

COVID-19 Workouts: Are you ready for the influx of activity and regulatory change?

Hosted by Wolters Kluwer

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Wolters Kluwer

Today's Presenters



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Webinar Agenda

- CARES Act Forbearance Provisions
- Mortgage Servicing Compliance
- Fairness Performance Analytics
- Operational Considerations
- Q&A

CARES Act Forbearance Provisions

CARES Act, Section 4022

- The CARES Act (Pub. L. No. 116-136) was enacted on March 27, 2020 to provide financial assistance and other types of relief as the negative economic impact of the COVID-19 pandemic set in across the country
- The consumer finance provisions under Title IV of the Act directly address helping Americans struggling to make mortgage payments due to the economic slowdown caused by the pandemic
- Covers “Federally backed mortgage loans”
 - Insured by the Federal Housing Administration or under the National Housing Act
 - Guaranteed or insured by the Department of Veterans Affairs or the Department of Agriculture
 - Purchased or securitized by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association

CARES Act, Section 4022

Consumer Right to Request Forbearance / Foreclosure Moratorium

- Servicers:
 - Shall provide forbearance for up to 180 days in response to a request for forbearance due to COVID-19 hardship – regardless of delinquency status
 - Shall extend forbearance for up to an additional 180 days upon request during the covered period
 - May not require additional documentation other than the borrower's attestation to financial hardship caused by the pandemic
 - Shall not charge additional fees, penalties, or interest
 - May not initiate any foreclosure process, move for a foreclosure judgment or order of sale, or execute a foreclosure-related eviction or foreclosure sale

CARES Act, Sections 4021 and 4023

- CARES Act Section 4021 – Credit Reporting
 - Amends section 623(a)(1) of the FCRA
 - Applies to reporting on accommodations made to consumer accounts January 31, 2020 through 120 days following the termination of the national emergency
 - Must report the obligation or account as current, provided that the account was current at the time of the request
- CARES Act Section 4023 – Multifamily (“MF”) Properties
 - MF borrowers with Federally backed mortgages
 - Forbearance period for up to 30 days with up to two additional 30-day periods
 - MF borrowers receive forbearance may not evict or initiate eviction of a tenant for nonpayment of rent or fees

Mortgage Servicing Compliance

Consumer Vulnerability

CFPB Survey: Pre-COVID-19

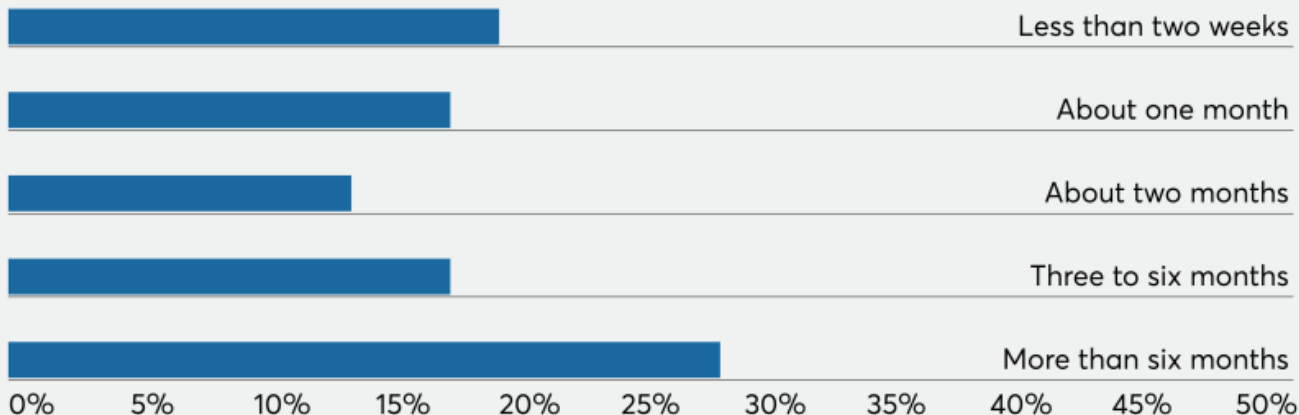
52%

of households
responded that
they would not
be able to cover
expenses for
more than two
months.

Living on the edge

Even before the pandemic, more than half of U.S. households said they would not be able to cover expenses for more than two months if they lost their main source of income

● % of respondents



Source: CFPB "Making Ends Meet" survey, May 2019

Consumer-Facing Concerns

CARES Act Forbearance – Early Observations:

- Many servicers' websites provided “incomplete, inconsistent, dated, and unclear guidance to borrowers related to their forbearance options”
- Lack of clarity regarding what to expect regarding repayment of deferred payments
- Placing borrowers in forbearance plans not requested
- Complaints to the CFPB hit a record 42,774 in April
 - More than one in five complaints relating to the pandemic were mortgage-related
- Credit Reporting is the largest category of complaints by volume
 - CARES Act Sec 4021 Credit Protection During COVID-19

CARES Compliant Servicing Program

- *Joint Statement on Supervisory and Enforcement Practices Regarding the Mortgage Servicing Rules in Response to the COVID-19 Emergency and the CARES Act, April 3rd, 2020*
- The CFPB, FRS, FDIC, NCUA, OCC, and CSBS recognize and understand
 - The serious impact of the COVID-19 emergency on consumers and on the operations of many supervised entities, including mortgage servicers
 - That temporary business disruptions and staffing challenges
 - The potential for consumer confusion about how to access and exercise options offered by mortgage servicers

