

# Trouble paying your mortgage? Your best options, explained

[Denny Ceizyk](#) [MSN.com](#), 5/5/2020  
23 hrs ago

The coronavirus crisis has generated record-breaking unemployment claims for more than 26 million American workers so far — and that's making it hard for affected homeowners to afford their mortgage payments.

Figuring out which type of mortgage relief — a mortgage forbearance versus a loan modification — is right for you can be overwhelming during a financial hardship. What's more, it may not be immediately clear how to get back on track with your loan after you've received help.

Here's what you should know about the differences between a mortgage forbearance agreement versus loan modification, plus next steps to keep in mind once you get the assistance you need.

## Understanding mortgage forbearance vs. loan modification

If you're struggling to pay your mortgage, you typically have two payment relief options: a mortgage forbearance or a loan modification. While both types of mortgage relief are meant for homeowners experiencing financial hardship, they work in different ways. Let's take a closer look at a mortgage forbearance versus a loan modification.

### Mortgage forbearance

A [mortgage forbearance](#) is a temporary pause in mortgage payments approved by your lender. The lender agrees in advance to allow you to stop making payments, or make a reduced payment.

The Coronavirus Aid, Relief and Economic Security (CARES) Act includes [mortgage relief programs](#) that allow you to request a 180-day forbearance, followed by one 180-day extension if you need it.

In other words, borrowers with [federally backed loans](#) have the option to request forbearance for up to 12 months — also known as a forbearance period. During this time, your credit isn't negatively impacted by not making payments, and the foreclosure process is halted. Repayment doesn't begin until the forbearance period ends.

A forbearance is ideal for people experiencing a temporary, short-term hardship, but it's not a permanent solution, said Sara Singhas, director of loan administration with the Mortgage Bankers Association (MBA).

## Loan modification

On the other hand, a [loan modification](#) changes the original terms of your loan permanently. Those changes might include extending your repayment term or lowering your interest rate, for example. You either have to be in jeopardy of falling behind or already in default on your mortgage to qualify for a loan modification.

A loan modification typically won't affect your credit profile, but any late payments (30 days behind or more) leading up to, and possibly during, the modification will. Your credit score could drop by a range of 60 to 130 points, depending on where it stood before your missed mortgage payments, according to research from FICO.

Both mortgage forbearance and loan modification programs are intended to help homeowners facing a financial hardship.

### Key Differences Between a Mortgage Forbearance vs. a Loan Modification

#### MORTGAGE FORBEARANCE

Temporary payment relief

Missed payments are not reported to credit bureaus

Financial documentation to prove hardship is not required

Payments can be paused up to 12 months for federally backed loans

The foreclosure process is halted during the forbearance period

A lump sum may be due for the missed payments at the end of the forbearance period

Terms of the original loan remain the same

#### MORTGAGE MODIFICATION

Permanent payment relief

Missed payments before or during a modification may be reported to credit bureaus

Financial documentation proving hardship may need to be provided

Must continue to make monthly mortgage payments

There's a foreclosure risk if additional payments are missed

No lump-sum payments

Changes your original loan terms

## How forbearance requests are affecting the mortgage process

Mortgage forbearance requests have soared in recent weeks. More than [2.9 million U.S. homeowners](#) — or 5.5% of all mortgages in the country — are in a forbearance

plan due to the COVID-19 pandemic, according to research from Black Knight, a data analytics firm.

These homeowners have \$651 billion in unpaid mortgage principal and include 4.9% of all loans backed by Fannie Mae or Freddie Mac and 7.6% of government-insured FHA and VA loans.

	<i>Fannie &amp; Freddie FHA &amp; VA Other**</i>			
<i>Loans in forbearance*</i>	1,374,000	922,000	615,000	2,939,000
<i>Unpaid balance of loans in forbearance (\$ billions) * \$303</i>	\$169	\$175	\$651	
<i>Share of loans in forbearance*</i>	4.9%	7.6%	4.8%	5.5%
<i>Active loan count (millions)*</i>	27.9	12.1	12.9	53.0

*\*Figures in this report are based on observations from Black Knight's McDash Flash data set and are extrapolated to estimate the full mortgage market.*

*\*\*Other category includes loans held in portfolios, private-labeled securities or by other entities.*

*Source: Black Knight*

Changes to the mortgage process are already being made that affect current and future homeowners' prospects for getting a loan. Here's what to look out for:

Locking in rates may be tougher. Some lenders have eliminated the ability to lock in a mortgage rate until the loan is approved, said Rocke Andrews, president of the National Association of Mortgage Brokers (NAMB). In other words, keep shopping with lenders until you nail down a preapproval and lock in your rate, Andrews added.

