Is mortgage industry equipped to implement Washington's forbearance plan?

By Kevin Wack
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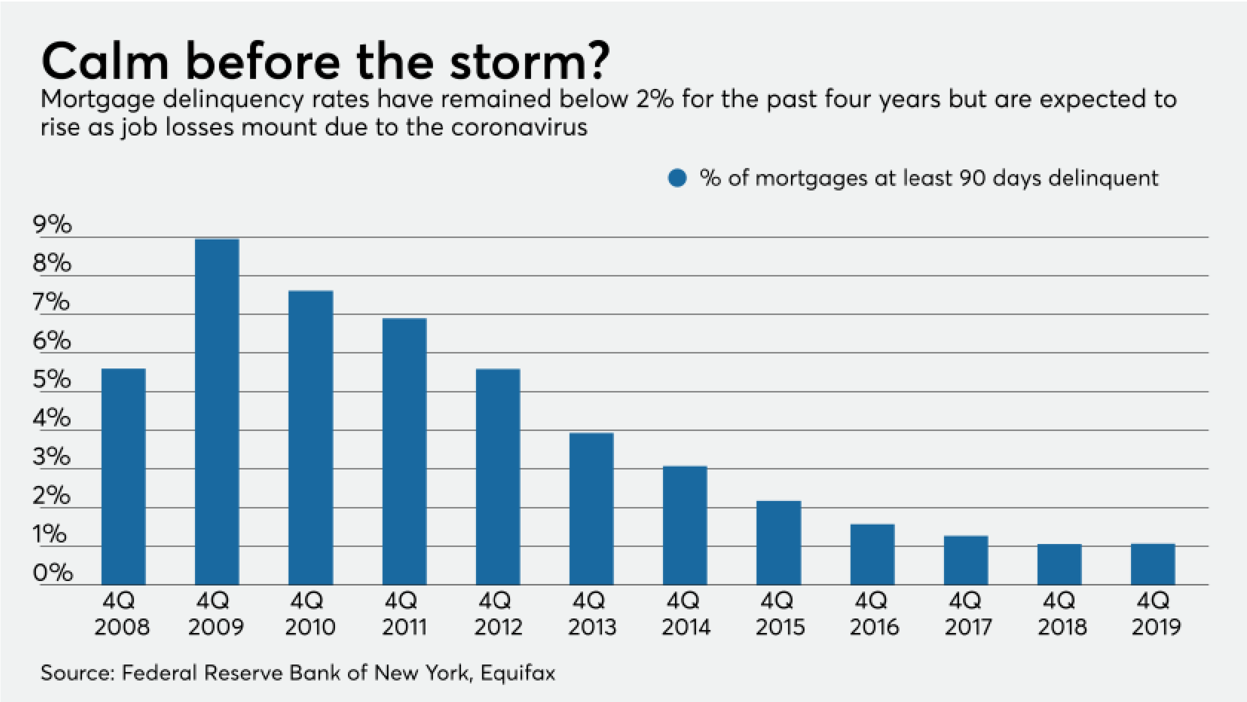
U.S. homeowners slammed by the COVID-19 pandemic were flooding the phone lines of their mortgage servicers even before the details of a congressional relief deal got finalized.

The deluge of inquiries reflects the magnitude of the misery brought on this month by the standstill in many parts of the economy. During the week that ended March 21, unemployment claims ballooned to 3.28 million, more than four times the previous weekly record.

The surge in mortgage call volume also raises questions about important details of the forbearance plan, which was passed by the Senate and House last week and signed into law by President Trump.



Under the bipartisan law, homeowners who have suffered economic hardship as a result of the pandemic will have to request a temporary stoppage in payments. An alternative bill by House Democrats, which is now dead, would have required servicers to grant forbearances automatically to borrowers who become at least 60 days delinquent during the COVID-19 emergency.

The requirement that borrowers take a proactive step to seek relief could result in fewer forbearance plans and put additional strain on overloaded call centers.

“We’re quite worried that mass numbers of homeowners will face hardship and will be unable to get through to their mortgage servicers,” said Alys Cohen, an attorney at the National Consumer Law Center. “So far, there is no backup plan.”

