U.S. Department of Veterans Affairs
Veterans Benefits Administration

Coronavirus Aid, Relief, and Economic Security (Cares) Act of 2020 Guidance for Borrowers with VA-guaranteed Home Loans

Summary

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security Act, Public Law 116-136. The CARES Act protects borrowers with Federally-backed mortgage loans who are experiencing financial hardship due to the COVID-19 national emergency. Below are some frequently asked questions for Veterans regarding the CARES Act.

Frequently Asked Questions

1. **What if I missed payments on my VA-guaranteed loan and can't make up all the payments at once?**
   The number one priority of any borrower financially affected by the COVID-19 emergency is to ensure the health and safety of you and your family. Another priority is to secure reliable income that allows you to resume monthly mortgage payments. Any option to resolve missed payments begins with your ability to make regular monthly mortgage payments.

2. **How does the CARES Act protect my VA loan?**
   The CARES Act provides multiple protections on your VA-guaranteed loan if you experience financial hardship directly or indirectly caused by the COVID-19 emergency, regardless of your loan's default status. These protections include:
   - A defined forbearance period of up to 180 days, with the possibility for extending it for another 180 days
   - A foreclosure and eviction moratorium for 60 days starting March 18, 2020
   - Instructions on how mortgage servicers are to report to the credit agencies. For example, borrowers who have requested the COVID-19 Forbearance option are not considered to be delinquent for purposes of credit reporting.

3. **What is a forbearance?**
   A forbearance is a defined time period of one month or longer during which your mortgage servicer agrees to accept reduced payments or no payments. During a forbearance under the CARES Act, your mortgage will continue to accumulate interest, but not late fees or other penalties.

4. **Does a forbearance mean those payments are forgiven or waived?**
   No. The payments will still be due on your loan, just not during the forbearance period. A forbearance allows you time to resolve the reason that you can't pay the regular monthly installment and get back on a regular monthly repayment schedule again.

5. **How long is the forbearance period in the CARES Act?**
   Forbearance in the CARES Act is broken down into two pieces; an *initial* period and an *additional* period. For the initial period, you may notify your mortgage servicer that you are financially affected by the COVID-19 emergency and request up to 180 days of forbearance. You don't have to use the entire forbearance period if you can resume payments sooner.

   For the additional period, you may notify your mortgage servicer that you are still financially affected by the COVID-19 emergency and request up to 180 additional days of forbearance. As with the initial period of forbearance, you don't have to use the entire period of forbearance if you can resume payments sooner.

6. **How do I apply for the forbearance?**
   You simply need to contact your mortgage servicer and request a forbearance because of financial difficulties due to the COVID-19 national emergency.

7. **Do I have to make up all those payments in a lump sum at the end of the forbearance?**
   No. The missed payments due at the end of a forbearance period do not have to be made up in a single payment. However, if you can make up the all the payments in a lump sum and resume making regular monthly mortgage payments, then you may do so.

8. **Do my missed payments automatically move to the end of the loan?**
   No. Your mortgage servicer can't automatically move those payments to the end of the loan because that would alter the recorded terms of your mortgage note. However, if it benefits you, you and your mortgage servicer can explore a *loan modification* to extend the term beyond the original *maturity* (paid-in-full) date of the mortgage loan. VA allows modified loans to be extended <u>up to</u> 360 months (30 years), as long as the extension is 120 months (10 years) or less from the original maturity date on your mortgage note.

9. **What about making all the missed mortgage payments due in a balloon payment at the end of the loan?**
   VA allows the missed payments to be deferred or become due at the end of the loan with the last payment. In such cases, <u>VA requires that amount to be non-interest bearing</u>. You can pay toward the deferred amount over the life of the loan to reduce the amount due at the end of the loan. You can choose to pay the deferred amount at the end of the loan or get a personal loan to cover that amount due.

