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APRIL 22, 2020

FHFA Limits Servicer Advancing Obligations for Loans in COVID-19 Forbearance

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On April 21, 2020, the Federal Housing Finance Agency (FHFA) announced that it was aligning Fannie Mae's and Freddie Mac's policies so that servicers of Fannie Mae and Freddie Mac single-family mortgage loans that are in forbearance as a result of COVID-19 will only have an obligation to advance four months of missed principal and interest payments. The FHFA announcement confirms that once the advances are made for four months, if the loans continue to remain in forbearance, servicers will have no further obligation to advance scheduled principal and interest payments for those loans.

While this is not a liquidity facility (as the mortgage industry was hoping for) this change in policy does provide a cap on servicer advancing obligations. Mortgage servicers are generally required to advance principal and interest payments when a borrower fails to make scheduled payments due on a mortgage loan that underlies a mortgage-backed security (MBS). Given the number of homeowners that have already and that are expected to utilize a forbearance plan as a result of COVID-19, this policy provides some clarity on the scope of the liquidity needs that mortgage servicers will face over the coming months while loans are in forbearance.

The FHFA's announcement further confirmed that mortgage loans with COVID-19 forbearance status will remain in the MBS pool. Typically, Fannie Mae or Freddie Mac would buy out delinquent mortgage loans from the MBS pools. However, the FHFA advised that such loans should remain in MBS pools "for at least the duration of the forbearance plan."

The FHFA policies apply to all Fannie Mae and Freddie Mac mortgage servicers (whether banks or nonbanks and regardless of the size of the servicer).

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