EXPERT
Mortgage Assistance

WHITE PAPER

Mortgage Lending

Operational Challenges Posed by the Covid Pandemic and the Best Recovery Measures

The mortgage market has suffered extensive uncertainties in the last several months due to the Covid-19 pandemic.

Although the crisis has posed serious threats to every industry, one of the worst impacts has been on the mortgage landscape. Both large scale and small scale inconveniences have arisen out of the worldwide lockdown scenario, indicating serious implications for the staff and services of the industry. With the deepening of the Covid-19 crisis, the impact on the financial services sector, wealth, and debt levels of individuals is also getting more severe.

In the mortgage industry, the small and the mid-sized players have taken the maximum hit, with many forced to close business permanently. With thousands of jobs already lost and countless more at stake, in addition to the piling debts, it's high time the industry addressed these challenges. An effective way out of this mess can be the harnessing of modern technologies that help scale operations with agility while opening new opportunities for the industry.

The following is a discussion on the many challenges the mortgage market has been facing and the many more trials that will eventually materialize. The discussion also takes into consideration the changes the industry can implement to prepare for the upcoming onslaught. One of the key corrective and preventive measures that lenders can opt for is the services of external mortgage processing companies. As it will become evident over the course of this discussion, mortgage process outsourcing could not just save the industry from the effects of the pandemic but also help it cash in on the good times the market is hoping for in the coming months.

Current State of the Mortgage Industry

At present, the industry is facing severe economic concerns that are affecting both lenders and borrowers. Due to a growing decline in mortgage-backed security purchases, there has been a dip in the availability of cash to provide loans to consumers and this liquidity problem has directly affected the revenue cycle of the lenders. Moreover, it is being seen that throughout the industry, minimum credit scores are being raised and down payments for larger loans are being increased as mortgage companies tighten their underwriting guidelines while increasing mortgage premiums. The mortgage process itself has become more time-consuming as a result of the nationwide lockdown, thus affecting several key activities. Borrower approvals are also becoming more stringent as unemployment has severely affected people's ability to keep up with mortgage payments in the middle of the pandemic.

To mitigate the damage caused by this unprecedented crisis, immediate and effective steps must be implemented by lenders to shift their perspectives from the priorities of the past.

Radical changes have to be introduced in their market-facing activities that directly affect their employees and resources. However, as lenders prepare to adapt to the shifting needs of the market, an increase in the operational burden is imminent. Managing this transformation in the business model requires innovation and revolutionized delivery that can be provided by experienced mortgage processing service providers.

An Overview of the Immediate and Long-term Challenges for Mortgage Lenders Due to Covid-19

Lender/Borrower Experience

For lenders, the current challenges concerning borrower service include disruptions to the accepted service standards and the rapidly plummeting revenue. An increased volume of customer inquiries regarding mortgage deferment options can also be expected in the coming days. As the pandemic has driven disruptions such as branch closures, it's all the more difficult to maintain access to services in these testing times. Establishing new or enhanced digital channels that can efficiently handle the increased capacity needs seems to be the best way out.

Planning ahead will require engaging in in-depth discussions with borrowers who are facing financial duress owing to the pandemic. Here too, it will be beneficial to have digital solutions in place to deal with the high volume of cases while simultaneously reducing the wait times. As forthe long-term challenges, evolving customer expectations will require lenders to come up with end-to-end automation solutions for the mortgage origination process.

Operational Challenges

Scaling up operations to meet the urgency of answering customer queries is the next challenge that has arisen out of the pandemic. Repurposing existing talent within the organization and/or training of new staff for contact-center deployment requires a structural change in operations. Transitioning the bulk of the manpower to work from home has also led to several operational hurdles since the technological infrastructure of home-offices contributes to the disruptions in operations.

In the coming months, it will become essential to improve upon the digital capabilities of virtual services to ensure support to lenders, brokers, and borrowers. Adapting the organizational culture to become efficient despite working remotely will be a necessity. Mortgage processes reaching the stage of closure will also require digital closing to be facilitated.

Revenue and Income

Mortgage lenders are facing the onslaught of reduced income due to payment deferments, lower mortgage originations, as well as an increased cost of services. As a consequence, there is likely to be a growing pressure on the fee-based income to make up for the reduced flow of deals. An increasing number of loan deferrals, combined with the interest on deferred payments, will soon add up to create a significant impact on the income of the lenders. A long-term impact on margins is to be expected and prepared for as the high-volatility of interest rates is likely to spread across different mortgage plans.

Balance Sheet Impact

Short-term challenges that will have an impact on the balance sheet include the need to ensure interim liquidity to continue meeting with financial obligations during these times of reduced cash inflow. Over the past few months, it has also become difficult for lenders to deal with the liquidity crunch caused by loan deferments while maintaining their commitments to funding sources.

