DSnews

DEFAULT SERVICING » TRUSTED · RELIABLE · INFORMED @ DSNEWS.COM » 4.2021

COVID-19: One Year Later

Representatives of Cherry Creek Mortgage, Embrace Home Loans, Freedom Mortgage, Gateway First Bank, Inlanta Mortgage, and more discuss lessons, takeaways, and next steps for the industry after an unprecedented year.

PREPPING FOR REGULATORY CLIMATE CHANGE IN 2021

With a new president and incoming policy shifts, here's how mortgage servicers should be preparing and prioritizing.

HOW DISTRESSED DISPOSITION CAN HEAL, NOT HARM

Here are three strategies to speed healing and help homeowners in a post-pandemic housing market.

TEXAS SUPREME COURT THROWS THE INDUSTRY A LIFELINE

This holding strengthens an alternative to lender's counsel when faced with allegations of a potentially unenforceable lien.

'EARLY RESOLUTION' COULD ADD EXTRA COMPLICATIONS

Here's how one county's residential eviction and consumer debt "Early Resolution Program" could impact stakeholders.

By: **Phil Britt**

HOPE (AND CHALLENGES) AHEAD

Industry representatives discuss how mortgage has weathered the challenges of COVID-19, how processes have changed for the long-term, and what looms ahead as vaccines promise a potential return to in-person business.

When the COVID-19 pandemic hit full force last March, mortgage lenders and servicers, as with many other businesses, were faced with a situation they had never encountered. Though the industry was very experienced when it came to dealing with natural disasters such as floods or hurricanes that would force office closures and otherwise impact business, those events were localized and limited in scope.

The COVID-19 pandemic, however, was global. Even a year later, the battle against COVID-19 continues, although widespread vaccination has offered some sense that the end to the closed offices, reduced travel, and other pandemic-mandated measures may be on the horizon.

"We've never gone through a pandemic before; everything was different," said Brian Gould, SVP of Operations for Genworth Mortgage Insurance. "The thing that comes closest is a hurricane, but that is short-term … and the rebuild starts right away."

The pandemic resulted in the industry working within new forbearance and foreclosure rules, an unexpected jump in volume, the challenges of managing a largely remote staff, and an extremely long path back to some semblance of the previous industry environment. Some of the changes necessitated by COVID-19, however, are expected to become permanent.

Home prices increased, while rates for 30-year fixed mortgages dropped nearly 100 basis points during the course of the year, according to Freddie Mac, driving refinancing demand.

Joe Zeibert, Head of Global Mortgage Solutions for Nomis Solutions, explained, that adding to the complexity for the mortgage industry were more frequent price changes for loans due to swings in the underlying environment (loan risk factors, etc.).

"Last year will go down as probably the best year in the history of mortgage lending in terms of not only the value but also the profit that was able to be manufactured during a period of time. It's not something that could have been expected," said **Paul Buege**, President and COO of Inlanta Mortgage.

However, homeowners who had requested forbearance had to exit before being eligible, Gould said. So, lenders had to advise those homeowners how to cancel forbearance. Once someone had used it, even if only for a month, they had to make at least three timely payments before exiting. Before the pandemic-driven rules, the homeowner in forbearance had to make 12 timely payments

"If we had to do this 10 years ago, we'd have failed. We were able to effectively communicate vertically, horizontally, with our peers, our subordinates, and our superiors."

—Stanley Middleman, CEO, Freedom Mortgage

By: **Phil Britt**

> ***"I've been hearing about digitizing the mortgage process … and have been involved in many committees and panels over the years, but it never got a lot of traction. But this last year, for the first time, I think it did."***
>
> —Rick Seehausen, President and CEO, Cherry Creek Mortgage

before exiting.

"We've never experienced a shock of so many people going into forbearance at once," Gould said.

CHANGES IN FORBEARANCE, FORECLOSURES

The pandemic and resulting economic crisis resulted in foreclosure and eviction moratoria implemented at the federal, state, and local levels, many of which extended into 2021.

In mid-February, the Department of Housing and Urban Development, Department of Veterans Affairs, and Department of Agriculture announced a coordinated extension and expansion of forbearance and foreclosure relief programs through June 30, including:

- Foreclosure moratoria for homeowners
- The mortgage payment enrollment window for borrowers who wish to request forbearance
- Up to six months of additional mortgage payment forbearance, in three-month increments, for borrowers who entered forbearance on or before June 30, 2020.