CARES Compliant Servicing Program

- CFPB issued Mortgage Servicing Rules FAQs related to the COVID-19 Emergency
 - Short-Term Loss Mitigation Options
 - Early Intervention Requirements
 - Continuity of Contact Requirements
 - Annual Escrow Statement
 - Electronic Communications with Borrowers
 - Payoff Statements
 - Exemptions for Small Servicers

Mortgage Servicing Oversight

- Handling of CARES Act forbearance and the health of servicing and loss mitigation programs will be top-of-mind for regulators for the examination cycles that follow the pandemic
- Risk Assessment
 - Foundational to setting the scope of the mortgage servicing examination
 - Proactively update status and scoring of mortgage servicing risk and controls in the context of the pandemic
 - Inventory, update, and test controls across all aspects of routine and default servicing, and foreclosure activities
 - Governance of mortgage servicing activities should be attuned to CARES Act requirements and regulatory guidance

CARES Compliant Servicing Program

- Policies, Procedures and Training
 - Marketing, sales, and outbound messaging
 - Intake and processing of requests for forbearance
 - Credit reporting
- Customer Service Platforms and Servicing Systems
- Monitoring and Testing
 - Fairness and consistency of process
 - Call and text monitoring
 - Credit reporting
- Managing Complaints
- Third-Party Oversight

Polling Question #1

Are you **concerned about regulatory review and scrutiny of your mortgage servicing program activities** for the examination cycle following the surge in forbearance requests generated by the pandemic?

Fairness Performance Analytics

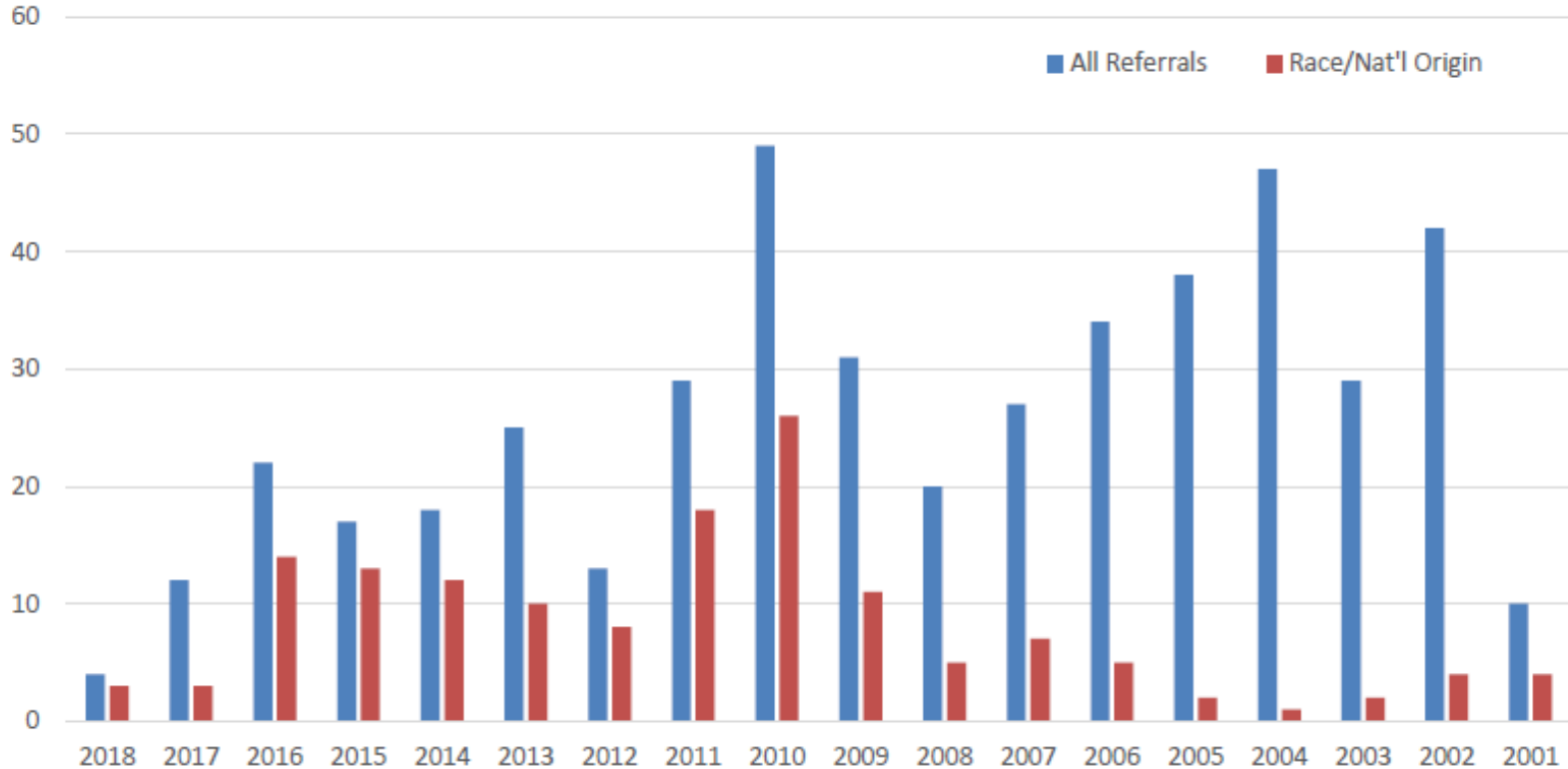
Regulatory Focus on Fairness

In a CFPB blog posting on April 27th, the Bureau reminded consumers and business owners of the applicability of anti-discrimination laws when exercising CARES Act options:

As small business owners and lenders work together to access the CARES Act options or other loan programs, anti-discrimination laws, such as the federal Equal Credit Opportunity Act, protect business owners from discrimination because of race, color, national origin, sex, and other protected characteristics. These protections apply to new and existing customers (including depository customers) seeking loans at financial institutions. The Bureau has resources in English and in Spanish with warning signs about lending discrimination. Some examples of potential warning signs of lending discrimination based on race, sex, or other protected category include:

- Refusal of available loan or workout option even though you qualify for it based on advertised requirements
- Offers of credit or workout options with a higher rate or worse terms than the one you applied for, even though you qualify for the lower rate
- Discouragement from applying for credit by the lender because of a protected characteristic
- Denial of credit, but are not given a reason why or told how to find out why
- Negative comments about race, national origin, sex, or other protected statuses

Historical Fair Lending Referrals to the Department of Justice



Loss Mitigation Performance Analysis

Analysis of performance should include testing for:

- Overt Discrimination
- Disparate Impact
- Disparate Treatment

Specific areas of focus may include:

- Disparities in Denial rates
- Statistical analysis (where applicable)
- Matched pair or benchmark overlap testing
- Geographic distribution of workouts granted and denied
- Average Rate Adjustment

Disparities in Denial Rates

Focal Point Report

File Type: Consumer
File Name: Loan Mods_Loss Mit
Filter:

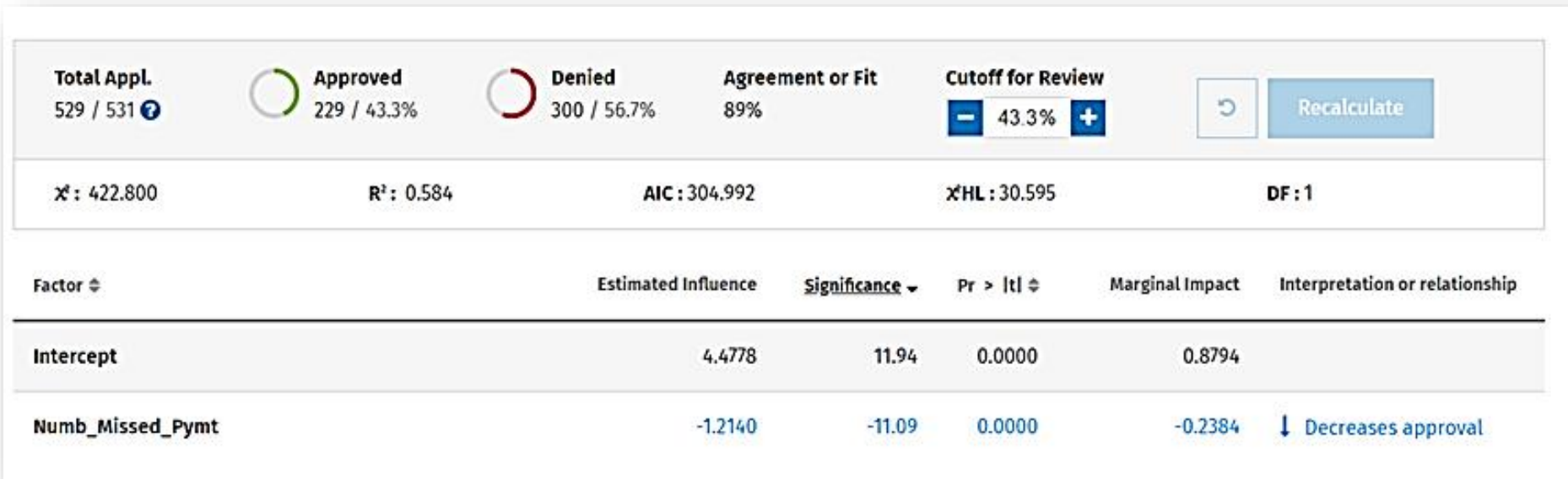
Statistically
Significant: ■
Over
Benchmark: ■
Control Group: ■