For small lenders and regional banks, it's important to ensure cost-effective liquidity to fund new mortgages. Mortgage funds will probably be pressured into reducing the redemption rights for investors as a long-term repercussion.

Products and Services

It has become a matter of grave concern for lenders to decide which lending services to continue with and which existing plans to prioritize. Lenders are facing the predicament of withdrawing risky mortgages, and this may restrict access of some borrowers to mortgage services. Lenders must also decide on the services they intend to re-introduce as new and innovative plans to meet the demands of the customers is a gamble in these uncertain times.

Risk Assessment

An immediate risk assessment of borrowers to determine their credit-worthiness is on the agenda of lenders to manage their exposure to borrower-default risks. The management of credit-risk uncertainty weighs heavily on lenders in the present time and the incorporation of new information requisites is necessary to profile customers better. The likelihood of loan payment delinquencies is predicted to increase as more people are facing the financial burdens of unemployment and a crumbling economy. Thus, a credit score assessment of prospective borrowers is becoming all the more closely observed.

Steps Taken by Mortgage Lenders in Response to the Crisis

In the face of the adversities that mortgage lenders are actively facing, industry leaders are taking brisk actions to mitigate the threats and mend the scenario. These include measures to improve customer experiences while tackling the problems of operational and revenue flow. The following is a description of the actions taken by global leaders in the mortgage industry as a response to the challenges faced by lenders and borrowers:

1 Responding to the increasing workload

Deferral Programs and Relief Measures

Governments and lending bodies around the world have offered mortgage-payment deferral programs, with the prerequisite of demonstrating financial hardships caused by the pandemic. These programs range from deferment of full payments to payment of interest alone. While this helps to alleviate the financial problems of borrowers, it has caused liquidity problems for lenders. In this fight against the economic crisis, determining when and for how long loan deferments can be tolerated requires an in-depth analysis prior to the judgment. An unbiased estimation by a mortgage processing outsourcing service provider can help lenders overcome these challenges.

Remote Workforce

As lenders cope with the challenges of the remote work model, limitations of infrastructure and resources are being tackled to make the required changes to this new way of operating. While some large mortgage lending services might opt for provisioning of hardware and software for their remote employees, for small scale mortgage lenders this is an additional challenge. Enlisting the services of mortgage processing companies that are already equipped with the remote work model is a much better option for lenders. Most outsourcing firms have been well-acquainted with the remote work model since long before the pandemic. This makes them the ideal partner to take on the additional workload, thus eliminating the need for the lender to worry about investing in training and infrastructure.

Strengthening Digital Capacity

Owing to the physical distancing measures, companies are swiftly moving to online and digital solutions to deal with the inflow of customer service queries and refinancing requests. As most mortgage processing companies started investing in digital workspaces prior to the pandemic, it's wiser to opt for outsourcing of recurring and redundant mortgage processing activities for optimum outcomes.

2 Recovery Management

Transforming Business Model

The mortgage lifecycle had hither to required several steps to be carried out in-person. But during the lockdown phase, it was demonstrated that several of these tasks can be carried out digitally to ensure the unhindered flow of business. Even if the physical distancing policies are relaxed in the post-pandemic age, these newly adapted business models would be the new norm. These digital options have very well demonstrated their credibility and will continue to be used for conducting regular business in the days to come. The dependency of lenders on mortgage processing service providers is likely to increase, as it has proven to be a profitable integration in the new business model.

Guidance and Support

In these times of uncertainty, borrowers are likely to be brimming with concerns and queries. Addressing their concerns should be the top priority for mortgage lenders to keep their customer pool engaged and interested to take up further refinancing options when necessary. Engaging in detailed discussions with customers and investors requires the expertise of mortgage processing companies in many ways. This is because reiterative replies and responses can take up much time which lenders can instead invest in bringing in new business.

3 Management of Business Risks and Subsequent Stabilization

Analytics-based Decision-Making

In times of financial uncertainties, decisions that directly affect the health of the business must be based on hard data and analytics. Lenders must gather as much data as possible and use it to develop sturdier business models. This involves an analysis of borrower interactions, extra polating ongoing trends to predict future needs, estimation of losses, etc. The enhanced analytics tools employed by mortgage processing services provide a dynamic assessment of changing credit situations and actionable insights for business growth. The information provided by mortgage processing services helps lenders to appropriately implement new service models and get an in-depth understanding of cash-flow trends for better business outcomes.

