



COVID-19's Impact on the Mortgage Industry & Mitigating Risk

PRESENTED BY AMDC'S EDUCATION & COMMUNITY OUTREACH SUBCOMMITTEE
Subcommittee Command Paper

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PAPER FORWARD: This command paper was developed by AMDC's Education & Community Outreach Subcommittee to provide insight, ideas, and suggestions to help mitigate the impact of COVID-19 on businesses within the mortgage industry. The article represents a collection of ideas from the membership as gathered during AMDC's Spring Member Meeting and includes experiences that the Subcommittee hopes will lead to proactive measures for future crisis. Our aim is to equip stakeholders with information and resources that could lead to best and promising practices, given the unpredictable and evolving nature of the pandemic. Data referenced is as of writing, which was Q2 and Q3 2020.



By AMDC's Education & Community Outreach Subcommittee

The COVID-19 pandemic is impacting business operations in unprecedented ways. The all-encompassing nature of the pandemic requires not only that business leaders pivot quickly to a virtual workforce, but also to plan for a future that is covered in a fog of uncertainty.

The total share of home loans in forbearance increased from 3.75% prior to the pandemic to 6.81%.¹ By investor type, Ginnie Mae-backed mortgages recorded the greatest increase in a week, swelling from 5.89% to 8.26%. The share of Fannie Mae and Freddie Mac loans increased as well in a week from 2.44% to 4.64%. Additionally, renters who tend to be less financially stable and have lower incomes are more likely to be displaced due to the economic impact of the pandemic.

As of this writing, 40 million Americans have filed for unemployment. The known “unknowns” of the pandemic give new meaning to the need for agility and the development of multi-pronged and multi-faceted scenario-planning.

Taking Up the Mantle

Wanting to address these important issues, the AMDC added a discussion on COVID-19 to its spring meeting agenda, which was held virtually on

May 6, 2020. The leadership felt that it was important to create a space for its membership to have a conversation on how the pandemic was impacting employees and business operations within the industry. A tangential goal was to identify if there were any promising practices or themes that could lead to proactive solutions for further exploration.

Prior to engaging in the discussion, Amy Kong, President-Elect of the Asian Real Estate Association of America (AREAA) shared her perspectives on how the pandemic and the use of harmful language during this time, is specifically impacting the Asian Community.

While AMDC leadership recognize that this conversation was a point in time—and that the pandemic continues to evolve—it also became clear that the same takeaways discussed in this meeting should be shared with the industry at large. Below are takeaways from that meeting and other insights into how AMDC members companies are adapting quickly to changing business, employee, and customer needs.

The Questions Leading the Charge

During the discussion held at the AMDC Spring Member Meeting, the following questions guided

the conversation. Although we did not answer all sequentially, we allowed the members' concerns and exchange to drive the discussion:

What are some of the implications that you are dealing with from a diversity and inclusion (D&I) perspective? How is this pandemic impacting the D&I initiatives in your organization? How are you ensuring a sense of inclusion and belonging in the virtual workplace?

- What are some of the lessons that you are learning during this period of enormous change?
- What are some best practices that you have implemented or are planning to implement in your organization due to our current environment?
- Do you feel that your managers are equipped to manage effectively, or are there gaps in skill sets being revealed by the pandemic?
- How are you thinking about re-entry and returning to the workplace once quarantines are lifted?
- What should AMDC be doing to support the mortgage industry during this challenging time?

Kong explained during her participation at the meeting that characterizing the pandemic as the “Chinese virus” has led to attacks on some Asian Americans. As a result of these events, AREAA submitted a letter to the Congress expressing their concerns. Kong also noted throughout the conversation that the Asian community is not a monolithic group and shouldn't be seen and treated as such. The Asian community has a rich and diverse culture and Kong offered insights into those differences to help AMDC members understand how to engage with them appropriately. Her key message was to get to know other cultures better in order to avoid making erroneous assumptions.

Lessons Learned from Past Crises

During the subprime mortgage and foreclosure crisis that occurred between 2007 and 2010, millions of homeowners across the U.S. lost their homes to foreclosure and, therefore, did not have an opportunity to regain and build wealth as the real estate market ultimately recovered. Because homes accounted for more than half of the net wealth of Black and Hispanic homeowners, the foreclosure crisis was disproportionately impactful to these communities.²

As we navigate the COVID-19 global health crisis, it is important that homeowners in diverse communities who are experiencing financial hardship be mindful of the relief options afforded by the federally mandated Coronavirus Aid, Relief and Economic Security (CARES) Act.

