TN Department of Financial Institutions

SPOTLIGHT ON FINANCE

DECEMBER 2021 Volume 7, Number 2

Once Forbearance Ends, What's Next?

The COVID-19 pandemic impacted Tennesseans in many ways. However, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") provided various types of relief to many impacted by coronavirus, including home loan borrowers with certain types of mortgage loans.

What is a Government Sponsored or Insured Loan?

The CARES Act authorized the forbearance of monthly mortgage payments if the loan was owned by a Government Sponsored Entity, or GSE, and/or insured by a federal government agency, and the borrower experienced a COVID-19 related financial hardship.

A GSE loan is a loan funded or owned by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Association (Freddie Mac), or a Federal Home Loan Bank.

A government insured loan is a loan backed or guaranteed by the Federal Housing Administration and/or the US Department of Housing and Urban Development (HUD/FHA), Veterans Administration (VA), or United States Department of Agriculture (USDA Rural Housing).

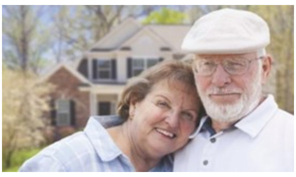
What happens when Forbearance ends?

Forbearance allowed mortgage loan borrowers to temporarily pay their mortgage at a lower payment amount or pause paying back mortgage payments, if they experienced a COVID-19 related financial hardship. Depending on the circumstances and the type of mortgage loan a borrower was in, as many as 15 months of payments could have been placed in forbearance.

The missed payments placed in forbearance must be repaid. There are at least four (4) options that should be available for repayment but know that these options can vary based on the type of mortgage loan. So, inquiry needs to be made with the mortgage loan servicer on the available options.

These options are:

- Repayment Plan
- Deferral or Partial Claim
- Loan Modification
- Lump Sum Payment



Mortgage loan servicing institutions are required to contact those borrowers that are in a forbearance plan 30 days before the plan is scheduled to end, to assist with determining which option is best for the homeowner at that time.

Repayment Plan Option

This option may be suitable if the borrower can afford to pay more than the regularly scheduled monthly mortgage payment over a determined period. The missed payments would be spread over a period and a portion of that amount is included with each regularly scheduled mortgage payment until the missed payment balance decreases to zero.

Deferral or Partial Claim Option

With this option, the borrower can afford to make the regular payment, but they cannot afford a payment increase. This option allows the borrower to either move the missed payments to the end of the loan, or it may create a subordinate/second lien that is repayable only if the first mortgage is refinanced, the property is sold, or the borrower can pay the loan in full.

Loan Modification Option

This option may be available if the borrower can no longer afford to make the regularly scheduled mortgage payments. This modification option reduces the monthly payment to an affordable amount, but it will add the missed payments to the outstanding loan balance. Although the monthly payment may end up being lower, it could require a longer period until the loan matures or is paid in full.

Once Forbearance Ends, What's Next? (continued)

Lump Sum Payment Option

This situation may only be feasible for only a few borrowers, if they have the available funds to pay back the total amount of monthly payments placed into forbearance. This is also known as a reinstatement.

Additional Mortgage Assistance

For those homeowners who exit forbearance and who may be facing foreclosure due to their mortgage loan still being delinquent, the Consumer Financial Protection Bureau, or CFPB issued temporary safeguards that went into effect on August 31, 2021 that help to ensure mortgage borrowers will have time to explore their options, which may include loan modification or the opportunity to market and sale their home on their own prior to a foreclosure action.

The CFPB rules require mortgage loan lenders and servicing institutions to expand their efforts to prevent avoidable foreclosure by:

1. Giving borrowers more time and opportunity to pursue the loss mitigation options that may be available.

2. Allowing mortgage servicers to help their borrowers faster.

3. Requiring servicers to increase their outreach to their borrowers and provide key information on their options.

At the present time, these rules are scheduled to end on January 1, 2022.

Where to Get Help

The first step is to work with the mortgage loan servicing institution to learn the options that may be available once any COVID-related forbearance plan is scheduled to end.

Be prepared to start on this early, since wait times on the phones to the mortgage servicing institutions could be longer due to the number of borrowers exploring available options.