And it is not just consumer advocates who are concerned about the mortgage servicing industry's ability to handle the large call volume.

Ed Delgado, the head of a trade group for mortgage servicers, said the industry does not currently have the operational bandwidth that is needed for this moment. “I think that the capacity strain that will be felt across the industry is real,” said Delgado, the CEO of Five Star Global.

He added that servicers need to mobilize more employees to handle borrower relief requests. That task will likely be complicated by efforts to slow the spread of the virus — either by keeping call-center employees at least six feet from each other or by instructing them to work remotely.

Mr. Cooper, a Texas-based mortgage company, said on its website that it has enabled almost all of its employees to work from home.

“Our phone lines are extremely busy right now, but over the next week we are increasing our call center capacity by 30%,” the company said.

PHH Mortgage, a subsidiary of Ocwen Financial, is also reporting “extremely high” call volume. On its website it is urging customers who want to start the assistance process to send an email, but it is warning that turnaround times may be as long as one week.

The legislative plan for forbearance is part of a $2 trillion response to the pandemic, which also includes a 60-day moratorium on most foreclosures. To qualify for forbearance, borrowers must have loans backed by Fannie Mae, Freddie Mac, the Federal Housing Administration or another federal agency.

Certain provisions of the plan should help smooth its implementation at a time when phone lines are jammed. For instance, borrowers will only have to attest verbally that they are suffering an economic hardship, rather than providing written evidence. Paperwork requirements were a major hurdle to receiving mortgage relief during the last financial crisis.

In addition, consumers will not be required to renew their forbearances frequently; that should help reduce logjams at call centers. The legislation states that borrowers may seek forbearances of up to 180 days, which can be extended by up to 180 additional days.

The requirement that impacted borrowers make a request for forbearance — rather than being granted relief automatically — mimics the approach favored by housing industry groups.

In a letter to the White House and various federal agencies on Monday, seven trade associations called for a unified message from the public and private sectors: Those homeowners who can afford to pay their mortgage should continue to do so.

The trade groups, which include the American Bankers Association and the Housing Policy Council, noted that the number of servicer employees who are able to field phone calls has fallen as a result of the pandemic, and said that only those borrowers who are in immediate need of assistance should reach out for help.

"You're going to still owe the money," Ed DeMarco, president of the Housing Policy Council, said in an interview. "But you're just going to owe it much later."

DeMarco acknowledged that call volumes will be high and said that he wants mortgage servicers to equip their websites to take incoming applications for forbearance.

The emergency relief law does not include a requirement — favored by consumer advocates and included in the House Democrats' bill — that mortgage servicers contact their customers to inform them of the forbearance option.

DeMarco said that mass mailings would create additional challenges at a time when many employees are working from home. "Anything that would involve added expense and time is really not helpful," he said.

Until this month, mortgage companies did not have much reason to invest heavily in their servicing arms, which tend to operate smoothly in good economic times but encounter problems in downturns.

Only 1.07% of mortgages were at least 90 days delinquent in the fourth quarter of last year, which was more than eight times lower than the peak in 2010, according to data from the Federal Reserve Bank of New York.

What's more, mortgage origination volumes have been soaring, thanks to low interest rates, which has given mortgage companies an incentive to add employees to that side of the business.

In the current crisis, staffing shortages in mortgage servicing operations could lead to worse plights for affected borrowers.

Servicers should be making forbearance offers to borrowers who are at least 30 days delinquent, rather than putting the onus of making a request on those homeowners, suggested Patricia McCoy, a law professor at Boston College.

Borrower outcomes have historically been better when servicers work with customers who are only a month late, rather than waiting until their financial problems snowball, McCoy said.

The emergency legislation that was passed last week is silent about what will happen to borrowers at the end of forbearance periods.

Fannie Mae and Freddie Mac said earlier this month that homeowners who are not back on their feet may be eligible for loan modifications, under which their monthly payments will be reduced. Industry groups support similar programs for cash-strapped borrowers with government-backed loans of all kinds.

But consumer advocates wanted to see more details in the legislation.

“There are people who simply will not be able to make these payments,” said Lisa Sitkin, a senior staff attorney at the National Housing Law Project. “It would have made sense to put up some guardrails or a road map or something.”

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