By: *Jane Mason*

WHEN THE DOMINOES BEGIN TO FALL

With the COVID-19 pandemic putting servicers' disaster response procedures to the test, automation is more important than ever.

During the first week of March, a deadly tornado became our nation's latest major natural disaster when it ripped through central Tennessee. Sadly, it was only the latest in a seemingly endless onslaught of fires, floods, and hurricanes that Americans have had to grapple with over the past several years. Today, we are all dealing with a new disaster that is bigger, scarier, and more deadly than them all. To be sure, the COVID-19 pandemic is a disaster of a different kind, yet its impact is even more catastrophic.

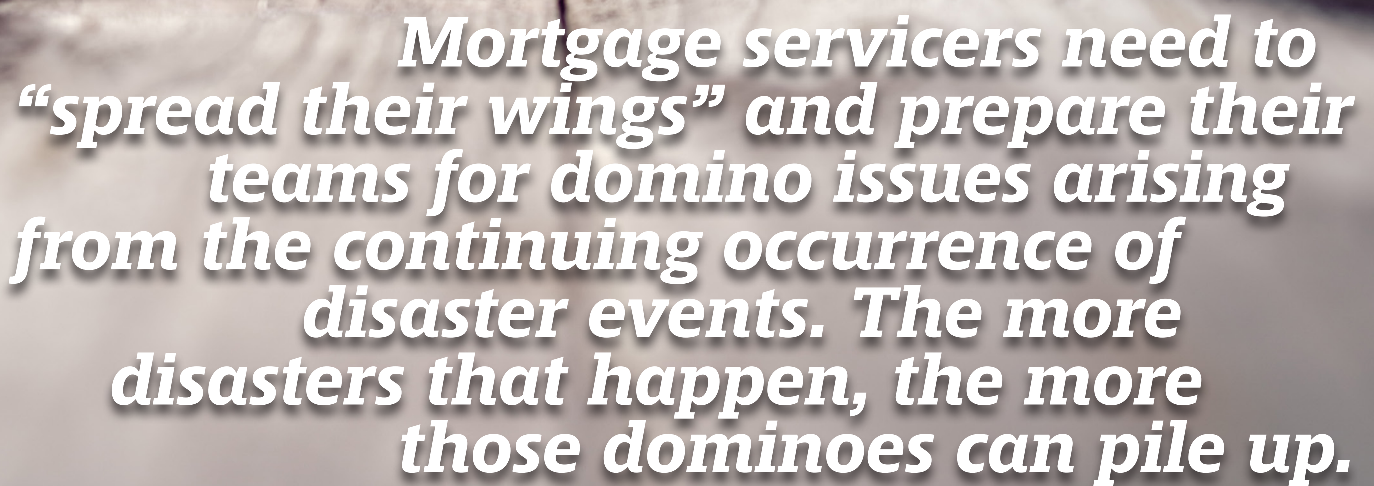
Having spent the last few years managing natural disaster events, servicers may risk being overconfident, thinking that they have disaster preparedness down pat. In this environment, however, the obstacles for default servicing are mounting exponentially. Federal, state, and investor requirements continue to shift. With an evolving climate, an increasing number of natural disasters, and now the coronavirus, servicers need to quickly reevaluate how rigorous their processes truly are—and what they should do to improve them.

THE CHALLENGES OF A PANDEMIC

Even with the best of outcome scenarios, the coronavirus promises to ignite delinquency rates. As families across the U.S. prepare to deal with businesses shutting down for an undetermined time frame, news of economic distress and volatility is soaring. The potential ripple effect of this pandemic disaster is virtually unfathomable. Homeowners face income loss on multiple fronts, including layoffs, business closures, the inability to work due to absence of childcare, and, most importantly, loss of work due to contraction of the virus.