Qualifying for government-backed loans may be harder. As lenders deal with a wave of forbearance requests, investors have less of an appetite for risk, leading many mortgage companies to increase minimum scores for government-backed loans to 620 — or even as high as 740, Andrews explained. Loans backed by the Federal Housing Administration (FHA) and, to a lesser extent, the Department of Veterans Affairs (VA), have less-stringent qualifying standards than conventional loans. As the Black Knight data above show, a higher share of [FHA](#) and [VA loan](#) borrowers are requesting forbearance help.

Finding certain mortgage products may be more challenging. Non-qualified mortgages, or non-QM for short, provide [alternative lending](#) options for borrowers with poor credit or complex income profiles, and who typically can't qualify with traditional loan programs. In the current environment, non-QM loans are virtually nonexistent, Andrews said. Borrowers seeking jumbo loans, or mortgages over the conforming loan limit of \$510,400 in most areas, also have fewer lenders to choose from, Andrews added. And in some cases, lenders are doing away with home equity products. Chase, for instance, states on its website that it's no longer accepting home equity line of credit (HELOC) applications because of current economic uncertainty.

## Homeowners face varying outcomes when seeking relief

While some homeowners are having trouble receiving mortgage assistance from their lender, David Whitehair, a homeowner in Columbia, S.C., said he had a straightforward experience getting relief.

Whitehair, 29, is a general manager for a local restaurant that's been shuttered for a month now. The business attempted the takeout-only approach before closing its doors. "We tried it for that initial week, and it cost more money to run the business opening than we were bringing in," Whitehair said.

Whitehair and his wife own two [rental properties](#) along with their primary residence. When a payment was coming due on a mortgage for one of the rental properties, his banker called to ask if he was ready to pay. Whitehair made the payment, then his banker surprisingly offered help.

"He asked if there was anything he could do for us; I asked if there was any way we could push the payments back," he said.

His lender was offering three months of mortgage forbearance, with the option of either paying a lump sum or adding the amount owed to the outstanding balance when the forbearance ends. He chose the latter and submitted the necessary paperwork.

## **What to do if you don't have a federally backed mortgage**

As previously mentioned, the mortgage relief programs in the CARES Act only covers homeowners with federally backed mortgages. But what if you don't have an agency-backed loan? After all, about a third of mortgages fall into this category, said Sarah Bolling Mancini, an attorney at the National Consumer Law Center.

For non-agency loans, it's really up to the investor or servicer on a case-by-case basis in terms of what is offered, Singhas said.

"They (borrowers) still can apply for forbearance and many servicers are granting those pretty routinely right now," Mancini said. "It's just not mandatory under federal law."

Future legislation may change this, but the best thing to do — regardless of whether you have a federally backed mortgage — is to reach out to your servicer directly if your income has been impacted by the coronavirus pandemic and you're concerned about satisfying your forthcoming mortgage payments, Mancini said.

## **What to do if you still need help after your forbearance period ends**

If you haven't fully recovered financially at the end of your forbearance period, you may be eligible for an extension, provided you weren't already granted one. It's important to

be proactive when you initially seek mortgage relief so you're clear on what happens after you've received help.

"When you start out the forbearance, you're not guaranteed anything," Mancini explained. "You have to ask your servicer what the options are going to be and you have to communicate with the servicer before the forbearance ends."

Options for repayment after your forbearance ends may change as the mortgage industry works to find ways to help homeowners. The standard repayment options for making up the balance of missed payments during the forbearance period include:

- A lump-sum reinstatement payment. The entire balance of paused payments is due with this option. Although it requires the biggest cash outlay, it also brings you current without increasing your loan balance or adding to your monthly payment.
- A partial-payment plan. If you were able to pay a portion of your payment during your forbearance period, you may be able to pay back just the missed payment balance or have your payment increased for a set period of time until the past-due balance is paid off.
- A payment deferral. Most investors are offering to bundle all the missed payments and make them non-interest bearing, said Sapan Bafna, vice president of advanced delivery engines with CoreLogic. The payment doesn't go up, and the borrower doesn't have to worry about the additional payments until they sell or refinance their home, Bafna added. Some loan programs, like FHA, may not permit payment deferrals. In that case, a loan modification is the only option, Bafna said.
- A loan modification. If you can't quite afford your original mortgage payments once your forbearance period is over but can pay a reduced amount, consider applying for a loan modification with your lender or servicer. Expect a trial repayment period for the first few months to demonstrate your ability to afford the lower monthly payments.

Some lenders are offering a special modification program called a "[cap and extend modification](#)," explained Ellie Pepper, relationship and innovations director with the National Housing Resource Center.

"It means they'll capitalize what wasn't paid ... up to a 12-month period and extend the mortgage by that many months," Pepper said.

She also advises homeowners to be mindful of their [escrow account](#), as property taxes and homeowners insurance premiums still need to be paid as they come due.

"It's possible that your lender will pay them on your behalf, but then you'll have to pay back your lender," she explained. "So if you have an escrow account you'll have a shortage, and that will have to be paid back as well."

*This article originally appeared on [LendingTree.com](#) and was syndicated by [MediaFeed.org](#).*