THE NECESSITY OF DIGITAL SOLUTIONS

Lenders and servicers who quickly embraced the shift in technology, or that had embraced digital solutions before the pandemic, tended to fare well, similar to during the 2007-2008 mortgage crisis, Zeibert said. The size of the organization didn't matter as much as the technology culture itself.

Historically, staff could be added or shifted to meet changes in industry volume. But last year's surges were more than personnel alone could handle. Genworth had typically moved staff from the front end to the back end to help with forbearance surges, but the declining interest rates also meant that the volume was increasing for original and refinanced mortgages, Gould said. As such, the company had to shift people from other areas and rely more on technology to meet the demand.

"I never can remember it being busy on the front end and the back end at the same time," Gould said. "We also were proactive in asking for forbearance files for people in forbearance because we wanted to know ahead of time from a loss reserving standpoint and how many people needed help."

The industry had to quickly convert as many paper-based processes as possible to digital.

Genworth used OCR technologies to automatically index recognized documents and extract data.

"Accounting has historically been a paper-based system; we had to get more efficient," said **Brian Lynch**, President of Advantage Systems. Providing an auto-sign capability on checks minimized the need for people to go to an office to physically sign. It was just one of many paperless options the industry and customers finally embraced, even though they weren't new.

"Until March, there were still a lot of mortgage applications being taken at the kitchen table," added **Joe Camerieri**, EVP, Mortgage Cadence. "Then everything shifted to Zoom and phone calls. Overnight, everything went to consumer direct. You were doing everything electronically not only to transact business, but also to source business."

Lenders and servicers mandated that vendors bill electronically. So rather than accepting a paper invoice, scanning it, and paying it, everything was handled electronically from end-to-end, eliminating paper. Lynch said, "With the hands-off approach, you can facilitate people working from home. That way, they are focused on their work, not on moving paper around."

"If we had to do this 10 years ago, we'd have failed," said **Stanley Middleman**, CEO of Freedom Mortgage, who cited the internet, connectivity and various other technologies for aiding the industry in moving to remote work and handling the surge in volumes.

"We were able to effectively communicate vertically, horizontally, with our peers, our subordinates, and our superiors," Middleman said. "We were able to work with our

regulators, our competitors, allies, and friends. All the people that we interface with have all come together as a community and really bonded to the satisfaction of the consumer."

"Though homebuyers briefly paused their activity at the start of the pandemic," said **Steven Plaisance**, Interim President of Mortgage Banking for Gateway First Bank, "they were 'resilient,' actively buying homes and seeking new mortgages in the second half of the year." Continued low interest rates meant refinance activity remained strong as well.

Rick Seehausen, President and CEO of Cherry Creek Mortgage, credits his company's proprietary loan origination system for the ability to be nimble and achieve the company's best productivity ever. Volume doubled, but the company increased staff by only 15%. Even when activity spiked, loan processing time increased only slightly, from 21 days to 23 days.

"I've been hearing about digitizing the mortgage process and electronic closings and have been involved in many committees and panels over the years, but it never got a lot of traction," Seehausen said. "But this last year, for the first time, I think it did."

Closings still represented a bit of stumbling block, Seehausen added. "We had no problem originating loans, processing, underwriting, and closing them. We were just as efficient if not more so during the pandemic than we were pre-pandemic. But at the end of the day, if a borrower needs to get to a title company along with a seller and a real estate agent and notary, etc., face-to-face, it's a challenge.

Seehausen added that various fintech companies are developing solutions to solve the issue.

Another challenge, Gould added, was income, employment, and other necessary documentation. Tax filings for individuals and businesses were delayed three months, from April 15 to July 15. Some related documentation was delayed as well. Many businesses laid off employees or terminated them, but some of the traditional electronic verification methods lagged in updating this information. The issue was even more pronounced for some of the self-employed, many of whose businesses were particularly hard hit by the pandemic.

Genworth and other lenders had to rely on additional online research, as well as telephone verification, to confirm employment and other pertinent information, Gould said.

Buege added that consumers have become more comfortable with digital verification of income as well as digital submission of personal documents.

