What Happens After Forbearance or a Payment Deferral?

Here's what you need to know to protect your credit and avoid financial issues moving forward.

Getting forbearance or a payment deferral from a creditor or lender can be a lifesaver. These programs can provide relief at a time when you need it most. You can miss a payment or not pay the full amount without facing penalties. However, there can be some issues that you need to keep in mind and navigate as you move forward.

"People need to make sure that they understand the terms that their creditor or lender is offering," says Maria Gaitan, Director of Housing Counseling and Community Development. "Specifically, they need to know what will happen once the deferral or forbearance period ends. They also need to watch their credit closely to make sure payments are noted correctly."

What do deferrals and forbearance mean?

When a lender or creditor gives you a payment deferral or forbearance period, it means the payments on that account are temporarily paused or reduced.

Many credit card companies are allowing customers to defer payments, meaning you can skip a monthly payment without penalties.

Mortgage and auto lenders are offering forbearance, which temporarily reduces or pauses payments for a set time period.

Federal student loans are in automatic administrative forbearance until September 30. All payments are suspended until that date and the interest rate is 0%, so no interest is accruing on these loans.

These programs can be crucial, given that consumers are facing unemployment and pay cuts in the wake of COVID-19. You can make reduced payments or skip payments entirely with the permission of your lender.

As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, any lender or creditor who allows a consumer to defer or skip payments must avoid reporting those payments as delinquent. In other words, the reduced or skipped payments should not adversely affect your credit.

Understanding what happens during and after deferrals and forbearance

However, Gaitan warns that people need to check with their lenders and creditors to know what will happen during the deferral or forbearance period, and what will happen once it ends.

"When it comes to forbearance programs on loans, the unpaid amount may be immediately due once the forbearance period ends," Gaitan says. "For example, let's say you receive three months of forbearance on your mortgage. The lender may expect that you pay the amount you missed four months from now, along with that monthly payment."

With payment deferrals, the issue is what happens with interest. Interest charges are not typically suspended during a deferral, meaning interest will continue to accrue on the unpaid balance. Your balances will increase with each month that passes, even though the payment is deferred.

Interest will also typically continue to accrue during a mortgage or auto loan forbearance period.

So, while deferment and forbearance may offer relief now, it may increase your financial burden down the road. Still, Gaitan says that there are steps you can take to avoid that hardship.

These tips can help you get started:

1. Be clear on the terms when you ask for payment deferral or forbearance: When you call a lender to ask if you can miss a payment, talk then about what will happen afterward. Will the term of a loan be extended an extra month or months? Or will you be expected to repay the amount you missed? If so, how long will you have to catch up?

2. If you must repay the amount missed, ask for a payment plan: Repaying the full amount due may create an undue burden on your budget. Instead, ask if you can make catchup payments over a period of time. You may be able to make an extra smaller payment each month or add a small amount to your monthly payment. This allows you to pay back the amount over time instead of trying to pay it back all at once. Remember, lenders and creditors are offering flexibility right now because they know the alternative will be a default. Take advantage and see what you can work out.

3. Monitor your statements: You should not incur late fees or penalties, but mistakes can happen. Make sure to check your monthly statements to ensure that no penalties have been applied. Checking your statements will also help you keep track of the interest charges accruing on your balances.

4. Keep lines of communication open. If you are nearing the end of a deferral or forbearance period and are still experiencing hardship, call your creditors. They may be willing to extend the period to let you miss another month. However, you need to call and ask. As soon as you know it may be an issue, call to let them know.
For some credit cards, you may need to call back each month to affirm if you still need a payment deferral. Many creditors are offering deferrals on a month-to-month basis.

5. Don't take a deferral just because it's offered. If you have the ability to make your payment, you should do so. Missing payments, even with a lender's permission, can lead to issues. You could face catchup payments and credit damage if it's not reported correctly.
In addition, your balances will likely increase with accrued monthly interest charges while you're not paying the bill. Don't take a deferral or forbearance offer simply to bank the money you would pay into savings or pay for something else. It's just not worth the financial risk you may create.

5. Be aware that forbearance can affect refinancing: If you plan on refinancing your home to take advantage of the low-interest rates currently being offered, you want to avoid forbearance. Lenders will generally not allow you to refinance while you are in forbearance and will require you to repay the foreborn amount before you can refinance.

What happens to your credit during a deferral or forbearance period?

A payment deferral or forbearance period should have no negative effect on your credit under the Fair Credit Reporting Act amendment included in the CARES Act. This is true whether your lender or creditor was required to offer the forbearance or deferral or they did it voluntarily.
So, your credit report should not get dinged with a missed payment in your credit history. No negative items should appear on your report as a result of deferment or forbearance. However, mistakes can happen. Since the payment is not processed as it normally would be, it could get reported as a missed payment.
If this happens, contact the creditor or lender first. Let them know that your deferred payment was noted as missed in your credit report. Ask them to correct the issue with the credit bureaus, so your credit is not negatively affected.
Gaitan encourages anyone who has their payments placed into deferment or forbearance to watch their credit closely. "You want to keep an eye on your credit history for any accounts in deferment or forbearance," Gaitan encourages. "That way, you can ensure that you can stay as credit-healthy as possible during this period of hardship."

You can check your credit reports for free once every twelve months through annualcreditreport.com. Since you get one report from each bureau, you can space them out to keep an eye on your credit over a longer period.

Another option is to use a credit monitoring tool. These tools check your credit frequently and alert you if negative information appears in your report. Many are free, which can help you avoid another bill as you work to keep your finances above water.

Gaitan also encourages people to talk to a qualified expert if they have questions that they want to ask before they talk to their lender. Homeowners can call their Kofe coaches who can answer additional questions and connect them to a HUD-certified housing counselor.

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