Toggle: T-Stat Count

Borrower Characteristic	Record Count	Origination			Denial			Above Threshold		APR		Note Rate		APR - Note Rate	
		Count	% Row	% Total	Count	%	Ratio	Count	Ratio	Average	vs Target	Average	vs Target	Average	vs Target
Total															
Total Applications	531	219	41.24%	100.00%	310	58.38%		0	0.00	4.96		3.66		1.30	
Tract Minority															
10% - 19%	102	49	48.04%	22.37%	53	51.96%	1.01	0	0.00	4.86	-0.07	3.58	0.08	1.28	-0.14
20% - 49%	201	83	41.29%	37.90%	117	58.21%	1.13	0	0.00	5.14	0.22	3.61	0.11	1.53	0.11
50% - 79%	104	36	34.62%	16.44%	68	65.38%	1.27	0	0.00	4.82	-0.10	3.93	0.43	0.90	-0.53
80% - 100%	44	13	29.55%	5.94%	31	70.45%	1.37	0	0.00	4.55	-0.37	4.11	0.61	0.43	-0.99
< 10%	72	35	48.61%	15.98%	37	51.39%	1.00	0	0.00	4.92	0.00	3.50	0.00	1.42	0.00
Not Available	8	3	37.50%	1.37%	4	50.00%	0.97	0	0.00	6.63	1.70	3.46	-0.04	3.16	1.74

Generated using test data in Fair Lending Wiz®

Statistical Analysis - Regression










Generated using test data in **Fair Lending Wiz®**

Regression Results

View by ☒ % of Row ☐ % of Column

[Export data](#) [Show legend](#)

Tract Minority	▲ Denied & Review		■ Approved & Review		● Properly Denied		◆ Properly Approved		Total	
* < 10%	4	5.56%	0	0.00%	33	45.83%	35	48.61%		72 100.00%
10% - 19%	4	3.92%	0	0.00%	49	48.04%	49	48.04%		102 100.00%
20% - 49%	6	3.00%	2	1.00%	111	↑ 55.50%	81	↓ 40.50%		200 100.00%
50% - 79%	19	↑ 18.27%	1	0.96%	41	39.42%	43	41.35%		104 100.00%
80% - 100%	21	↑ 47.73%	1	2.27%	8	↓ 18.18%	14	↓ 31.82%		44 100.00%
Not Available	0	0.00%	0	0.00%	4	57.14%	3	42.86%		7 100.00%
Total	54	10.21%	4	0.76%	246	46.50%	225	42.53%		529 100.00%

Generated using test data in Fair Lending Wiz®

Benchmark Overlap/Comparative File Review


Decisioning Comparison Results Screen





Selected LAR: Loan ModLoss MIT (WIZ_00539)
LAR Type: CONS
Filters: No filter is applied

