By: *Jane Mason*

HOW SERVICERS CAN STOP BEING SPOOKED BY THE UNKNOWN

As Halloween approaches—right in the middle of wildfire and hurricane season—servicers are bracing for more tricks than treats. In most cases, however, there's a better way to prepare than the methods they use today.

The late journalist Helen Thomas once said, "When you're in the news business, you always expect the unexpected." The same could be said for mortgage servicers. In the past year and a half, servicers have experienced a frightening amount of uncertainty and chaos, from COVID-19 that continues to plague the U.S. and the horrific challenges presented by hurricanes and wildfires.

While some of us have our own expectations for the rest of 2021 and for 2022, nobody has a crystal ball. As Halloween approaches—right in the middle of wildfire and hurricane season—servicers are likely bracing for more tricks than treats. In most cases, however, there's a better way to prepare for "Tales of the Unexpected" than the methods they use today.

THINGS THAT GO BUMP IN THE NIGHT

Everyone I talk to agrees—mortgage servicers have never encountered so much ongoing uncertainty as they do today. It may seem difficult to quantify that statement, but there are more than enough horror stories to go around—and the most devastating among them are beyond anyone's control.

Over the past several years, climate catastrophes have impacted the entire country in one way or another. They've included wildfires in the West, which have also damaged air quality far beyond fire perimeters; ice storms in the Midwest, Northeast, and even the South; hurricanes in the Midwest and Southeast; and a heatwave in the Northwest that killed more than 200 people. As I write this, Hurricane Ida has destroyed thousands of homes in Louisiana and caused an estimated $16 to $24 billion in flooding damage in the Northeast.

We can't possibly know when the next natural disaster will strike, but we can reasonably assume more are on the way. A recent study conducted by the International Federation of Red Cross and Red Crescent

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Societies found that climate disasters have been increasing for the past half century and have grown 35% since the 1990s. We also know that with each new disaster, federal agencies will advise homeowners to reach out to their servicers for relief options—which will inevitably change as well.

Over the past year and a half, the ability of servicers to handle disaster relief options was made more complex by the pandemic, which continues to impact millions of Americans. While forbearance and eviction moratoriums have kept borrowers in their homes, these options are now expiring, which will surely lead to an increase in permanent loan modification relief, bankruptcies, and foreclosures down the line. This is yet another disruption servicers must grapple with in the months and years ahead.

Further unknowns include the impacts of recent and future regulations, as well as the level of scrutiny with which federal regulators will place upon servicers. We already know that the Consumer Financial Protection Bureau is focusing on servicers' operations this year to ensure borrowers are treated fairly. However, servicers will also have to deal with two new CFPB rules that dictate when and how they must work with borrowers when collecting payments. These rules involve bans on harassment, abuse, and misrepresentations as well as the collection of time-barred debt, which is mostly unregulated at the state level. These business-rule changes and additional metrics require servicers to recalibrate, which creates additional disruption.

Besides being downright spooky, these collective unknowns will make managing borrower interactions infinitely more difficult for servicers. At the very least, complying with the CFPB's new rules while dealing with record origination volumes, the likelihood of a spike in defaults and foreclosures, and bracing for future disasters will make the complexities of servicing more challenging than ever.

KEYS TO OVERCOMING FEAR OF THE UNKNOWN

What's important to remember is that while all challenges are unique, mortgage servicers must always be prepared for the unknown. The good news is that we have learned plenty of lessons in recent years about what business strategies work best when the market is continuously dictated by uncertainty.

The most valuable lesson we've learned is that uncertainty demands a digital-first approach. "Digital first" involves responding to new opportunities or challenges with the assumption that the solution can and should be digital in nature rather than addressed through traditional processes, which tend to be manual, time-consuming, and prone to error.

For servicers, this means having access to technology that is capable of ingesting and synchronizing constantly evolving data through one's operations. It also means leveraging automated workflows to reduce or eliminate unnecessary labor as well as the use of spreadsheets, queries, workarounds, and one-off software, which increase the chances of mistakes being made and introduce additional risk.

Because reducing costs is the goal of every servicer, it's important to proactively plan for safety by implementing flexible, automated, connected workflows before the next major event strikes, not afterward. This need became increasingly evident with each passing disaster, when it became very clear which servicers had embraced automated workflow technology and which ones had not.

Unfortunately, most current servicing technologies only automate a few types of tracking non-smart workflows and lack the type of flexibility and capability servicers need to adjust to evolving conditions. Proper smart workflow technology should include all possible types of workflows, connect them no matter the type of process, and enable new ones to be rapidly created as circumstances change, such as when the federal government announces new homeowner relief options. They should also help servicers gain greater visibility across their entire organization and help determine the appropriate options for each borrower, so when chaos strikes, they can respond quickly and effectively with minimal effort, and their actions become completely auditable.

This last point is incredibly important. When a borrower has just lost their job, or their house is literally underwater following a hurricane, they don't have time to wait for their servicer to manually check for the best workout option. They need help immediately. This means servicers need technology that enables fast decisioning and rapid response times as well as self-service mobile options for borrowers, so they can access relief on their own at any time and receive automated responses in the mode of communication they prefer, whether phone, email, or text.

BUILDING A 'SAFE ROOM' APPROACH TO UNCERTAINTY

As the number of natural disasters has grown, so too has the number of online resources for "safe rooms." For those who aren't familiar with them, FEMA defines a safe room as "a room or structure specifically designed and constructed to resist wind pressures and wind-borne debris impacts during an extreme-wind event, like tornadoes and hurricanes." In a metaphorical sense, servicers can build their own kind of "safe room" by ensuring their operations are protected by the storms of uncertainty.

If we were to envision what this safe room would look like, the foundation of the room would be a single automated workflow application that spans the servicer's entire organization from which to create seamless operations. The reality is, a process is a process. and they just need business rules to be interconnected creating a seamless servicing insulation. This is quite different than the loose collection of applications most servicers currently use, most of which have limited flexibility and are poorly integrated with each other. The efficiencies servicers gain by using an amalgamation of platforms is extremely limited because they do not entirely eliminate the manual processes that drive up costs.

By using a single application, on the other hand, servicers can centralize workflows for all scenarios while building application programing interfaces (APIs) with other critical applications. APIs expand and extend automation outside the servicing organization and make other seamless processes a reality. As just one example, with the right platform, servicers can access Freddie Mac's Resolve through an API to determine the correct workout options under Freddie Mac's guidelines. If a borrower does not qualify for a particular workout, servicers can instantly find out why as well. This saves servicers a huge amount of time and labor when performing loan workouts and ensures that borrowers get the help they need when they need it.

With the proper technology in place—one capable of automating any kind of workflow, delivering a one-click approach to workout options and borrower self-service functionality—servicers can skillfully respond to any what-if scenario or uncertainty. Further, they can break free from their old habits to use laborious manual tasks and spreadsheets as well as eliminate in-house coding and IT costs associated with using outdated technology.

Servicers can also gain straight-through, no-touch processing capable of approving deferred payments in as little as 30 seconds and enable borrowers to modify their loans without ever talking to anyone. Borrowers can quickly answer a few questions and easily identify what relief options they qualify for, and receive a decision entirely on their own, which allows servicers to focus their teams on exception cases and borrowers who prefer human assistance.

As disrupted as the servicing industry has been in recent years, there will always be uncertainties, as well as the likelihood that more chaos lies ahead. Servicers shouldn't let this simple fact haunt them. Instead, they should let it spur them into rethinking the limitations of their current approach and finding the tools they need to streamline chaos rather than be constantly spooked by it. Those tools may be right in front of them.

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