Inlanta embraced screen-sharing technology to help lender/servicers and consumers somewhat replicate the connection they would have if conducting business in a more traditional setting.

Though now there are adequate safety protocols in place that a customer can come into the office, many still prefer conducting business remotely, Buege noted. "They have clearly shown us that mortgage, like so many other aspects of life today, is going online. They like that they don't have to drive across town, have some coffee, do the application, then drive back home. The whole transaction is much quicker."

Similarly, lenders could handle more closings virtually because they weren't wasting time driving from location to location, Buege said.

TECHNOLOGY NEEDS OF REMOTE STAFF

Genworth, Gateway, and others already had staff using laptops for some time before the pandemic hit. In that regard, they were better prepared than some others for staff to shift to work-from-home. However, some were challenged by slow internet connections. Genworth provided stipends to employees who needed to upgrade their internet speeds (if upgrades were available).

Freedom Mortgage expected the declining interest rate environment and was concerned about some of the reports about COVID-19 as early as February, so they started buying staff

"We weren't exactly sure what this was going to look like for our employees. … One of the biggest things we saw initially was people just figuring out how to stay connected with your staff and your manager, when you don't see them every single day."

—Claudia Mobilia, SVP of Operations, Embrace Home Loans

By: **Phil Britt**

> ***"The consumers have made their mark; they've shown the mortgage industry that they want a digital experience with that high-touch service."***
>
> —Paul Buege, President and COO, Inlanta Mortgage

laptops before the pandemic truly hit the nation.

Middleman said, "We were able to make the transition almost immediately. We got way out ahead of a lot of this. … We certainly didn't expect the social and political and physical turmoil that we saw. But we did expect the economy to have a hiccup because it was running too hot."

Since the company had added the laptops early and staff productivity was high, Freedom Mortgage was able to respond to the pandemic more quickly than if workers had still been in the office. Middleman said,"We took every possible step we could to deal with this on every possible level we could imagine."

Going digital was also a boon for Freedom Mortgage's staffing needs. Middleman added, "We were able to expand our recruiting nationwide to fill our needs. What's the difference if you're talking to somebody via the phone, or Zoom, if they're in California or Wyoming or Florida or Philadelphia? It didn't really matter to us where anybody was. By becoming a mortgage company without boundaries, without a ceiling, we're able to grow fantastically. We added thousands of people, and our system was set up to manage and train and equip. And we did it and remained almost 98% remote."

Communications between management and staff was critical as the pandemic first began, and remains so now as some lenders/servicers have started returning to the office.

Gateway First Bank established a pandemic committee to help with the COVID-19-driven changes, said **Steven Plaisance**, Interim President of Mortgage Banking at Gateway. The committee helped the leadership team stay updated with the proper federal authorities and communicated to employees through the proper channels.

The pandemic committee included representatives from each line of business. There is also a smaller subcommittee of five people. The subcommittee was charged with communicating about the business environment during different stages of the pandemic. The full pandemic committee would handle issues such as where Gateway stood in terms of forbearance, participation in Paycheck Protection Program, what to tell employees sent home to work remotely, etc.

"We sent out over 300 communications," said **Melissa Bogle**, Gateway's VP of Marketing and Corporate Communications. "Some of those were informational on taking equipment home, updates on when we would bring you back, etc."

Ongoing communications were critical not only to maintain the Gateway culture, but also to helping employees who were used to the camaraderie of an office setting to dealing with the isolation of remote work, Bogle added.

"I ran an executive meeting every morning, every day, for an hour, and tried to coach the executives about what I wanted them to do with the people that work for them," Middleman said. "We problem-solved every day, and we had a new fire that we put out every day."

"We weren't exactly sure what this was going to look like for our employees," admitted **Claudia Mobilia**, SVP of Operations for Embrace Home Loans. Though a few were working remotely already, once the World Health Organization declared the pandemic, the company suddenly had 95% of its employees working remotely, providing a management challenge.

Managers were accustomed to chatting with the staff about the workday and the events of the night before, working to build those relationships as well as discussing expectations for the day to come. Managers could also have informal discussions with employees, but the end of in-office work ended those common conversations.

"One of the biggest things we saw initially was people just figuring out how to stay connected with your staff and your manager, when you don't see them every

single day," Mobilia said.