Show Matched Pair Settings

Hide Protected Applicants

Matched Pair Analysis: Decisioning Comparison Results for Tract Minority

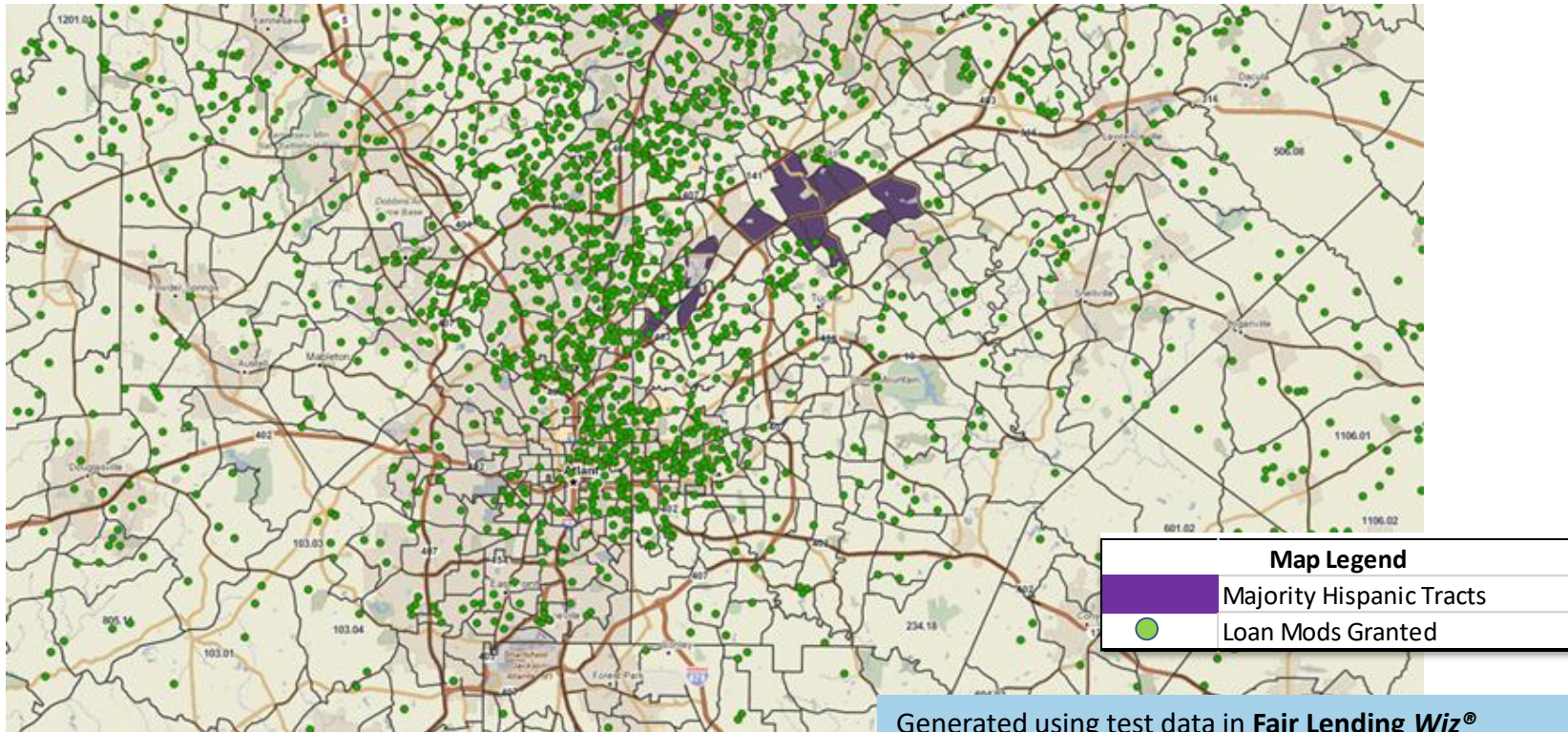
Protected Class Applicants
View Model 

Selected: # 6 of 9    

Application #	Comparators	Denial Reason(s)	Tract Minority	Numb_Missed_Pymt	ProposedLTV	Race	BISG Race
38	11		80% - 100%	2	0.000	Black or African American	Black or Afr
228	10		80% - 100%	2	12.380	Black or African American	Black or Afr
168	8		80% - 100%	3	6.880	Not Available	Hispanic
165	7		80% - 100%	3	21.510	Not Available	Hispanic
163	6		80% - 100%	3	53.880	Not Available	Hispanic
169	6		80% - 100%	2	64.130	Black or African American	Black or Afr
279	4		80% - 100%	3	71.600	Not Available	Hispanic
516	2		80% - 100%	3	106.930	Not Available	Hispanic
319	1		50% - 79%	3	140.540	Not Available	Hispanic

Generated using test data in **Fair Lending Wiz®**

Geographic Analysis



Polling Question #2

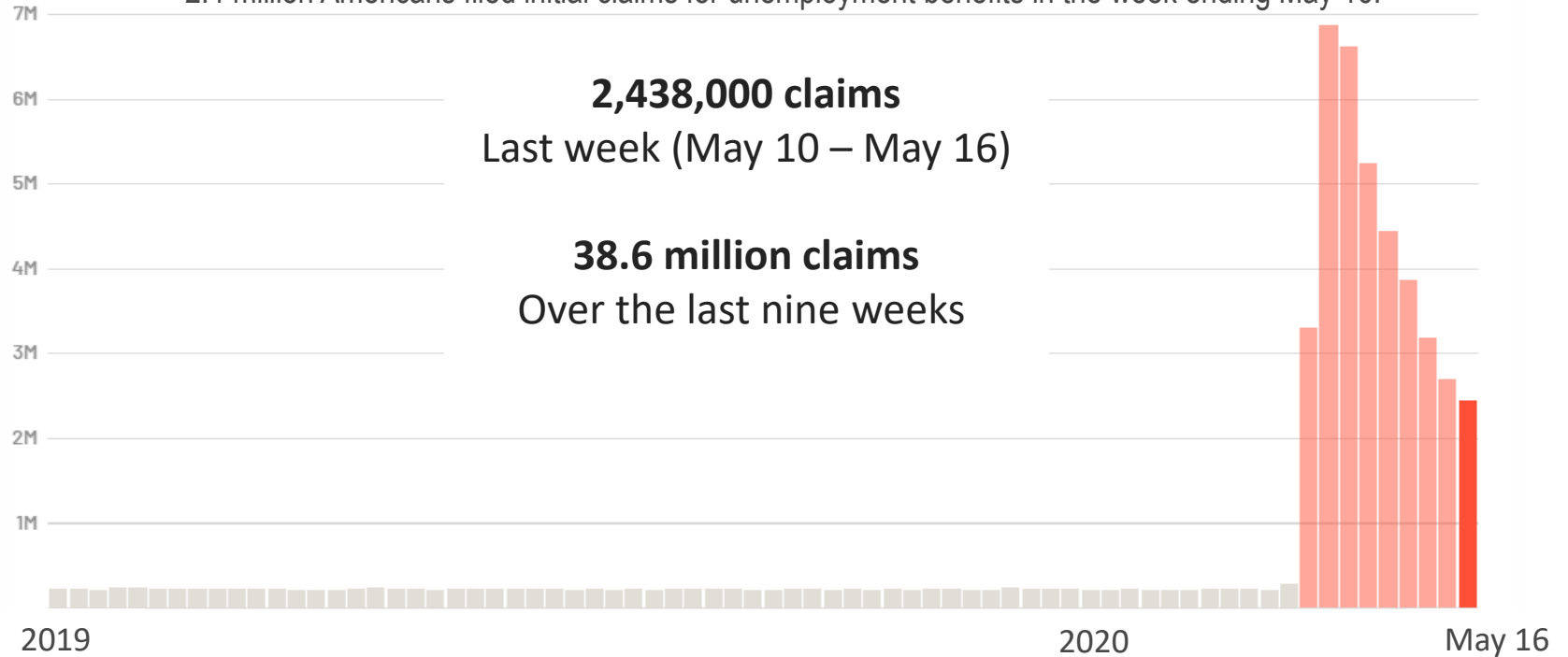
Is your institution currently **analyzing loss mitigation activities for fairness concerns?**