Disaster relief options are beginning to take form. On March 10, Dr. Mark Calabria, Director of the Federal Housing Finance Agency (FHFA), reminded mortgage servicers that "hardship forbearance is an option for borrowers." The Federal Housing Administration (FHA) provided similar guidance, prompting servicers to offer FHA loss mitigation solutions to distressed borrowers. As the breadth of impact escalated, both agencies quickly responded with the issuance of a two-month moratorium on evictions and foreclosures.

The mortgage industry as a whole is proactively following guidance from the Centers for Disease Control and Prevention (CDC) in efforts to prepare for this pandemic disaster. However, the question of business continuity and access to liquidity will play an equally important role in addressing the relief effort.


Mortgage servicers need to “spread their wings” and prepare their teams for domino issues arising from the continuing occurrence of disaster events. The more disasters that happen, the more those dominoes can pile up.

By: *Rohit Gupta*

Mortgage servicers have always had to protect themselves from excessive default risk brought on by natural disasters. In addition to ensuring disaster preparedness, mortgage servicers also need to "spread their wings" and prepare their teams for domino issues arising from the continuing occurrence of disaster events. The more disasters that happen, the more those dominos can pile up.

THE REALITY OF DISASTER RELIEF REQUIREMENTS

A recently published Mortgage Bankers Association (MBA) white paper entitled "Improving Default Mortgage Servicing Processes, calls on the industry to improve both clarity—such as taking the chaos of exception processing and automating—and consistency in disaster relief policy. Asserting that the "industry needs a common playbook across all the federal agencies and guarantors as well as uniform standards of property preservation and hazard mitigation programs," the proposal is timely, but may fall on deaf ears amidst pandemic fears.

Overlooking this and similar important calls to action would be a mistake. Default servicing has struggled under tight margins and constrained human resources, while disaster events have soared conversely to record low delinquency and foreclosure. Adding to this dilemma is the fact that relief options and requirements have continued to change, which requires implementation and administration by already strained mortgage servicing operations.

For example, this past summer, HUD strengthened FHA mortgage relief options by expanding their Disaster Standalone Partial Claim option to all borrowers living or working in a Federal Emergency Protection Act (FEMA) Presidentially Declared Disaster Area. With the looming coronavirus pandemic, nearly all U.S. states and territories have filed Emergency Declarations for COVID-19 disaster assistance, which also falls under FEMA in accordance with the Stafford Act. This means that default servicers now need to reassess relief options and requirements to effectively support homeowners impacted by the coronavirus.

Likewise, Fannie Mae and Freddie Mac recently expanded their relief options to include 90 days to one year of suspended payments, depending on a borrower's circumstances. This may sound small, but keeping up with previous and existing agency relief has been a challenge even before the onset of the coronavirus. In addition to other new disaster relief requirements, servicers must also provide accurate and timely relief amidst sunsetting programs, including the FHFA Home Affordable Refinance Program (HARP), the subsequent Freddie Mac Enhanced Relief Refinance (FMERR) program, and existing relief under Fannie Mae's High-LTV Refinance Option (HIRO).

THE PRESSURE IS ON

Today's challenges are unique, but they are not new. Mortgage servicers have always had to protect themselves from excessive default risk brought on by natural disasters. In addition to ensuring disaster preparedness, mortgage servicers also need to "spread their wings" and prepare their teams for domino issues arising from the continuing occurrence of disaster events. The more disasters that happen, the more those dominos can pile up.

For example, the cost to provide repair and relief for homeowners impacted by disasters of any kind is growing exponentially, and it's hitting the insurance business hard. According to insurancejournal.com, the growing number of property claims has fueled an 18% rise in property insurance pricing in the U.S. in Q4 2019, compared to a global commercial average increase of 11%. These price increases not only impact homeowners in areas affected by disasters, but homeowners across the U.S. as well, who are absorbing these costs in their monthly housing expenses.

Recent wildfires, floods, and hurricanes—and now the virus—have also created a serious underinsurance crisis. As property claims are submitted, repair assessments frequently overlook the true cost of reconstruction, which has been adversely impacted by the rising cost of materials, ongoing labor shortage, and tariffs on construction materials. This creates a gap in claim reimbursement and the actual repair cost burden on the homeowner. Many disaster-stricken families are facing severely strained finances as they juggle the cost of home displacement and potential loss of income during recovery timeframes.

