan modification. You should be aware that there is no guarantee a modification or any other assistance will be available after the coronavirus emergency is past.

Get any agreement in writing; if you are not sure you understand all the terms, seek professional assistance.

Maintain a complete and accurate file containing all your mortgage paperwork.

For more information or if you need assistance, please contact:

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