Specifically, the CARES Act provides forbearance relief and requires that companies servicing

¹ <https://www.mba.org/2020-press-releases/october/share-of-mortgage-loans-in-forbearance-declines-to-681>

² <https://www.zillow.com/research/housing-bust-wealth-gap-race-23992/>

federally backed mortgage loans grant up to 180 days of forbearance to borrowers who request and make an affirmation of financial hardship due to COVID-19. Servicers are not required to document the borrower's hardship, and the initial 180-day forbearance period must be extended up to an additional 180 days at borrower's request. According to Fannie Mae, by mid-May, over 4 million American homeowners had chosen to forbear on their mortgages.³

While forbearance programs serve an important public benefit, once the deferment period ends borrowers still face the reality that forbearance amounts must be repaid. Generally, the repayment of forbearance is determined by the type of loan and repayment may be:⁴

- in one lump sum at the end of the forbearance period
- added onto your existing monthly payments over a set number of months
- added to the end of your loan as additional payments or as a lump sum.

As job losses continue to rise as a result of COVID-19 and the economy re-opens, it is still unclear what the inevitable damage will be to the overall housing market and to individual homeowners. Zillow predicts that if COVID-19 leads to a short-term recession, then home values could drop by up to 4% through the fourth quarter of 2020 and remain depressed throughout 2021.

How can practitioners help diverse homeowners during this time who are experiencing disparate hardships? To help avoid a significant uptick in defaults and foreclosures, practitioners are urged to scale up counseling, mediation and loss mitigation programs to ensure borrowers have financially safe and affordable options for exiting forbearance plans and are not faced with penalties or adverse outcomes as they work to get back on solid financial footing.⁵

Educating Homeowners

Despite many laudable efforts to simplify the loan origination process for would-be homeowners⁶, many consumers remain unfamiliar with the loan products they are obtaining. The same is true for present borrowers. For example, a recent survey of borrowers revealed that 61 percent of the respondents had either no knowledge of COVID-19 assistance programs or were unsure if the available assistance applied to them.⁷

Ensuring that borrowers clearly understand their loan terms, and the consequences and pitfalls of obtaining CARES Act forbearances, is critically important in ensuring that these borrowers avoid foreclosure.⁸ In addition to the wave of forbearances the industry experienced

over the past few months, lenders should also pay particular attention to home equity origination practices. Looking forward, demand for cash-out refinances is expected to increase dramatically as unemployed or underemployed borrowers experience a sudden need for cash.⁹

Changes to Underwriting Requirements

According to data provided by Ellie Mae, the pandemic has caused mortgage loan originations to dip. Despite this, Redfin reports that while the quarantine has resulted in a 25% decrease in homebuyer traffic, the sentiment to own remains high. This has resulted in the power dynamic is much more balanced. The bump in credit scores may also mean that potential homebuyers who would be considered "ready" in the next 60 days may experience a delay as they work to strengthen their credit profiles. Counseling agencies can be helpful if buyers need additional support to prepare. HUD certified counselors can be found on HUD's website.

Powerful Testimony

The House Financial Services Committee held a virtual roundtable to discuss the impact COVID-19 has had on the U.S. Housing Market.

"The harmful effects of this pandemic on the physical and mental health, financial stability, and overall way of being can be even more devastating when you are unable to pay your rent or

mortgage," said Rep. William Lacy Clay, Chairman of the Subcommittee on Housing, Community Development, and Insurance.

He added that while Congress has passed trillions of dollars in stimulus packages, including the proposed \$3 trillion HEROES Act, there is "much more that needs to be done."

"One of the most important things that we can do to respond to this pandemic, is to keep people in their homes," said Maxine Waters, Chairwoman of the House Financial Services Committee.

She added the pandemic could have created a wave of foreclosures and evictions that would have made it harder for the economy to recover.