10. **Will those missed mortgage payments hurt my credit score?**
    It Depends. Under normal circumstances, missed or delayed payments have an impact on your credit score. Under the CARES Act, however, if you were *current* on your mortgage when the COVID-19 forbearance was granted your mortgage servicer is required to report

your account as current during the forbearance period. Or, if you were *behind* on your mortgage when the COVID-19 forbearance was requested, your mortgage servicer is required to maintain the delinquent status during the forbearance period. If you bring your mortgage current during the forbearance period, your mortgage servicer is required to report the credit obligation or account as current.

11. **How do I make up missed payments and retain homeownership?**
Contact your mortgage servicer to explore three basic options to make up missed payments and retain your home:

    Forbearance: As discussed above, a forbearance is a time period that the mortgage servicer agrees to accept reduced payments or no payments.

    Repayment plan: If you missed a few mortgage payments, you and your mortgage servicer can agree to terms where you pay a specified amount paid above the regular monthly mortgage payment to bring your loan current over time.

    Loan Modification: As mentioned above, a modification may be appropriate, if you resolved or plan to resolve the reason for default and can resume making regular monthly mortgage payments, but you can't afford to pay the additional amount to make up the missed payments over time. Your mortgage servicer may offer an option to modify your existing mortgage note to extend the *term* (time to repay) of your loan. Missed payments are included in the loan amount and your new principal balance is *amortized* (paid off) over the new remaining term of your loan to reduce the burden of repayment. Keep in mind that a loan modification may change your interest rate.

12. **Would deferring the missed payments to the end of the loan prevent me from selling my home in the future?**
No. A deferred amount would not prevent you from selling your home. However, the deferred amount would come due as a part of the sale. The missed payments are still a part of the overall amount owed.

13. **What if I can't financially recover enough during the forbearance period to resume regular monthly mortgage payments?**
If you are unable to resume regular monthly mortgage payments, you have options to better protect your credit rating now and still qualify for a new home loan later. These basic options to avoid foreclosure are:

    Private Sale: As mentioned above, you can sell the property in a private sale to pay the loan in full.

    Short Sale: If you cannot sell the property for an amount that would fully pay off the loan, you could choose a *short sale*. This allows you time to sell the property at market value and your mortgage servicer will submit a claim against the VA-guaranty for the loss incurred. This may affect the size of loan VA can guarantee on your behalf in the future, but you can simply call us when you are seeking to purchase a home in the future.

Deed in Lieu: You can choose to deed the property to your mortgage servicer instead of experiencing a foreclosure action. Your mortgage servicer is allowed to submit a claim against the VA guaranty for losses incurred. This may affect the potential size of loan VA can guarantee on your behalf in the future, but you could reimburse VA for the claim costs or call us about your entitlement when you are able to afford a mortgage loan in the future.

14. Should I request forbearance?

It Depends. If you can continue making payments during the COVID-19 national emergency, you may not want to request forbearance. While not making monthly mortgage payments for 6 months may have immediate benefits, when the forbearance period ends, the missed payments covered during the forbearance period will become due.

You may choose to pay the entire amount due to reinstate the loan or pursue one of the loss mitigation options discussed above.

15. What can I do if I'm at risk of being foreclosed on or evicted right now?

The CARES ACT established a foreclosure and eviction moratorium that is currently in effect *until May 18, 2020*. If you are in danger of becoming homeless during the COVID-19 national emergency, please reach out to http://www.va.gov/HOMELESS/NationalCallCenter.asp, or call (877) 424-3838, to receive immediate assistance from VA.

16. What other resources are available for homeowners?

The Consumer Financial Protection Bureau (CFPB) has a "Find a Counselor" tool to find counseling agencies approved by the Department of Housing and Urban Development (HUD) in your area. You can also call the HOPE™ Hotline open 24 hours a day, 7 days a week, at **(888) 995-HOPE (4673)** for personalized advice. Other mortgage and financial resources are available at: https://www.consumerfinance.gov/coronavirus/.

For more information on the VA Home Loan program, you may call (877) 827-3702, to contact the nearest VA Regional Loan Center, or visit our website at www.benefits.va.gov/homeloans/