COVID-19: IMPLICATIONS AND NEXT STEPS FOR LENDERS

COVID-19: What to Do Now, What to Do Next
A bad situation, likely to get worse.

Many consumer households are facing financial hardship as a result of the coronavirus outbreak. Millions are now experiencing the realities of unemployment and millions more are likely to experience the same in the coming months.

While some will receive relief in the form of unemployment insurance, in most cases it will not be enough to cover basic living expenses including mortgage payments.

To lessen the blow to families, small businesses and the financial services industry in the US, Congress on 27 March passed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The implications for the mortgage industry are substantial.
Millions of homeowners will likely be adversely impacted by COVID-19. Before the pandemic the delinquency rate in the US was about 3.5 percent. Now economists are forecasting that as many as 30 percent of Americans with home mortgages, or 15 million households, could need assistance in the form of a forbearance or modification.¹

As a result, federally-backed mortgage programs (FNMA, Freddie, FHA, VA, USDA) are introducing forbearance and payment deferment that will provide immediate relief to homeowners with mortgages insured under their programs. Borrowers will be permitted to request 180-day forbearance with the option to extend it by an additional 180 days.²

30% of Americans with home loans could need assistance in the form of forbearance or modification.
The impact of COVID-19 and the intervention of the federal government will have far-reaching implications for loan servicers. We see this happening in three overlapping waves:

**WAVE 1**
**Forbearance**

There will be a surge of inbound calls from borrowers seeking to understand their options and most will likely go down the path of forbearance. Although these borrowers will not be required to provide documentation to prove hardship, servicers should still establish Quality Right Party Contact (QRPC).

The increase in call volumes to support these forbearance requests and take the resulting action will have an immediate impact on loan servicer capacity. We can expect this to continue at an overwhelming rate for the weeks to come. FHFA estimates more than 2 million borrowers will have been granted forbearance by May 2020. Servicers simply do not have the call center capacity to handle the increased calls and update the required systems.

**WAVE 2**
**Outbound Collections**

In the next 30 - 60 days, servicers will likely see an increase in the number of 30+ days past due accounts. This will consist of borrowers who failed to proactively contact their servicers and those who are not in federally-backed mortgage programs.

Capacity challenges will mount as this wave will occur in parallel with wave 1. It is worth noting that for both wave 1 and 2, we recommend servicers invest time in educating these borrowers, during these conversations, to ensure that they understand what happens at the end of a 6 or 12 month forbearance plan.

**WAVE 3**
**Loan Modifications / Liquidations**

Finally, wave 3 will consist of loan modifications or other actions. Many borrowers will likely be unable to regain their financial wellness and resume paying their mortgage by the end of the forbearance plan. They may need some sort of repayment plan, modification, or liquidation.

This will start with non-federally-backed programs, followed by those in federally-backed programs. This is the furthest out but also the most manually intensive, as cases will typically require servicers to manually key data from borrower loan packages into the system, chase outstanding documentation / data, and manage the cases until resolution is achieved.
Other impacts for loan servicers to consider

We know that federally-backed mortgage programs are taking actions. While that covers the majority of loans, it does not cover all. Non-QM and jumbo loans will be impacted but borrowers won’t have the luxury of federal government support. In those cases, mostly balance sheet loans, banks should determine their course of action. Do they provide relief or follow traditional default management policies? The same can be said for home equity lines and loans.
Next steps for loan servicing

Responding to these challenges will be a defining moment for lenders, one that will likely have major brand implications. We recommend that you consider a program of actions that include:

1. **Command center**
   Create a COVID-19 taskforce or command center within your organization.

2. **Capacity**
   Take immediate action to create scale.

3. **Digital workforce**
   Take on board additional staff to work remotely.

4. **Process**
   Manage changes resulting from revised guidelines which impact existing processes.

5. **Technology**
   Invest now in technology that will drive long-term efficiency via borrower self-service and automation.
We recommend that you immediately create a COVID-19 task force or command center within your organization. It should prioritize the following issues:

- Assign a leader with decision-making authority
- Expect that the command center will be required for the foreseeable future
- Define a response strategy across the mortgage lifecycle
- Integrate with the broader organizational COVID-19 task force and develop a communication strategy
- Manage regulatory and investor change, including intake of change, coordination of impact analysis, and actions required to implement new solutions
- Maintain clear, concise documentation of changes made to technology and operations
- Report results and adjust your approach to optimize and deliver better customer experiences
Each wave will bring capacity challenges for lenders. The most immediate will be in the form of direct contact with borrowers (waves 1 and 2). The influx of loan modifications (wave 3) will follow shortly. Servicers should take immediate action to create scale. This comes with increased complexity, given the current work-from-home limitations and limited options to leverage a global workforce. Servicers should look internally for fungible skills that can be repurposed and externally for third parties that can quickly scale and provide relief.

In addition, lenders should consider leveraging technologies such as chatbots or even a simple SMS redirect to guide customers to automated or self-serve options. These challenges have been addressed, for one lender, with the installation of Amazon Connect to intelligently route calls. This quick solution was delivered in 48 hours and has supported the organization to increase capacity via the addition of remote resources. These types of solutions allow lenders to get through the initial surge in call volume.

The next 2-3 months will be an opportunity to anticipate capacity needs, tighten processes, and create scale.
It is important to keep in mind that additional staff will need to be on-boarded remotely. Enabling this has been a pain point for all organizations over the last 30 days. Many have transitioned to a digital workforce, using work-from-home solutions that deliver efficiency and security. Accenture has some experience of this – a great majority of our global workforce is working remotely.
Initially, servicers should manage changes resulting from revised guidelines which impact existing processes. They should ensure these changes are well documented, communicated to employees, and include appropriate control points. Tight coordination with the command center is a must. In parallel, mortgage lenders should review their loss mitigation processes to ensure they are efficient and capable of supporting a large increase in volume. If these have not been “tested” recently they may not support the execution demands that will be placed on them – a timely review may be worth the effort, notwithstanding the pressure of other priorities.
The COVID-19 challenge should not be viewed as a short-term problem. The industry will likely be dealing with the implications for multiple years. While the redeployment of people can serve as a temporary solution, now is the time to invest in technology that will likely drive long-term efficiency via borrower self-service and automation. For example, some servicers have already created digital forms to capture forbearance requests. Others are exploring concepts like intelligent chatbots or AI tools to quickly resolve a borrower need without human intervention, or further integration of systems to drive automated data flow.

By harnessing the power of omnichannel analytics and AI, lenders can identify customers’ intent and transition them into an interactive conversation where a digital assistant guides the customer through a personalized and intuitive experience.
Final thoughts

The pandemic is likely to accelerate the adoption of digital capabilities across the industry. Many consumers will engage with digital tools and virtual experiences that they would otherwise have avoided. Lenders will likely become comfortable with a remote workforce and begin using collaborative tools that make interactions with customers and fellow employees more seamless.

For these reasons, actions should be taken with one eye on the future. Lenders should consider not only how a solution solves a short-term problem. Rather, they should think strategically about how solutions might fit within the organization in the longer term.

Across mortgage origination and loan servicing, organizations should take immediate action to address challenges that have already emerged, and to get in front of those we know are coming. Lenders should consider the following actions now to successfully navigate the waves that are coming:

• Scale operations
• Adapt to new ways of thinking
• Automate with technology
• Operate with agility

Accenture is already helping lenders deal with these challenges. We are ready to assist you in whatever way you require, providing skills and capacity as you deal with these unprecedented times.
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Endnotes