

Practice Update

Fannie Mae and Freddie Mac Announce New COVID-19 Payment Deferral Option

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On May 13, Fannie Mae and Freddie Mac both announced a new COVID-19 Payment Deferral workout option. Fannie Mae's Lender Letter [LL-2020-07](#) and Freddie Mac's [Bulletin 2020-15](#) provide detailed requirements on this new deferral option for single family borrowers who previously received forbearance due to the COVID-19 pandemic. The GSEs, under direction from FHFA, developed this new option in response to the ongoing pandemic and servicer feedback on the GSE's March 25 Payment Deferral option. Our alert on CARES Act forbearance is available [here](#) and our alert on prior GSE COVID-19 guidance is available [here](#).

This new program provides borrowers with a fourth option once their forbearance period ends. When accrued but unpaid amounts must be paid at the end of a COVID-19 related forbearance, borrowers have the option to pursue:

- **Full repayment:** Borrowers may repay the full accrued amounts at the end of the forbearance period.
- **Short-term repayment plans:** Borrowers may repay accrued amounts over a time frame agreed upon by their servicer (*e.g.*, 3, 6, 9 or 12 months). Under this option, borrowers repay a portion of the accrued amount in addition to their regularly due monthly mortgage payment.

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- **Loan modification:** Borrowers may be eligible for a loan modification.
- **COVID-19 payment deferral:** The accrued payment amount is moved to the end of the borrower's loan term. Mortgage servicers must make this option available to borrowers as of July 1.

The following is a summary of the COVID-19 Payment Deferral eligibility requirements, deferral terms, information on how to solicit borrowers regarding the deferral option, details on how to handle borrowers who default after their COVID-19 deferral, and other relevant information for servicers.

Borrower Eligibility

Borrowers must either be on a COVID-19 related forbearance plan or have experienced a financial hardship resulting from COVID-19 affecting their ability to make their regular payments. The servicer must achieve quality right party contact (QRPC) and confirm the borrower has a resolved COVID-19 hardship, is capable of continuing to make his or her monthly mortgage payment, and is unable to afford a repayment plan or full repayment of the accrued amounts. The guidelines include several other technical eligibility requirements, including special requirements for Texas 50(a)(6) loans and a requirement that the mortgage must have been current or no more than 31 days delinquent as of March 1, 2020.

Deferral Terms

For Fannie Mae loans, if a borrower is eligible for a COVID-19 Payment Deferral the servicer must defer up 12 months of past due principal and interest payments, out-of-pocket escrow advances, and certain servicing advances. For Freddie Mac loans, the servicer must defer all delinquent principal and interest payments and any other amounts permitted to be capitalized as part of a Freddie Mac Flex Modification.

Solicitation of Borrowers

Freddie Mac servicers must proactively solicit eligible borrowers to offer a COVID-19 Payment Deferral within 15 days after the expiration of a borrower's forbearance plan if the servicer is not able to establish limited QRPC during the forbearance period. Fannie Mae has a similar solicitation requirement. Both GSEs provided optional form solicitation letters servicers can use to inform borrowers of the payment deferral option if the servicer is unable to establish QRPC. Servicers electing not to use these form letters must at a minimum provide the details of the COVID-19 Payment Deferral and instructions on how to accept the offer to eligible borrowers.

Borrower Default after a COVID-19 Payment Deferral

Both GSEs require servicers to offer Flex Modifications to borrowers who accept a COVID-19 Payment Deferral and subsequently become 60 days delinquent within six months. Both Fannie Mae's and Freddie Mac's Flex Modification programs have reduced eligibility requirements. Eligible borrowers must receive a modification offer within 75 days of the delinquency.

Other Requirements

The GSE publications set forth several other provisions and servicer requirements in connection with the new COVID-19 Payment Deferral workout option, including:

- Application completion and processing requirements;
- Evaluation hierarchy requirements;
- Restrictions on late charges, administrative fees, and similar charges; and
- Reporting requirements for Freddie Mac loans. Fannie Mae has not yet announced its servicer reporting requirements.

Both Fannie Mae and Freddie Mac stated that they will provide information on servicer incentive payments for COVID-19 Payment Deferrals at a later date. We will continue to monitor for new Fannie Mae, Freddie Mac, and FHFA guidance and related developments in the consumer financial service industry's efforts to meet the challenges created by the COVID-19 pandemic. Our interactive [foreclosure and eviction suspension map](#), [court closure map](#), [RON updates](#), and more resources are available in our [Coronavirus Resource Center](#).

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