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What happens when your house burns down and you have a mortgage?

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The Los Angeles wildfires destroyed thousands of structures across residential havens of the city. Borrowers whose homes burned down are still on the hook for monthly mortgage payments in the long run, but might be able to get temporary relief.

What options do borrowers have?

Homeowners usually have the option to pause mortgage payments for as much as a year if they are impacted by a natural disaster.

This is called forbearance. Mortgage companies are required to offer it on the roughly 40% of loans backed by Fannie Mae and Freddie Mac. Loans backed by the Federal Housing Administration and the Department of Veterans Affairs have similar guidance. Forbearance is often doled out in three- or six-month increments. *

Loans that don't have federal backing, such as jumbo mortgages on the multimillion-dollar homes that burned down, may also be eligible for forbearance. That will depend on the mortgage companies that service those loans. Large banks like JPMorgan Chase and Bank of America have said they would offer disaster forbearance programs in response to the L.A. wildfires.

Since forbearance has been expanded in recent years to cover most financial hardships, people who paused mortgage payments during the pandemic will find the process familiar. Borrowers typically enter into forbearance by contacting their mortgage servicer. Late fees, penalties and foreclosures are generally suspended.

Residents whose homes were damaged or destroyed may also be eligible for property-tax relief, the Los Angeles County Assessor's Office has said.

What happens when forbearance ends?

Forbearance isn't the same as forgiveness. Borrowers are still on the hook for those missed payments, but they have a few ways to make them up.

For many, the fastest way to bring a mortgage up-to-date is through a lump-sum payment. People who can't repay all at once might be able to spread out the payments over several months. Another potential option is to add the missed payments to the end of the loan, meaning they get repaid after the rest of the mortgage, or if the house gets sold.

People who can't keep up with regular payments after the forbearance period ends can ask their mortgage company to modify the loan. That may mean stretching out the remaining payments over

a longer period, or altering the interest rate. But it is a negotiation between the borrower and the mortgage company, so the borrower might not always be happy with the outcome.

After natural disasters, do people tend to default on their mortgages more?

Forced evacuations, job losses and property destruction in the wake of natural disasters can leave some borrowers unable to pay mortgages or other bills.

In a 2023 paper, researchers at the Federal Reserve Banks of Philadelphia and San Francisco found more borrowers fell behind on mortgage payments for damaged properties in the first few months after a fire. There were no significant changes in delinquencies for undamaged properties. *

California is "much more borrower-friendly" than some other states, said Mark Nicoletti, co-chair of the real-estate finance practice at Allen Matkins.

The state has a set of laws that aim to provide protections to homeowners who face foreclosure. *

When does forbearance make sense?

It might not seem like it makes sense to keep paying the mortgage on a house that burned down. And pausing mortgage payments can be especially helpful if the fire led to, say, a job loss. But for those who can afford to keep making payments, it generally makes sense to do so. Borrowers still owe the money, whether they pay now or later.

Kristen Addy and her husband, both 55 years old, intend to keep making the roughly \$4,000-a-month payment for their mortgage, insurance and property tax. They lost the Altadena home they bought five years ago for \$740,000.

"We're paying for what was our dream home—what we were making into our dream home—and we're going to continue paying into that dream," said Addy, an actress.

The maximum amount she will get from insurance to rebuild the home is around \$630,000. She is trying not to view it as a total loss. "If I go down that road, I'm going to be in my bed with the lights off and not be able to move forward," she said.

But she said it is a confusing time and that she called her mortgage provider to confirm that she should continue making payments. Her husband works in construction and the project he is working on wasn't affected, so they expect their income to continue.

This explanatory article may be periodically updated.

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