Operational Considerations

Unprecedented unemployment

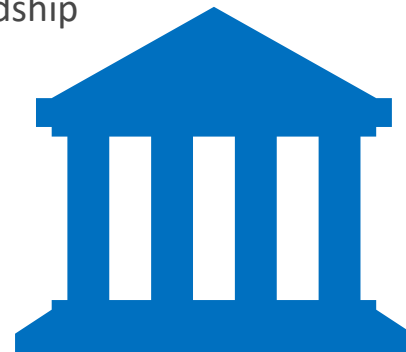
Unemployment claims surged due to coronavirus

2.4 million Americans filed initial claims for unemployment benefits in the week ending May 16.



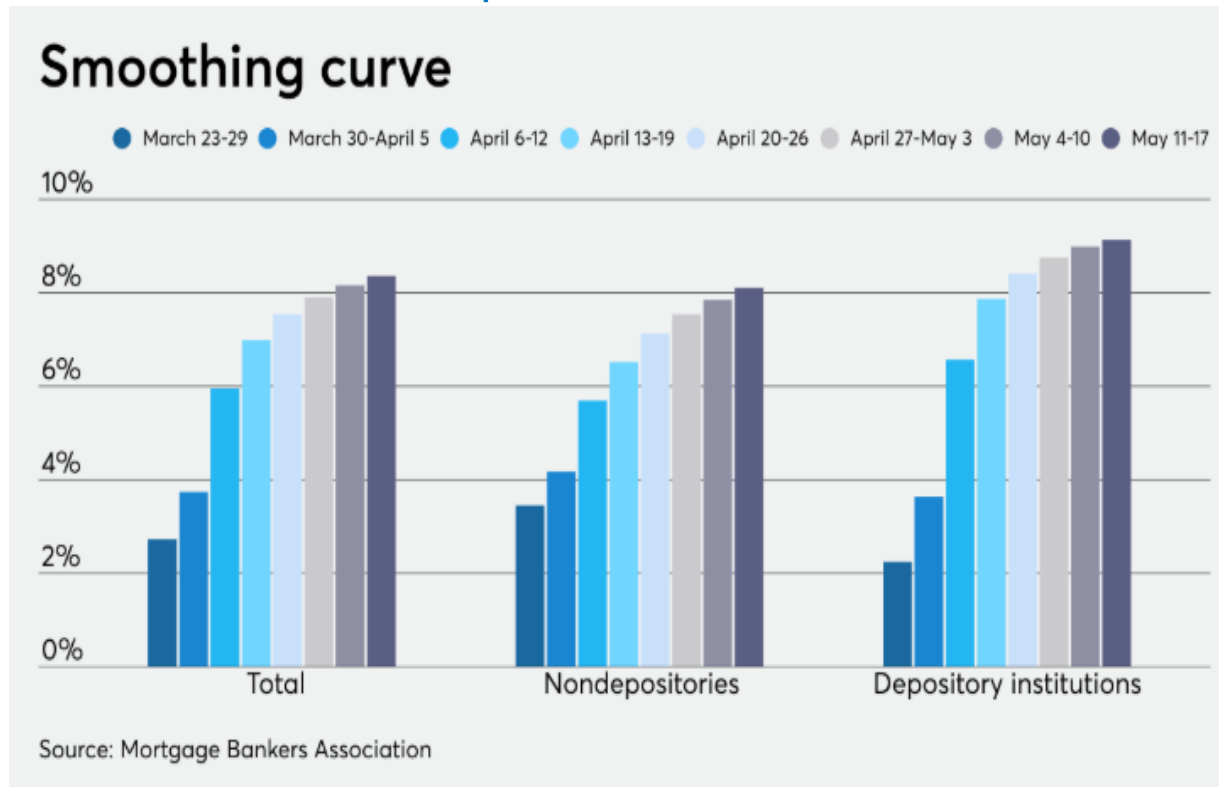
CARES Act-Borrower right to request Forbearance

- Applies to only a “federally backed mortgage loan”
 - Fannie, Freddie, FHA, VA, USDA
- A borrower experiencing a financial hardship due to the COVID-19 emergency, may request forbearance
 - Only requires borrowers to affirm that they are experiencing a financial hardship
 - **No additional documentation required**
 - Can be requested regardless of delinquency status
- Upon receiving a request for forbearance, a servicer must:
 - Provide initial forbearance **for up to 180 days**
 - Not impose any fees, penalties, or interest during forbearance
 - Forbearance period may be extended **for up to an additional 180 days**
- State versions of the CARES Act requiring Forbearance on **non-federally related mortgages**
 - Examples include: NY, NJ, CA, MA, DE, and DC



Forbearance stabilizes but volume remains unprecedented

- MBA reports estimated **4.2 million homeowners in forbearance**
 - 8.36% of all mortgages
 - Prior to COVID-19/CARES Act- 0.25% of loans were in forbearance



