

CAPCO

2020 CARES ACT

EFFECTS ON MORTGAGE SERVICERS

As you are no doubt aware, the US government just passed an unprecedented stimulus bill, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), that injects nearly \$2 trillion into the economy. Funds are targeted to provide immediate cash relief to help impacted citizens, small businesses and individuals with either student loans or federally backed mortgage loans.

WHAT DOES THE CARES ACT MEAN FOR MORTGAGE SERVICERS?

One section of the CARES Act provides for non-penalty forbearance for mortgage borrowers whose loans are owned or insured/guaranteed by federal agencies. A list of these federal agencies appears below. Note: mortgage servicers must help a borrower with the name, address, and phone number of the owner of a loan. Roughly 70 percent of all US mortgage loans are owned or backed by federal agencies. Many lenders are also considering allowing forbearance to borrowers whose loans are not federally backed. In addition to forbearance, the Act prohibits mortgage servicers from foreclosing or beginning foreclosure procedures for 60 days from March 18, 2020.

List of Federal Agencies and Entities

- US Department of Housing and Urban Development (HUD)
- US Department of Agriculture
- USDA Direct
- USDA Guaranteed
- Federal Housing Administration (FHA) (includes reverse mortgages)
- US Department of Veterans Affairs (VA)
- Fannie Mae
- Freddie Mac

The initial forbearance period provided for in the CARES Act lasts 180 days, with a potential 180-day extension. Borrowers do not need to be current to receive the benefit. In addition, no penalties or additional interest may be applied to the loan. Borrowers do not have to prove that they have been financially affected by the COVID-19 pandemic, but the program is supposed to be limited to those who have been.



Impact

Mortgage servicers and noteholders can expect high in-bound call volumes, heavy online traffic, and confused borrowers. During this time, oral, written and digital communication must be clear and consistent, with compliant and documented policies and procedures. Lessons learned from the last mortgage crisis will be helpful, but this is a much different event.

In addition, mortgage servicers are not relieved of their obligation to pass payments to bondholders. Fannie Mae and Freddie Mac, for instance, are contractually obligated for the payments to investors, and will eventually reimburse mortgage servicers for the payments they must advance during forbearance. For some banks, this may create a temporary cash-flow issue. Given the large scale of forbearances that will be granted, many servicers are advocating for a government-backed liquidity facility to assist borrowers and remain financially viable. Capco is working with clients to alleviate these issues.

WHO IS CAPCO?

Our Banking and Lending practices have deep expertise with lending in general, and in Housing Finance and Servicing specifically. We can assist you as you work through your response to the legislation – including strategy, process, and technology expertise. Capco is also tracking state-level guidelines and enhancement to the CARES Act in this area to give our clients a holistic approach to this process.

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