By: *Jane Mason*

HOW SMART SERVICERS ADD CERTAINTY IN UNCERTAIN TIMES

COVID-19 and new waves of natural disasters have forced the industry to adapt rapidly.

Who would've thought 2020 would turn out like this? We started the year with historically low delinquency rates, and February went on record as a "generational low" for delinquencies and foreclosures. Until March, default servicing had been moving along at a dull hum. The next thing you know, a global pandemic and another wave of natural disasters delivered a one-two punch for the ages.

COVID-19 hit and hit hard, with unemployment reaching a 50-year high in April while the number of borrowers in forbearance soared to nearly 5 million. Scaling to address millions of borrowers in need of relief while transitioning employees to work remotely from home has continued to keep servicers scrambling to answer calls, place borrowers in loss mitigation alternatives, and incorporate temporary accommodations issued by investors. Just as mortgage servicers were able to draw a breath, the 2020 hurricane season opened at a fast and furious rate—breaking records at the onset—followed by another surge in wildfires.

As one of the most tumultuous and unpredictable years in the mortgage industry's history draws to a close, mortgage servicers can only wonder what comes next. However, if we've learned anything over the past eight months, it is that mortgage servicers need just as much relief as their borrowers do. With the right technology—and the right partner—they can get it.

DEFERRALS, DEFAULTS, DISASTERS

As was the rest of the country, most servicers were caught entirely off guard by the severity and speed of the pandemic's impact. Even the best of default servicing operations and systems struggled to scale at the needed velocity. There were also challenges in providing

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real payment determinations in response to borrower needs and handling distressed borrowers in as timely and thorough a manner as required.

Many servicers may have kept their heads above water while rising to the onslaught of forbearance relief requests under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. To say servicers have stabilized, however, would be a fallacy. Another historic storm year and the largest wildfire season on record pushed demands for borrower relief to unfathomable levels.

The annual hurricane season runs from June 1 to November 30. As the current season has progressed, the U.S is on track to surpass the previous 2005 storm record of 28 named storms. Not to be overlooked, this year's wildfire season has reached unprecedented levels as well. Wildfires typically hit from August to November. By the end of October, the U.S. reported over 47,000 wildfires that had burned more than 8.5 million acres this year, destroying more than 13,000 structures in California, Colorado, New Mexico, Idaho, Oregon, and Washington. Although mortgage servicers have contended with record-high natural disaster levels for the past five years, addressing borrowers in need of disaster relief is difficult to manage even outside of the pandemic—but the pandemic certainly made things worse.

Despite unemployment, delinquency, and forbearance rates, many borrowers have received temporary relief through CARES Act options. This has been especially true for those borrowers with Fannie Mae and Freddie Mac loans. Many of them have already moved out of forbearance into a normal payment mode, having deferred forborne payments to loan payoff, or having migrated into other relief alternatives. Yet, despite some relief, current delinquency trends remain dangerously high.

Even as 90-day-plus delinquencies ebb, well more than 2 million homeowners remain seriously delinquent. Additionally, the number of loans that are not eligible for relief under the CARES Act, which only extends to federally-backed mortgage loans, remains excessive. This poses further obstacles to recovery for those borrowers that may have received early relief from their servicer but have no guaranty of future access to these options simply because their loans do not fall into the government-owned category that includes Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), the Veterans Administration (VA), the U.S. Department of Agriculture (USDA), or the Federal Home Loan Bank (FHLB) mortgage partnership finance (MPF) mortgages.

The question becomes, what does drinking from the delinquency fire hose look like once the remaining borrowers in forbearance roll off? With so much uncertainty continuing to surround the pandemic impact, including ongoing unemployment, the sunset of foreclosure moratoriums, and the end of CARES Act forbearance, mortgage servicers need efficiency, accuracy, and radically smart automation in their default servicing solutions. It is crucial to prepare for loss mitigation activity that far surpasses the means used to move through the Great Recession. While working amidst ongoing financial burdens resulting from investor advances and the high cost of servicing delinquent loans, servicers desperately need innovative technology that is affordable and easy to deploy consistently and rapidly.

INNOVATING FOR SPEED AND SCALE

Although it is easy to be overwhelmed by what the balance of this year and 2021 hold in terms of supporting distressed borrowers, servicers have a real opportunity to change how they approach loss mitigation, and it is through technology. Mortgage servicers no longer need to resort to manual intervention, where they become burdened by antiquated systems and platforms that dictate how you do business, or by proprietary solutions that can be inconsistent in terms of cost and efficiency. But not just any solution will do.

When it comes to selecting technologies, it is crucial that servicers not have to wait for capabilities that are slow to deploy or require constant updates and "fixes" in order to meet the needs of staff, borrowers, and even investors. In 2021, servicers will need to analyze their default servicing strategy, now more than ever, and their approach to business operations must

genuinely be revolutionary.

It is possible to meet today's challenging relief landscape, but servicing systems and processes in 2021 will need to receive, distribute, and address loss mitigation actions in bulk. Managing complex processes that dictate communication, event management, and decisioning while meeting investor requirements and offering eligibility options to the borrower, is necessary. Servicers must move away from slow-moving, release-cadence platforms of the past that cannot effectively deliver the rapid changes and automation that smaller, nimbler, expertly created technologies can. This means embracing solutions that harness data and rapid decisioning in a Software as a Service (SaaS) framework, which yields the speed, scalability, and flexibility needed to meet current demands from both borrowers and investors.

Mortgage servicers will need process automation that supersedes traditional solutions. If 2021 is anything like this past year, a successful default servicing operation that is prepared for what comes next needs intuitive workflow paired with workout decisioning that has the built-in intelligence to meet investor requirements—along with corporate processes and proprietary risk guidelines—instantaneously. By leveraging a robust, nimble, SaaS platform, coupled with subject matter expertise and agile delivery methods, servicers can gain the capacity to manage unlimited levels of change in a flexible and fluid environment. Now layer in access to data, the sophistication of artificial intelligence, and a user-friendly bi-directional workflow portal that provides borrowers with access to 24/7 self-serve capabilities, and you have what servicers need to bring clarity to chaos in the next year.

With solutions needed yesterday, servicers require a contemporary application in the next year that can be delivered using rapid implementation methods. This provides servicers with immediate access to full-service, cutting-edge automated workflows that can generate and accelerate real-time relief for borrowers dealing with natural disasters, COVID-19-related health or financial impacts, or all three. The key is to trust industry technology providers that understand loss mitigation's nuances, particularly from the past year, including how to manage cost, resources, delinquency, and the unpredictability of relief administration. With such providers, servicers can readily access smart process automation without disrupting their organizational balance or systems.

For the foreseeable future, servicers will be both burdened and challenged in their efforts to keep up with borrower relief. But with new technologies that leverage experience, data, communication, and automation alongside their proprietary intelligence, it's possible to drive results even during natural disasters, pandemic upheaval, and industry volatility that will still be with us in 2021. It's possible to provide a better, faster borrower experience through self-service and access to personalized decisioning driven by relevant data. However, this possibility only exists when servicers implement technology that delivers automated workflow and workout decisioning with real flexibility and agile delivery.

Extraordinary times call for extraordinary measures. But by looking deeper now and in the next year, servicing organizations can deliver real-time relief to borrowers—and give themselves a break as well.

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