Forbearance continues to increase but stabilize

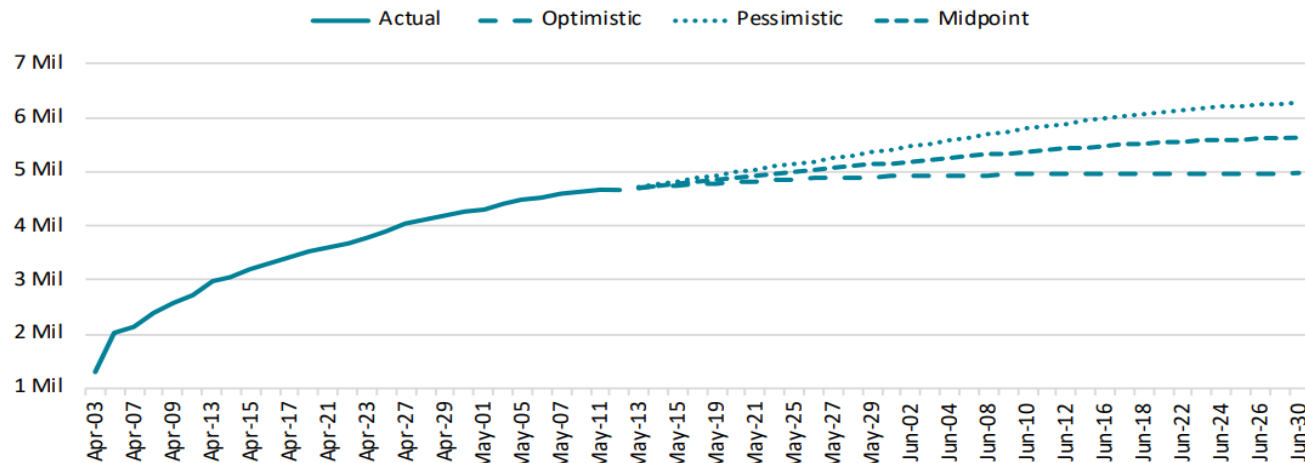
- **Optimistic projection**

- Nearly 5 million loans (9.4%) in forbearance by end of June

- **Pessimistic projection**

- 6.3 million (11.5%) in forbearance by end of June

ACTIVE FORBEARANCE PLANS – EXAMPLE SCENARIOS



*Figures in this report are based on observations from Black Knight's McDash Flash data set and are extrapolated to estimate the full mortgage market

(1) Optimistic scenario rolls forward the 5-day average daily increase in forbearance plans with a 10% daily decline moving forward

(2) Midpoint is the average of the Optimistic and Pessimistic scenarios

(3) Pessimistic scenario rolls forward the 10-day average daily increase in forbearance plans with a 10% daily decline beginning on June 15th

Future scenarios assume relaxation of COVID-19 related shelter in place orders by June 15th

Delinquencies are on the rise

	Apr-20	Month-over-month change	Year-over-year change	12 Month Trend
Total U.S. loan delinquency rate (loans 30 or more days past due, but not in foreclosure):	6.45%	↑ 90.22%	↑ 85.82%	
Total U.S. foreclosure pre-sale inventory rate:	0.40%	↓ -3.81%	↓ -19.29%	
Total U.S. foreclosure starts:	7,400	↓ -73.19%	↓ -82.13%	
Monthly Prepayment Rate (SMM):	2.33%	↑ 23.11%	↑ 135.91%	
Foreclosure Sales as % of 90+:	0.11%	↓ -89.56%	↓ -93.47%	
Number of properties that are 30 or more days past due, but not in foreclosure:	3,400,000	↑ 1,608,000	↑ 1,588,000	
Number of properties that are 90 or more days past due, but not in foreclosure:	462,000	↑ 56,000	↓ -12,000	
Number of properties in foreclosure pre-sale inventory:	211,000	↓ -9,000	↓ -48,000	
Number of properties that are 30 or more days past due or in foreclosure:	3,612,000	↑ 1,599,000	↑ 1,540,000	

Polling Question #3

How prepared are your servicing and loss mitigation departments for an influx of workout activity?

Operational Challenges

- **Wave of borrowers requiring post forbearance workouts**
 - Predicting volumes and timing
 - Second round of COVID-19 in the fall?
 - Unprecedented times-No playbook to go by
- **Industry staffed for a historically low delinquency/default environment**
 - Sourcing, hiring, and training agents in remote environment
 - Finding the expertise/skill sets needed
 - Redeployment of existing staff
 - Work at home vs. call centers
 - Importance of training and messaging to borrowers
- **Operationalizing changing requirements (processes and documents)**
 - CARES Act 2.0?
 - Changes to Investor/Insurer programs
 - State level versions of CARES Act

GSE's announce COVID-19 Payment Deferral Program

- Announced on May 13, 2020
 - *Fannie Mae LL-2020-07*
 - *Freddie Mac-Guide Bulletin 2020-15*
- Must begin evaluating borrows on **July 1, 2020**
 - Differs from the recently announced standard payment deferral program
- Intended to be a simpler option to explain to borrowers
 - Amount of delinquency moved into a non-interest bearing balance
 - Due and payable at Maturity or earlier payoff
 - All other terms of mortgage remain unchanged
- Fewer servicer touch points:
 - Quality Right Party Contact (QRPC) required
 - Complete Borrower Response Package (BRP) not required
 - No trial period required

Lessons learned from the financial crisis

- **Loss mitigation programs**
 - Need for reduced documentation-streamlined programs
 - Availability of programs to address borrowers situation
 - Earlier borrower outreach needed
- **Technology**
 - Advances in technology
 - Scalable solutions
 - Borrower portals
 - Document solutions
- **Regulatory change and oversight**
 - Need for robust monitoring processes
 - Effective controls and audit trail
 - Expect regulatory scrutiny
 - Frequent changes-short implementation timelines

Polling Question #4

How confident are you that you can **monitor for regulatory changes that impact loss mitigation** and implement them timely?

