Forbearance and Divorce (Part 3 of a 3 Part Series)

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This article is the 3rd in a 3 part series on Forbearance.

In the last two articles I covered what forbearance is and what it isn't. I also covered the parties and the various options that could be available to the borrower(s) following the end of a forbearance period.

This article will focus on the very serious topic of mortgage forbearance within a divorce.

In case I haven't mentioned, I am a realtor who specializes in divorce home sales, I am specially trained as a "neutral". What does this mean? Well, it means, I don't take sides – I work equally with both parties to "represent the house in the divorce".

Until recently with the COVID crisis and the excellent economy, forbearance wasn't a word crossing the minds of people. With the unprecedented loss of jobs, reduction of income and businesses furloughing employees at record rates, it's a very important topic and it's a conversation that deserves to be front and center with couples, their attorney's/mediators who own real property and that are divorcing.

The federal government passed the CARES Act as a way to help Americans to stay afloat and avoid foreclosure during this crisis. The CARES Act as it pertains to forbearance has two parts:

With the CARES Act, the federal government passed legislation allowing a borrower(s) to:

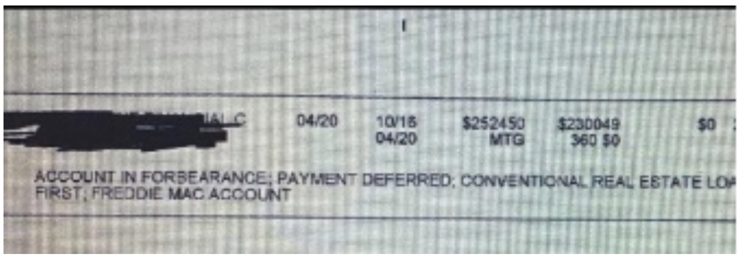
1. Request a forbearance with their lender with absolutely no proof of financial hardship.
2. Promises of no negative impact to the borrower(s) credit.

Many borrower(s) have used this as an opportunity to put their mortgage into forbearance because ***they think it's a free ride of 3, 6, 12 months of not paying their mortgage with no impact to them whatsoever***.

I want to be clear, the CARES Act is a lifeline for homeowners who need to use forbearance as a last resort, however, many homeowners are using it as an opportunity to take advantage of a bad situation thinking there will be no negative ramification.

So what does this have to do with divorce?

1. Forbearance is NOT Free
2. While your credit SCORE is not being hit, ***your credit REPORT is being notated with the forbearance***, see the example below: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ACCOUNT IN FORBEARANCE; PAYMENT DEFERRED; CONVENTIONAL REAL ESTATE LOA
FIRST; FREDDIE MAC ACCOUNT

3. While the banks, investors and loan servicers are forbidden from hitting your credit score, believe me… they are covering their “ass”ets during this time. After the housing crisis of 2008, the banks have gotten really smart.

I work with many divorcing homeowners, some as a couple, some court ordered and some where I’m working with one party. I cannot tell you how many of the single parties I am currently working with where the spouse who is responsible for the bill paying (both spouses on the mortgage) have put the loan into forbearance without the other party having any knowledge of it – even with both parties on the mortgage.

This is a very big deal.

It’s a big deal because as I mentioned above, the forbearance may be unknowingly affecting both parties credit report.

Why is this important? The house is usually the most valuable asset a divorcing couple has. They depend on the sale or refinance of the house to start over. When a borrower(s) put their mortgage into forbearance it triggers a deeper look by lenders and that can create the following problems:

1. The inability for either party to purchase another property post-divorce for a specified period of time (typically 12 months).
2. The inability for one spouse to qualify to buy-out the other spouse by way of a refinance.

3. Once the forbearance period has expired, if the borrower(s) cannot meet the obligations of the terms of the forbearance, the lender may have the ability to accelerate a foreclosure. Forbearance is a form of default.
4. While home values in the Northeast are still strong and fear of short sale is minimal, this can change and it can change fast. When few properties are on the market, homes sell fast and home values remain strong. When there are a lot of properties on the market (high volume of sales triggered by pre-foreclosure) property values drop.

Do you see the problem here? While we all think house values will never go down as we did in 2008, it's not only real, it's probable.

So what… ? How does this affect me?

Depending on when you bought your house, what you paid and how much you owe, if you wait too long to sell regardless of whether you are in forbearance or not – you could find yourself in an upside down sales situation. This means if when you sell there are not enough proceeds to cover your expenses of closing, the borrower pays the difference to the bank at closing or it triggers a short sale.

What is a short sale?

Short Sale

a. A Short Sale is the process by which a **borrower hires a realtor who is an expert in short sales to negotiate with the loan servicer on their behalf** to get the house sold for an amount less than what is owed on the loan, yet an amount that the servicer determines to be acceptable factoring market conditions and a whole bunch of other items.
b. Did I mention a short sale is anything but short. The process can take a long time, the average is 3-6 months.
c. Time is of the essence. Most borrowers wait too long to pursue a short sale because they think their only option is foreclosure or they try on their own to negotiate the short sale with their lender and give up because the process is complicated and they have no idea how to begin. As I mentioned, short sale is anything but short, so don't wait too long to make the decision to pursue a short sale when a foreclosure is imminent.
d. How much does it cost to hire me to negotiate your short sale? My services as a short sale expert and those of my team who will negotiate on your behalf come at ***no cost to you, the home seller, they are paid by the loan servicer or the buyer. Let us help you get to the finish line – your credit and your wallet will thank you later.***
e. If you enter into a forbearance on your mortgage, even if you feel confident you can repay the loan to the terms of the servicer, it is in your absolute best interest

to at least talk to an expert in foreclosure avoidance so you know what to expect in case you cannot repay. Remember – Sooner is always better.

f. Reverse Mortgage? Yes, you are eligible for a short sale.
g. Full release of financial liability.

Ultimately, your goal is foreclosure avoidance.

I am here for you in good times and in bad. If you are in the state of NH or MA and you need help to better understand what your banker or lender is telling you, call me for assistance or information, I'm an expert in foreclosure avoidance. I would be happy to join you on the call (no cost) to help you understand what the bank is saying and to ask them the tough questions you don't know to ask.

REMEMBER – Sooner is ALWAYS BETTER. It's best to know your options before you are against the clock.

I am an expert in foreclosure avoidance. If you need additional information or resources on foreclosure avoidance, ***I am giving my digital book away now, FREE, just email me at ReichertRealtyGroup@gmail.com or text me at 603.377.0281 and I will send you the link for immediate access.***