Here are resources to contact the respective government investor or insurer for your mortgage loan:

Fannie Mae
www.fanniemae.com or call 800-232-6643

Freddie Mac
www.freddiemac.com or call
800-424-5401

Federal Housing Administration (FHA/HUD)
answers@hud.gov or call 800-225-5342

USDA Rural Housing
https://www.rd.usda.gov/coronavirus or call 800-414-1226

Veterans Administration
www.benefits.va.gov/homeloans/index.asp or call 877-827-3702

The Consumer Resources Section of the Tennessee Department of Financial Institutions is available to assist borrowers and homeowners with mortgage loan servicing issues related to COVID-19 or other mortgage relief. Borrowers and homeowners may submit a formal, written consumer complaint to this Department by visiting: https://first.tn.gov/Complaints/UI/Defaulta.aspx, or by contacting us at 800-778-4215 to request a PDF version of the complaint form. A complaint form request can also be made via email at: tdfi.consumerresources@tn.gov

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Resources for this article:
Consumer Financial Protection Bureau, or CFPB:
https://www.consumerfinance.gov/coronavirus/mortgage-and-housing- https://www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/help-for-homeowners/repay-forbearance/

https://www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/help-for-homeowners/learn-about-forbearance/

https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-rules-to-facilitate-smooth-transition-as-federal-foreclosure-protections-expire/

Federal Housing Finance Agency, or FHFA:
https://www.fhfa.gov/Homeownersbuyer/MortgageAssistance/Pages/Coronavirus-Assistance-Information.aspx

Home Mortgage Refinancing Tips

Homeowners may consider refinancing their existing mortgage, for instance, when noticing interest rates have dropped or are expected to go up soon or if their credit score has improved making them eligible to secure a lower rate, term, payment, or just interested in a different type of mortgage altogether.

Identifying exactly why you want to refinance is a crucial part of the process. You will more than likely experience some of the same processes, procedures and costs that you experienced in obtaining your original mortgage.

Whatever the reason may be for refinancing, listed below are just a few tips to consider:

Are you eligible to refinance? Your eligibility for refinancing will be determined by your lender when considering your income and assets, credit score, other debts, the current value of the property and the amount you want to borrow.

If your credit score has improved since your original mortgage, you may be able to get a loan at a lower rate; however, if your credit score is lower than when you got your current mortgage, you may have to pay a higher interest rate on the new loan.

Generally, lenders will take into consideration the amount of the loan requested, order an appraisal to determine the value of your home, and if the loan-to-value (LTV) ratio does not fall within their lending guidelines, they may not be willing to make the loan, or they may offer you a loan that has less-favorable terms than you currently have.

Talk to your current lender- If you are eligible, your current lender may want to keep your business and may be willing to reduce or eliminate some of the typical refinancing fees such as title search, surveys, and inspection. If your current mortgage is only a couple of years old, it is possible that they may not charge an application or origination fee.

Lowering your interest rate- Since your interest rate is a part of determining how much your mortgage payment will be each month, lower rates usually mean lower payments. A lower interest rate may also allow you to build equity in your home more quickly. The amount of equity you have in your home is the difference between what your home is worth and what you still owe on the mortgage.

Changing the length of your mortgage- If you are considering increasing the term of your mortgage to a longer term to reduce the amount of your monthly payment, you might keep in mind that this will also increase the length of time you will make mortgage payments, adding to the total amount you will end up paying towards interest costs.

Decreasing the term of your mortgage can potentially provide a reduction in your interest rate you will pay on your mortgage loan. For example, a 15-year mortgage will generally have a lower interest rate than a 30-year mortgage. This normally allows you to pay off your loan sooner, since there are 15 less years owed, which further reduces your total interest costs. However, the trade-off with a shorter-term mortgage is that your monthly payments will be higher because you are paying more towards the principal each month.

The example below gives a comparison of the total interest cost savings for a fixed-rate loan of $200,000 at 6% for 30 years vs a fixed-rate loan at 5.5% for 15 years. If the higher monthly payments are within your budgetary limits, the result is an interest savings of over $137,000!

	Monthly Payment	**Total Interest**
30-year loan @ 6.0%	$1,199.10	$231,676.38
15-year loan @ 5.5%	$1,634.17	$ 94,150.04

- Other tips to consider: If you currently have an adjustable-rate mortgage, or ARM, where your payments can increase or decrease as interest rates change, consider switching to a fixed-rate mortgage instead to have a steady interest rate and monthly payment; especially, if you think interest rates will be increasing in the future.

- If you switch to a fixed-rate loan that includes escrow amounts for taxes and insurance, your monthly payment could possibly change over time due to changes in property taxes, insurance, or community association fees that may be included in your escrow.

- There are typical fees and average costs ranges you will most likely pay when refinancing as fees vary from state to state and lender to lender. There is also what's called "no cost" refinancing which consist of two ways to avoid paying up-front fees.

    1. An arrangement in which the lender covers the closing costs but charges you a higher interest rate. The higher rate will be for the life of the loan.
    2. The refinancing fees are included in ("rolled into" or financed into") your loan and the fees become part of the principal you borrow. While you will not be required to pay cash up front, you will instead end up repaying these fees with interest over the life of the loan.

- When considering refinancing, you should get an estimate of the time it will take to recover your refinancing costs before you benefit from a lower mortgage rate. Calculate the financial benefit of refinancing in one, two, or three years.

- If you plan to stay in your home until it is paid off, you may also want to compare the total interest you will pay under both the old and new loans. Consider using one of the many online mortgage calculators that are designed to calculate the effect of refinancing your mortgage.