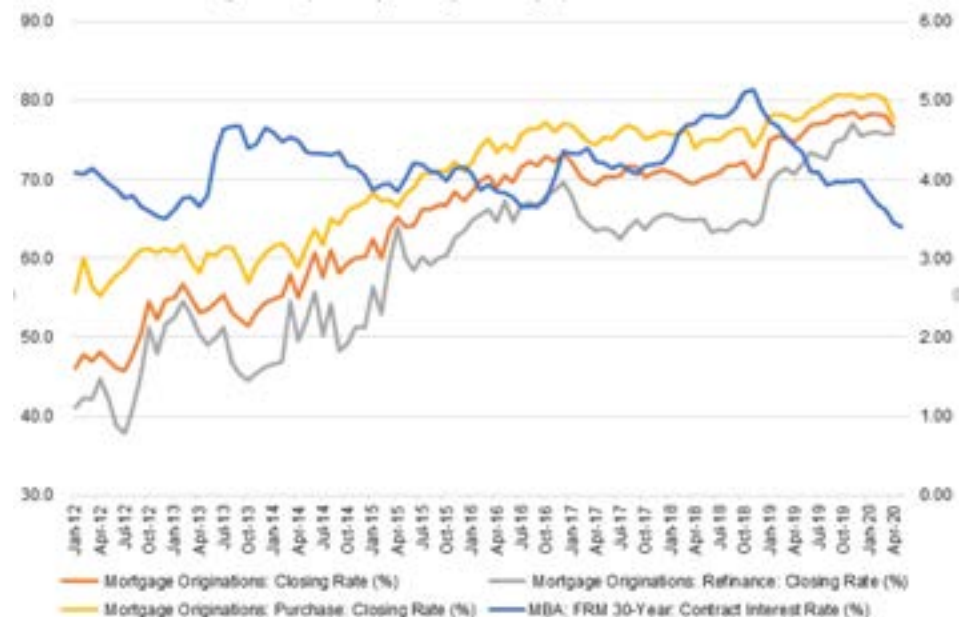
Clay said there are lessons to be learned from the Great Recession, which saw African-American homeownership fall 23%. Clay added that while many are recovering the downturn a decade ago, COVID-19 is "disproportionately" hitting minority households.

Rep. Steve Stivers, Ranking Member of the Subcommittee on Housing, Community Development, and Insurance, said Congress has taken "extraordinary" steps to address the issues and impacts of COVID-19.

"Workers who aren't getting paid because of the health crisis can't pay their rent or their monthly mortgage, so the CARES Act provided forbearance for mortgage payments and protected renters from evictions," Stivers said.

He noted that there was widespread confusion over forbearance measures and come homeowners said they "lack clarity" from servicers on what

Closing Rate (90 day rolling average) and 30Yr Fixed Rate



³ <https://www.realtrends.com/blog/real-trending-episode-76/>

⁴ <https://www.consumerfinance.gov/about-us/blog/guide-coronavirus-mortgage-relief-options/>

⁵ <https://www.urban.org/urban-wire/new-data-suggest-covid-19-widening-housing-disparities-race-and-income>

⁶ <https://www.consumerfinance.gov/owning-a-home/loan-options/>

⁷ https://www.stratmorgroup.com/insights_article/covid-19-homeowner-experience-report/

⁸ <https://www.consumerfinance.gov/consumer-tools/mortgages/>

⁹ <https://www.brookings.edu/research/the-impact-of-the-coronavirus-on-mortgage-refinancings/>

they owe. Stivers, however, praised the Federal Housing Finance Agency for not only providing clarity, but also announcing lump sum payments are not required when leaving forbearance.

The roundtable included insight from Kristy Fercho, MBA Vice Chair and President of Mortgage for Flagstar Bank. She said mortgage servicers have played an “integral role in providing an unprecedented amount of payment relief for customers.”

She added since March, MBA members have provided forbearance to more than 4 million customers and loans in forbearance have grown to more than 8%. Also, the average wait time for a customer has fallen from 13 minutes to 2 minutes.

During her testimony Fercho spoke to the specific toll the pandemic has had on communities of color and border communities. She noted that these communications are likely to be hardest hit due to having lower familial wealth, lower reserves for emergencies, and a higher likelihood to work in sectors hardest hit by the economic shutdowns.

Fercho outlined three important steps policy makers can take to support lenders and the communities they serve:

- Liquidity support for servicers to avoid unnecessary servicing transfers—especially for borrowers already in forbearance.
- Remove restrictions on early payment forbearance so that borrowers can obtain forbearance if they experience a hardship shortly after their loan closes.
- Finance agency loans and others targeted to low- and moderate-income households.

