What is FORBEARANCE

At the time of writing, 4.1 million homeowners had requested a forbearance plan from their mortgage loan servicer. Under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, homeowners can suspend their mortgage payments if they have a federally backed mortgage.

Forbearance occurs when a borrower's loan servicer allows the borrower to pause or reduce their payments for a limited time period. Forbearance does not erase what the borrower owes. The borrower will have to repay any missed or reduced payments in the future. The types of forbearance available varies by loan type.

At the end of the forbearance, the borrower's options can include paying their missed payments:

- *At one time*
- *Spread out over a period of months*
- *Added as additional payments, or*
- *Added as a lump sum at the end of their mortgage*

The CARES Act requires servicers to grant forbearance for up to 180 days, with a one-time extension of 180 days for borrowers experiencing a hardship due to COVID-19 issues, such as, loss of income, unemployment, illness or caring for a sick relative.

The CARES Act also provides protection against derogatory marks against the borrower's credit. The servicer, however, can report notes to the credit bureau that can be seen by any future creditor that could prevent the borrower from obtaining any type of new financing for a 12-month period.

When the Federal Housing Finance Agency reports servicers who collect payments on mortgages backed by Fannie Mae and Freddie Mac, they will only be required to cover four months of missed payments on loans in forbearance.

The big question is what happens when that four-month period is over? As it turns out, the Government Sponsored Entities (GSEs) themselves are preparing to cover any remaining advances for as long as those loans remain in forbearance.

What does this mean to the title industry?
To prevent payoff losses due to deferred payments, settlement agents should:

- Ask borrowers if they have entered into a forbearance or loan modification agreement with their lender at the opening of the transaction
- Review the preliminary report or commitment for title insurance for junior liens, securing the deferred payments
- Ensure the payoff request includes the following language:

  Please furnish to us a statement of the amount necessary to pay in full, including any amounts deferred due to a forbearance or modification agreement.

  If the borrower entered into a forbearance agreement and you are not the entity servicing any deferred amounts, please provide the contact information for the entity who is.

- Review the payout statement for deferred principal balance amounts

The last item is important. If the deferred amounts are not contained in the payoff statements, it is likely the amounts are being serviced by another loan servicer and a separate payoff statement will need to be requested.

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