SCHWARTZ *Report*

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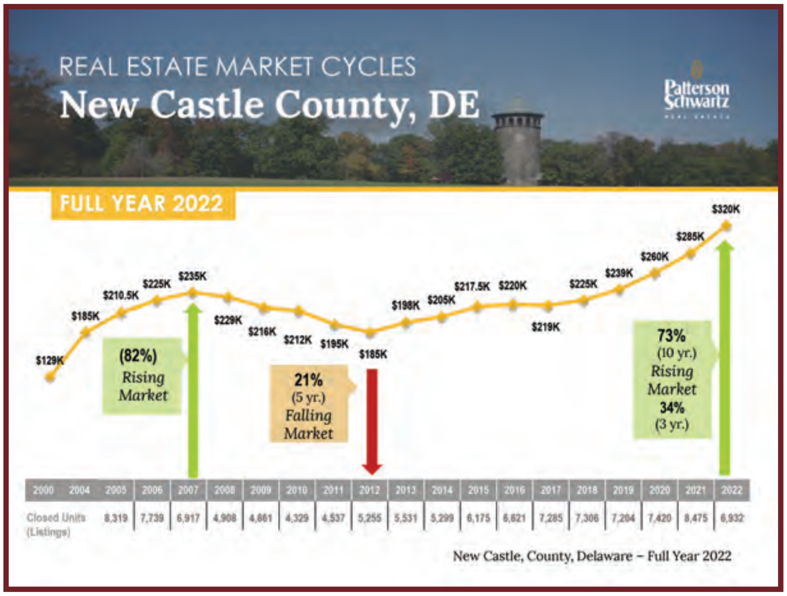
Who Cares about the CARES

In March of 2020 as the COVID-19 inspired economic shut downs began to take effect across most of the nation no one was clairvoyant enough to peer into the future and quantify what its effects might be, especially on the housing market. Epidemiologists, fearing the worst and desperate to slow the spread of the virus, promoted lockdowns along with the shutdowns. Shelter in place seemed to be the order of the day. The last thing anyone wished to see was a soon to be jobless population displaced and driven from their homes and apartments, etc. by their inability to meet mortgage obligations or pay the rent.



Beginning In April, 2020 the Consumer Finance Protection Bureau (CFPB) began touting the potential benefits of Congress' recently passed Coronavirus Aid, Relief, and Economic Security Act, dubbed the CARES Act. The CARES Act, which became effective at the end of March 2020, mandated that a lender or loan servicer may not foreclose on properties for sixty days after March 18, 2020. It also mandated that mortgagors have a right to request "forbearance" from their lender for up to 180 days and a like extension of another 180 days on the claim that they have a pandemic-related financial hardship. This went into effect immediately for all federally backed mortgage or reverse mortgage loans.* Holders of non-federally backed mortgages were "encouraged" to follow along. On the rental side, for tenants renting from landlords with federally backed mortgages, the CARES Act prohibits evictions for non-payment of rent for 120 days beginning on March 27, 2020. In addition, the landlord must also provide the tenant a 30 day notice to vacate.

We are now seeing the effects of the Act as all of these various prohibitions and moratoria are sun setting. Doubtless the most important impact will be in the area of mortgage forbearance which the CFPB website defines as follows: "Forbearance is when your mortgage servicer, that's the company that sends your mortgage statement and manages your loan, or lender allows you to pause or reduce your payment for a limited period of time. Forbearance does not erase what you owe. You'll have to repay any missed or reduced payments in the future..."

Also indicated is that a borrower who comes out of forbearance will owe all of the missed payments either as a lump sum or additional payments may be added at the end of the mortgage in effect extending the schedule of payments on the loan. The actual amount of the forbearance itself is known as a "partial claim" and has the effect of a second mortgage on the property. Some folks unfortunately have treated forbearance as a payment holiday not what it actually is, a loan on a loan. This is partially due to a "free money" mindset but also the fact that there was no serious vetting process to get oneself into forbearance only the assertion of a hardship situation arising out of the pandemic.

One of the pertinent questions to ask a would-be seller nowadays is: "Did you get any help during COVID for your mortgage?" If the answers is even "I'm not sure, maybe" then a present owner search will have to be conducted to determine the full amount owed on the property.

The good news is that according to a recent Core Logic Homeowners Equity Report there is far more equity in the average home today than there was 12 or 15 years ago.

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For example, the average loan-to-value ratio (LTVR) is at 43.6% today compared to a 71.3% going into the Great Recession, according to the office of the Chief Economist of Core Logic. According to the National Association of REALTORS® (NAR), the median existing-home sale price nationally was $366,900 at the end of 2022. NAR further notes that December 2022 marked the 130th consecutive month of year-over-year increases, the longest running streak on record. Our local markets have followed a similar trajectory. Homeowners are therefore on balance in much better condition to weather any forthcoming housing slowdown than they were back in 2008.

Doubtless the CARES Act will have its own unintended consequences that may take some time to sort out but let's hope that it does not end up hurting those it was intended to help. My favorite economist, Milton Friedman said it best during a 1975 PBS interview: "One of the great mistakes is to judge policies and programs by their intentions rather than their results. We all know a famous road that is paved with good intentions..."

*The list of federal agencies or entities that back mortgages is a long one and touches probably upwards of 80% of all housing loans. The most numerous are as follows: U.S. Department of Housing and Urban Development (HUD); U.S. Department of Agriculture (USDA); Federal Housing Administration (FHA); Veterans Administration (VA): Fannie Mae; Freddie Mac (Nearly half of the nation's mortgages are owned or backed by the gold dust twins Fannie Mae and Freddie Mac).

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