Cherry Creek implemented several management programs and management-development programs that have helped manage the remote workforce. Seehausen said, "Our view is that we would like to have an environment where people are back in the office. But we are respecting what we're hearing, which ranges from 'I love to work from home' to 'I can't wait to get back to the office.'"

MANAGING ISOLATION

Like other mortgage companies, Embrace Mortgage shifted to video streaming for management/staff meetings, opting to utilize Microsoft Teams (Zoom and Google Hangouts are other popular choices in the industry).

"I think that helped ease the situation," Mobilia said. "While I can't come up to you and ask you how your day was yesterday or this morning, I can see you on a video, and I've learned to read the emotions of my teammates through video."

However, the video meetings tend to run longer than in-office meetings, Mobilia said. To avoid that, she said it's essential to have a focused meeting agenda. She schedules her thrice-weekly meetings with her groups to be no more than 15 minutes long. Even so, she includes a short amount of time for personal discussion, replacing water-cooler discussions, which she says are important to include along with business purposes of any meeting.

People who are sociable by nature were hardest hit by the change to remote work, Bogle said. Helping Gateway deal with the situation was the "Chief Fun Officer," Hobie Higgins. He put out monthly videos with various updates, sometimes as often as weekly.

"It was all about engagement," Bogle said. "It was all about shout-outs to people, fun type of things, just so people still felt part of the organization. That was wildly successful."

The fun continued with Gateway's private Facebook group, which would include various contests, complete with gift card prizes. Vogel added, "It was just another way of trying to keep people engaged with each other and take a break from everything that was going on."

Gateway also held several mental health webinars discussing issues like how to cope with working remotely. A virtual physician app made available to employees had a mental health component to it.

LOOKING AHEAD

Once most people are back in the office, Mobilia expects to have less-frequent virtual or in-office meetings. A hybrid meeting featuring remote and in-office workers doesn't work too well, she added.

While Embrace will have a larger percentage of staff work remotely when COVID-19 wanes than it did before the pandemic started, most entry-level workers, IT staff that maintain the equipment, and some others whose work dictate they be on site will be in the office, Mobilia said.

Work will remain remote for many, however. Even those returning to the office are likely to go in only a few days a week, according to Lynch. "Management gets to reduce its footprint somewhat. It's going to have major impact on in terms of how much they pay in rent."

Rent can be a major expense for organizations with multiple offices, Lynch added. Reducing that expense helps the bottom line.

Another way lenders and servicers can control expenses is through technology, which enables better scalability and provides more reliability than loan officers, for example, because the latter can go to a competitor and take their business with them. Camerieri said, "The pandemic has neutralized the importance of the physical presence of human beings who source business in the marketplace. I think the pandemic has opened up the eyes of a lot of originators as looking at different ways to generate business."

Technology will also help lender/servicers maintain their profits as interest rates increase and margins tighten, Camerieri said.

"Once you get into margin compression, it almost doesn't matter how much volume you have coming in, really, if you're not quick and nimble and have lower costs," Zeibert added. "The lenders who have the technology to deliver the right price points to the right people at the right time will win. Those who don't, will lose."

"Mortgage bankers are traditionally slow to hire and slow to fire," Seehausen agreed. So those that have relied largely on people to handle the spike in volume in 2020 will be challenged if volume drops off as expected in the second half of 2021.

One of the many technologies lenders were forced to embrace more during the pandemic was desktop appraisals, Camerieri added. While the technology alleviated the need for someone to physically visit the property, only time will tell if the savings will be worth the extra risk since there is no inspection of the inside of a home.

The pandemic highlighted that mortgage customers are ready for a different type of experience. Buege added, "They want that high-touch, high-service experience. They want to get on the phone and to talk to a competent professional mortgage lender, but then they want [the mortgage] to be delivered to them in a digital experience. There's no going back. The consumers have made their mark; they've shown the mortgage industry that they want a digital experience with that high-touch service. And that's where our focus is going to be for the coming year."

Phil Britt *started covering mortgages and other financial services matters for a suburban Chicago newspaper in the mid-1980s before joining* Savings Institutions *magazine in 1992. When the publication moved its offices to Washington, D.C., in 1993, he started his own editorial services room and continued to cover mortgages, other financial services subjects, and technology for a variety of websites and publications.*