Evaluation of Policies

Stabilization of business health requires making deliberate and controlled changes to operational policies. In the mortgage landscape, the incorporation of long-term process changes can help protect lenders from uncertain situations in the future. Revising policies to suit the new business model requires the expertise of mortgage processing services as they can come up with innovative and out-of-the-box solutions. Experienced mortgage processing companies can use their keen understanding of the market to suggest effective policy changes to their clients. This is one of the most important changes that lenders must implement to come out stronger from the effects of the pandemic.

Adjustments to Products and Services

The changes in the economic environment have mandated changes in the product and services portfolio of mortgage lenders. New and improved operational plans must be devised to make mortgage payments practical and less of a burden for borrowers. Adjustment of interest rates is only the tip of the iceberg in these matters and a complete overhaul of mortgage plans is in order. Mortgage lenders must make informed decisions about their service portfolio, which can be achieved by a reliable mortgage processing service provider's range of customer survey tools. A thorough understanding of the borrower landscape can be provided by the studies conducted by mortgage process outsourcing services as part of their range of indispensable solutions.

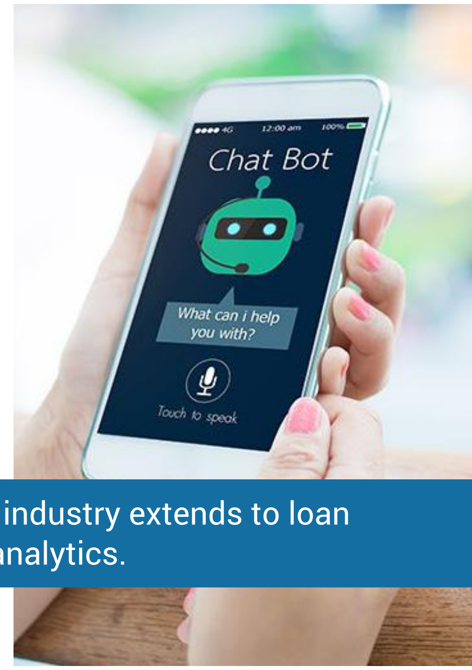
Understanding and Leveraging Mortgage Industry Trends in the Post-pandemic World

Mortgage lending has proven to be a profitable business in the past with the need for scarce investments in customer services. However, the waves of changes emerging from the technological advancements have made it necessary for lenders to evolve their operations with the changing times. The following are a few of the current trends in the mortgage market that can be implemented with ease with the help of a mortgage processing services firm.

Increasing Use of Self-service Tools

As discussed earlier, lenders are experiencing an increasing volume of customer queries. At this point, most lenders are opting for enhancing their workforce to handle the large volumes of cases. Another prudent move is the use of self-service tools that deploy interactive voice responses or chatbots. This is a much smarter option in the long run as it allows lenders to provide a differentiated experience to borrowers based on their specific queries.

The use of self-service tools streamlines engagements with borrowers, saving lenders' time and resources. By harnessing the potential of these services, it's possible to configure transaction requests and information submission into digital conversations. With advanced technological solutions in their arsenal, mortgage processing service providers can help their clients gain an edge over the competitors.



The potential use of self-service digital tools in the mortgage industry extends to loan production, marketing, regulatory compliance, and business analytics.

eClosing for Expediting the Mortgage Process

Electronic data submission and processing have revolutionized several industries around the world. The overall mortgage cycle can greatly benefit by shifting to an electronic-based processing system. Electronic signatures help to expedite the mortgage closing process, combining both security and ease. As regulations pertaining to remote online notarizations have been updated after the Covid-19 outbreak, remote authorizations for real estate transactions have become possible. These regulatory upgrades can be expected to further amend all other steps in the mortgage process to become digitized. The chief benefits of eClosing are listed below.

- Reduction in operating costs by reducing average wait times and decreasing reliance on outdated processes.
- Risk mitigation by improving the documentation process, data accuracy, and compliance.
- Faster processing by enhancing operational efficiency.
- Enhanced borrower experience through better engagement and review opportunities.

Thus, mortgage processing service providers that have implemented eClosings into their processing are more likely to prove beneficial for mortgage lenders.

Applications of AI for Predicting Outcomes

The inefficient and error-prone manual systems that determined mortgage workflows are obsolete today. On the flip side, Artificial Intelligence and Machine Learning are gaining widespread popularity with lenders to accomplish more than just analytics and appraisals of loan applicants. AI services can comb through applicant data to find hidden financial risks and predict the behavior of loan applicants over the long term. Assessing the credit-worthiness of borrowers has now become a precise and strategic study that's is backed by hard data. In addition to credit scoring and appraisals, AI and ML tools can also aid lenders in the detection of fraud and mitigation of business risks. This is why mortgage processing companies offer customizable AI and ML solutions as part of their service packages.

