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COVID-19 Payment Deferral Program

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Fannie & Freddie Announce COVID-19 Payment Deferral Program

In response to the COVID-19 pandemic and servicer feedback, Fannie Mae and Freddie Mac have announced a new COVID-19 Payment Deferral program at the direction of the Federal Housing Finance Agency (FHFA).

The new workout option is specifically designed to help borrowers impacted by a hardship related to COVID-19 to return their mortgage to a current status after up to 12 months of missed payments. Designed to be simple and efficient for both servicers and borrowers, this solution is for borrowers who have completed a COVID-19 related forbearance plan, or who have a confirmed but resolved COVID-19 financial hardship.

Beginning on July 1, 2020, servicers of Fannie and Freddie-backed mortgage loans must begin evaluating eligible borrowers who have become delinquent due to hardship for a COVID-19 Payment Deferral. The new deferral program states:

- Mortgages will be returned to a current status after up to 12 months of missed payments
- The amount of a borrower's delinquency is moved into a non-interest-bearing balance that will be due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing unpaid principal balance (UPB)
- The remaining terms of the mortgage continue unchanged
- The servicer must not charge the borrower administrative fees and must waive all late charges, penalties, stop payment fees, or similar charges upon completing a COVID-19 payment deferral
- The servicer will continue to receive the servicing fee it was receiving prior to the COVID-19 payment deferral
- Information on servicer incentive fees related to COVID-19 payment deferrals will be announced at a future date

In addition, Freddie Mac announced the following changes as well:

- The ability to index lock loans at application will be returning Monday, May 18th, shortly after Freddie had nixed the program due to volatility at the beginning of the COVID crisis
- No longer requiring any debt service reserves for loans defined as 60% loan-to-value (LTV) / 1.45x debt service coverage ratio (DSCR)
- No principal reserves for loans with full-term interest-only (they will still require 9 months of interest to be held back in an escrow)

The FHFA also recently announced that the Fannie and Freddie moratoriums on evictions and foreclosures have been extended and will now last until at least June 30, 2020. The ban on evictions and foreclosures pertains only to properties with government-backed mortgages, which make up about 70% of all home loans. The moratorium under each GSE's current program was set to expire on Sunday, May 17, 2020.

Full details and eligibility requirements on the Fannie Mae COVID-19 Payment Deferral program may be found here and specifics concerning the Freddie Mac program here.

Sources: Greysteel Research; Fannie Mae; Freddie Mac; Kelley Drye & Warren LLP

Greysteel is here to help you navigate the uncertainty of the coronavirus pandemic and its impact on the commercial real estate community. For more information or to inquire about Greysteel, please contact one of our Transaction Professionals

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