Re-entry Plans and Protection for Workers

As businesses begin to reopen their doors for in-office operations after several months of shelter-in-place procedures, there is a new-found emphasis on what it means to protect public health and wellbeing.

To keep employees safe, businesses should ensure they are following CDC guidelines, such as:

- Ensuring employees maintain a 6-foot distance between each other
- Posting reminders for employees to remain cognizant of their personal hygiene
- Posting recommendations on wearing cloth coverings in the office

Even with these pre-cautions, business leaders must recognize that ‘normal’ doesn’t exist in the post-COVID, pre-vaccine world. In order to set up for the safest form of reintegration, employers should have a redesigned floor plan, health maintenance checks, and protocol for sick employees.

Additionally, some employees may not be ca-

“NAR understands that these unprecedented circumstances are impacting our members’ ability to conduct their businesses.

—National Association of Realtors

pable of working from an office, whether due to a lack of safe transportation, no resources to care for a family member, being immunocompromised, or many other reasons. Employers will have to be cognizant and understanding of these scenarios.

There is a lot of information that has been disseminated over various means to assist with the swift change to remote workplaces, and more importantly, entire work forces. Business Continuity Plans and Pandemic Plans provide for compliance and logical instruction for the business at hand to continue, however, in order for any workforce to pivot in abrupt fashion, tending to the gaps and tending to the human aspect is critical. Likewise, preparing for a return to work carries the same criteria.

Pandemic Preparedness Plans

In response to the pandemic, the U.S. Department of Labor along with the Center for Disease Control released the [Resuming Business Toolkit](#), while individual businesses adopted their own, supplemental COVID-19 Preparedness Plans. These plans aimed to assure appropriate training and touchpoints were maintained to keep both managers and employees engaged and informed.

[RoundPoint Servicing](#) and [Mr. Cooper](#) utilized internal communications and took to social media sites like LinkedIn. The servicers’ HR departments and leadership posted and shared employees at home experiences to keep engagement high.

Supporting Real Estate Agents

While many are looking into a [completely digital homebuying journey](#), there are still tours and transactions being done in person. While some [overarching guidelines](#) have been laid out for realty businesses, and many use “hold harmless” agreements before entering properties, extra measures must be taken to protect both employees and customers.

While following guidelines and taking measures to social distance is an appropriate way to mitigate risk, the most appropriate response to protect employees health and wellbeing pre-vaccine would be to offer the homebuying journey completely online, from [initial application](#), to [3D, self-guided home tours](#), to [closing on a mortgage](#).

To further support real estate agents, the National Association of Realtors (NAR) created a living [guide](#) that is periodically updated with the most recent information on shelter-in-place orders, open house guidance, transaction guidance, and more. NAR’s website states, “NAR understands that these unprecedented circumstances are impacting our members’ ability to conduct their businesses. Our members’ success and ability to navigate these uncertain times are paramount to NAR, and we are providing this guidance to help address some of the common transactional issues we are hearing about.”

Furthermore, to help REALTORS® navigate fair housing obligations, as well as some of the novel issues presented by COVID-19, NAR developed [Guidance for Fair Housing Compliance During the COVID-19 Pandemic](#). Added guidance was provided to its members urging the use virtual showings and to limit in-person activity in all other respects to the greatest extent possible, even where real estate is deemed an “essential service.” In addition, NAR included an advisement that, “agents should consult their brokers and legal counsel before using hold harmless agreements in order to assess the risk and effectiveness of such agreements. . . . In the case of a pandemic where the risks associated are not only widely known, but is also widespread, easily transmittable, and may not show symptoms for days after exposure, proving causation would be nearly impossible from a legal standpoint.”

Looking Ahead

This paper represents a point in time. However, the COVID-19’s impact is sure to have lasting impact and that makes it difficult to predict outcomes with certainty. The AMDC will continue to monitor events and provide opportunities for stakeholder engagement. We recognize that the impact of the pandemic varies, and our focus on diversity is grounded in knowing that the most vulnerable communities tend to be lower-income, communities of color.

This mandate requires a special obligation that we keep our focus and emphasis on these populations. The AMDC will be convening panels with leading industry experts to help you successfully navigate the current climate.