Please know that refinancing is not your only option to decrease the term of your mortgage or to save in paying the interest costs associated with a mortgage loan. If you have the monetary means to do so, paying a little extra on the principal each month can also help in paying off the loan sooner by reducing the length of time you would pay on the mortgage loan and it can save you in long-term interest costs.

For more in-depth information on refinancing your mortgage, please visit Consumer Financial Protection Bureau, or CFPB, @www.consumerfinance.gov>mortgage, Consumer Education, Mortgages- Get Started-Key Terms-Refinance-Learn more about refinancing.

Selling Your Home

Are you on the fence about selling your home? Has the impact of COVID-19 put you in a financial bind? Are you thinking about retirement or just tired of the constant upkeep on your home? If so, selling your home may be an option. However, before placing the For Sale sign in the front yard, stop and consider all your available options to make a sound financial decision.

Determine What Your Home Is Worth

Determining the fair market and appraised value are helpful starting points. Discussing your situation with a professional about your home is also key. Choose an agent with a proven track record and together the two of you can determine the best price and strategy.

Fair Market Value: Takes into consideration the sale price of your home with a similar home to gauge what buyers are willing to pay for property comparable to yours.

Appraised Value: A licensed appraiser will consider the location, size, condition of your home and completed renovations. The appraised value is what lenders look at when borrowers buy or refinance their mortgage.

Preparing Your Home For Sale

- Consider a Presale Home Inspection – This will alert you to any potential issues and provide an insight into what might need repairing.

- Roll Up Your Sleeves – Get your home sale ready. Repair any faucets, broken windows, etc., and consider replacing worn or dated carpeting.

- Declutter Living Spaces – Remove personal items from tables and any visible places. Cluttered rooms are a turn off. This is the perfect time to sell items you no longer need.

- Clean and Tidy Up All Closets – Storage is important. Closets should be organized and arranged neatly. You never know when a potential buyer will open the closet and discover your clutter.

- Make the Home Smell Good – Buyers don't want to smell your pet.

- Add Curb Appeal – Trim bushes and plant colorful flowerbeds. Using black mulch brings attention to your landscaping. Update outdoor light fixtures. Power wash the siding, sidewalks, and patio area. Wash all interior and exterior windows. These steps will make the home attractive and welcoming.

- Stage Your Home – This can be a worthwhile investment, which allows potential homebuyers the opportunity to picture themselves living in your space.

- Remember, first impressions are lasting and may make the difference in attracting a buyer or losing the buyer.

Ready To Sell

When you're ready to sell, pay close attention to how much it may cost you to sell your home. When hiring a real estate agent, the agent should be able to answer questions about costs for the seller, including their commission and fees. If there is a balance owed on your existing mortgage, make sure you don't owe more than what your home is worth. This way you can sell your home and, if buying a new one also, avoid two mortgages at the same time. Here are some of the typical expenses for someone selling their home:

Selling Your Home *(continued)*

Typical Closing Costs

- Lender's Title Policy – Protects the financial institution providing your mortgage from title claims that would put their stake in your home at risk. Lenders often require borrowers to purchase title insurance on the lender's behalf as part of the loan approval process.

- Survey Cost – Fees and expenses charged by the surveyor in connection with preparation of the survey.

- Property Transfer Taxes – Taxes charged by a state or local government to complete a sale of property from one owner to another and are typically based on the value of the property.

- Appraisal Fee – The fee an appraiser charges for performing a service in assessing the value of a property.

- Recording Fees – The fee charged by a government agency for registering or recording a real estate purchase or sale as a matter of public record.
- Owner's Title – Evidenced by a deed or other appropriate document recorded in public records of the county.
- Settlement Fees – These fees, also called closing costs, cover expenses in excess of the amount a person pays to purchase or sell a property, such as the application and loan origination fees.
- Any Liens or Second Mortgages – Liens taken out against the property that already have a mortgage loan on it.
- Any Seller Concessions – Costs that the seller agrees to pay on behalf of the buyer during the sale of a home at closing.

Lastly, don't forget to budget for your moving expenses after the sale of your home. Whether you will be using a moving company or if you plan to do it yourself, moving can be a big undertaking requiring time and money.

Selling your home is a major decision. First, determine what your home is worth. If you decide to move forward with selling, prepare the home by making needed repairs, tidying up and adding curb appeal. Once you hire a real estate agent, discuss the costs that you may incur as the seller. These steps will help you make more informed decisions about selling your home.

https://www.forbes.com/advisor/mortgages

TN Department of Financial Institutions

Tennessee Department of Financial Institutions

Tennessee Tower, 26th Floor | 312 Rosa L. Parks Avenue | Nashville, TN, 37243

T: 800-778-4215 | F: 615-253-7794 | tn.gov/tdfi

General Services, Authorization No. 336030, April 14, 2020