Speeding up the Onboarding Process

Despite the digitization that's occurring as a result of the pandemic, it will take quite some time for the mortgage industry to become completely paperless. This is because the industry hasn't matured enough in this direction, nor is there a common digital platform for lenders, borrowers, and investors to share information. Interruptions in seamless information transfer have always caused the mortgage onboarding process to be a slow one. Furthermore, the extensive documentation process involved makes the cumbersome process still slower. The good news is that automation and smart documenting can help reduce mundane processing burdens from mortgage workflows. This is another reason why mortgage processing services offer automation as an integral part of their facilities.

Collaborating with Third-party Vendors

The mortgage lending process is complex and prone to risks on the lender's turf. Lenders typically prefer focusing on their core competencies that include engaging potential borrowers, reducing funding generation times, smoothening the application process, etc. Collaborating with third-party vendors has always enabled lenders to reduce closing times, boost operational efficiency, cut down on the cost per loan, and mitigate financial risks. Combining the forces of mortgage lenders and mortgage processing companies creates a well-balanced business model that enables lenders to scale their business operations easily.

Institutional Support Tools Implemented by the Government to Aid Mortgage Lenders

Since the mortgage industry is a key pillar of the economy, governments and regulatory authorities have made timely interventions to stabilize the impact of the coronavirus pandemic on lenders and borrowers. The primary goal of these interventions is three-fold. Firstly, it must be ensured that access to credit remains uninterrupted for borrowers and lenders. Secondly, the continued maintenance of liquidity and the smooth functioning of the market must be realized. Lastly, protecting lenders and borrowers from future uncertainties. The changes adopted by government agencies include:

Relaxation of Regulatory Burdens

Some of the relaxations in regulations adapted by governments include:

Easing mortgage guarantee criteria

This includes increasing the accessibility to mortgage loans and adjusting mortgage stress tests. Several central funding organizations have made it clear that meeting liquidity requirements should not occur at the cost of a credit crisis. This has led to the introduction of flexible mortgage regulations.

Increasing government-sponsored securitization availability

This is part of the measure to expand a qualitative easing procedure. It's being executed by buying mortgage securities and reducing the requirements to qualify for mortgage eligibility.

Increasing non-performing loan requirements

It is being done to reduce the need to recognize loans as non-performing assets.

Bearing in mind the various updates in regulations, it's helpful for mortgage lenders to have the able support of a mortgage processing services firm in keeping up with the updated rules. This allows lenders to take the necessary actions so that they do not fail to leverage the opportunities provided by the government.

Restrictive Consequences of Bankruptcy

Both local and central government agencies are ensuring that evictions and foreclosures are halted for the moment. This move has helped borrowers by lessening the impact of the crisis and allowing them to opt for refinancing options after stabilization. While the move is profitable for borrowers, lenders are having to carry the burden of dealing with the roadblocks to mortgage payments. The burden of inconsistent cash flows will make mortgage lenders opt for business associates that can reduce their overhead costs and help increase the cash inflow.

Increased Access to Low-cost Capital

Adjustments in interest rates are the first step that regulatory bodies are taking to aid the mortgage industry. Additionally, direct financial support to institutions is being opted for to mitigate emergency crisis scenarios. Besides engaging in purchasing bonds and mortgage-backed securities, purchasing assets for lenders is another helpful move.

The Path Ahead for Mortgage Lenders

Today, world leaders around the globe are focusing on reviving the economies of their respective nations in the wake of the Covid-19 pandemic. As a response to the crisis, financial institutions are keeping interest rates low at this time, and this promises to lead to a spurt in mortgage activities. The time is ripe for mortgage lenders to adapt to digital technology and innovation to meet the challenges of the growing mortgage activities. In these times of accelerated demands, it's also crucial to keep frauds and risks in check, and this can be accomplished with advanced analytics tools and alternative data systems. Strategic partnerships of mortgage lenders with external mortgage process outsourcing companies will thus continue to play a critical role in the growth of the industry. The role of professional mortgage processing services in the reinvention of the industry by optimizing its operational capabilities cannot be overstated.

Who We Are And Why We Are Considered an Industry Authority

At Expert Mortgage Assistance, we provide end-to-end mortgage support services to lenders and brokers across the U.S. We are powered by a team of expert and experienced professionals who provide round the clock support to mortgage lenders using state-of-the-art digital technology. Our mortgage support services are completely customizable as we employ the latest industrial tools and the best industrial practices. Our years of experience have enabled us to develop a keen sense of understanding of the mortgage market and we use this expertise to provide services specific to the needs of different clients. We pride ourselves in developing long-term relations with our clients with total commitment to client data privacy.

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