Underinsurance is also growing as new homebuyers purchase in areas where wildfires, flooding, and tornadoes have not previously occurred, at least not at the catastrophic level. If it's not an investor requirement, homebuyers rarely opt to purchase insurance coverage that sufficiently covers a natural disaster, if it covers one at all. When a disaster occurs, the rising reconstruction expense and the underinsurance gap, coupled with increasing costs of homeowner's insurance, can push even financially stable borrowers into default.

"RELIEF" FOR DEFAULT SERVICING?

Mortgage servicers have been put to the test since the financial crisis, and they continue to show their strength and perseverance despite the

barrage of industry challenges. However, with business continuity in question, and what may be a near total absence of manpower, default servicing is in for its greatest challenge yet.

Default servicers need to help borrowers rebuild and recover. To do so, servicers will need to effectively bridge gaps in changing relief regulation, investor guidelines, and program offerings. The key to bridging these gaps is automation.

The mortgage industry prides itself on embracing digital technology. Yet, even with clearly defined strategies, areas within mortgage servicing can be left with significant gaps in innovation. That includes default servicing, which has not been much of a priority in recent years. During the financial crisis, an enormous amount of attention was given to delinquency, foreclosure, and bankruptcy. With today's record low foreclosure rates, however, default servicing has thinned out with the exception of disaster relief.

Yet, success in the mortgage servicing industry has always meant taking a responsive, flexible, cost-effective approach to business. Despite the forthcoming systemic stress on default servicing, the demands remain the same. Servicers must create operational efficiency, minimize costs, manage risk, and both innovate and improve the customer experience and retention.

Servicing operations must commit to avoiding further breakdown in processes, uniformity, and efficiency. In other words, they must stop resorting to reactive approaches to issues, which typically leads to manual processes and spreadsheets. The smarter approach is for servicers to take what precious time and budget resources they have and invest them in automated workflows built on today's technologies. By doing so, they will be able to create a sophisticated, flexible, and transparent approach to business processes and decisioning created for today's digital framework.

As manpower becomes stretched to capacity, automation allows services to place control in the hands of their operations team, who are the "boots on the ground" during disaster relief efforts. The operations team is best suited to understanding existing processes, rules, and decisioning, and best equipped to add another iteration of changing requirements and circumstances. They don't have the time to wait for IT development to help them out, but existing automated workflow technology can help them immediately.

The other crucial step for servicers is to identify a vendor partner that deeply understands the servicing business down to every detail and has a proven commitment to the industry. Equally as important, the vendor must have an established track record for rapid requirement development and deployment. Ideally, this will involve a SaaS application that stores complex rules and leverages dynamic decisioning and AI to understand data captured throughout the loan lifecycle.

A servicer's automated workflow application should be able to access data that supports subsequent processes and is able to make determinations, define exceptions, and create alerts. It should also be able to guide users through various tasks, scenarios, and decision paths to yield required results. Most importantly, it should enable customer self-service, so that borrowers who need help immediately are able to get it.

If current disasters—including the coronavirus—have taught us anything, it's that servicing needs can change drastically on a dime. That means technologies that servicers depend on must be flexible enough to handle rapid shifts in default servicing. At the end of the day, workflow automation and the help of an experienced business partner is really the only option for addressing today's disaster relief challenges. We may never be able to prevent disasters, but we can always improve the ways we respond to them.

__Jane Mason__ is CEO and Founder of Clarifire and the original architect behind CLARIFIRE, an application that brings all parties within mortgage servicing operations together onto one secure platform and is a recognized leader in technology solutions for the financial services and mortgage industries. With over 15 years' experience in financial services technology, Mason started her career in business operations, quickly becoming an executive of an international law firm. As an entrepreneur and innovator, Mason has received numerous awards and accolades for her service in local business and the national mortgage stage.

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