Customer Communications: The Core of the Customer Experience

- Starts and ends with borrower communication (written/verbal)
 - Identifying borrower touch points
 - Consistent, clear and compliant borrower notices and verbal communications
 - Educate borrowers
 - Well trained staff to prevent borrower confusion
 - Changing requirements
 - Utilization of scripts
 - Fannie/Freddie COVID-19 scripts available
 - Review borrower complaints

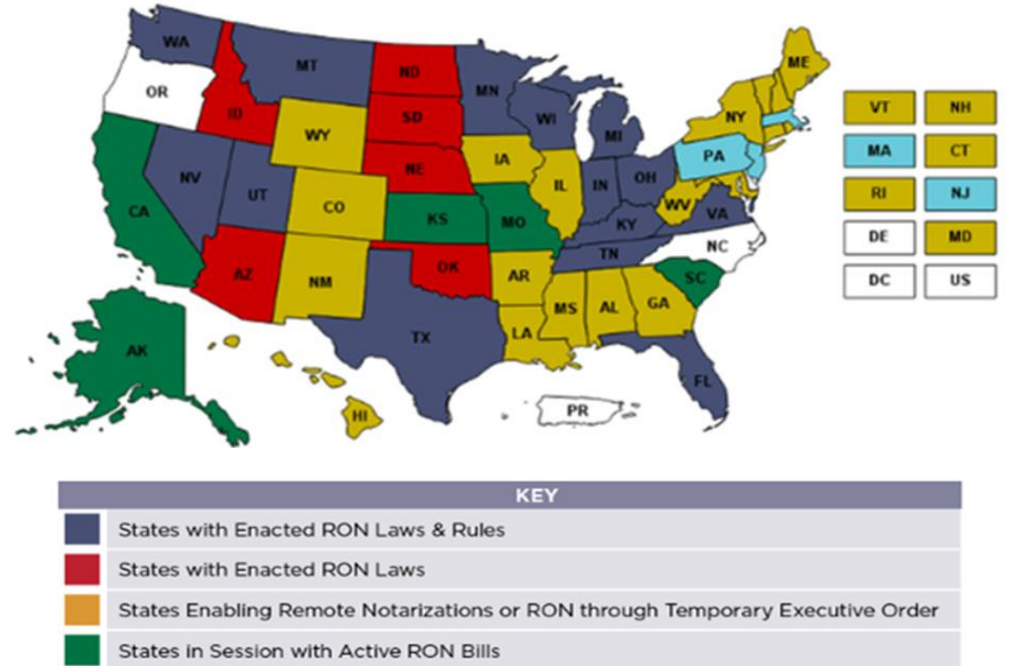
How does this impact the borrower experience?

- Where are my communication touch points with a borrower?
- How do I better control the borrower experience?
- Are my borrower communications consistent and compliant?
- Do I have controls in place over borrower communication templates?
- How flexible and scalable is my technology when defaults increase, portfolio sizes grow, or new regulatory requirements need to be implemented?
- How do I prevent borrower complaints?
- How do I make the loss-mitigation process more efficient?

Move towards digital experience

- Self-Service portals
- Consent to receive notices electronically
- Applying digital mortgage standards to the loan modification process
 - MISMO Working Group
 - E-sign considerations
 - Remote Online Notarization (RON) considerations

Adoption Map



Polling Question #5

Are you currently using, or do you plan to **use electronic solutions (e-delivery, e-sign)** to address the wave of post-forbearance workouts coming?

Wolters Kluwer Resources

Wolters Kluwer Solutions:

- [Expere® Servicing & Loss Mitigation](#)
- [Consulting Services for Servicing](#)
- [Fair Lending Wiz](#)
- [OneSumX for Regulatory Change](#)
- Contact Us :
 - Call (800) 261-3111



Expert Articles:

- [When Servicing Loans, Keep the Focus on the Borrower Experience](#), *written by Chris Zimmerman*
- [CARES Act Section 4021: Complying with the Fair Credit Reporting Act](#), *written By Britt Faircloth, CRCM*

Insights

Covid-19 Regulatory Change:

- [Subscribe for complimentary COVID-19 filterable bulletins](#) outlining notable financial industry regulatory updates, powered by OneSumX for Regulatory Change Management



Please use chat to submit your question.

Q&A

Polling Question #6

Would you like a representative from Wolters Kluwer to reach out to you to **discuss consulting services or technology solutions** regarding servicing and loss mitigation?

Polling Question #7

What do you see as your greatest challenge?

Staffing

Manual processes

Maintaining a focus on fairness

Managing regulatory change

Status of risk assessment and program

Volume of modifications