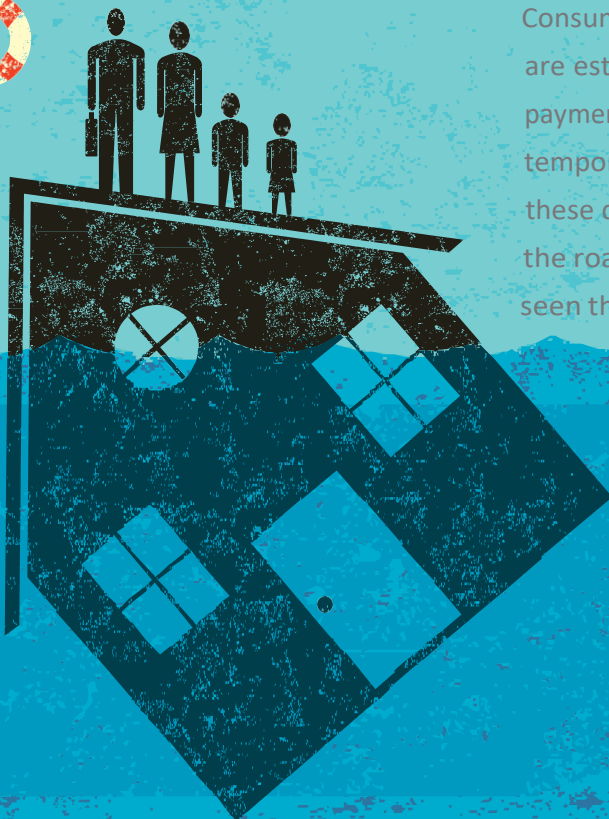


PREPARING FOR THE POST-COVID RESURGENCE OF HOME MORTGAGE MODIFICATIONS

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In the wake of the COVID-19 economic crisis, millions of American homeowners are once again delinquent on their mortgages. And many more are at risk of going into some level of default, which potentially means losing their homes. In fact, according to a recent report from the Consumer Financial Protection Bureau (CFPB),¹ homeowners are estimated to owe nearly \$90 billion in missed mortgage payments. While government forbearances and moratoria have temporarily sheltered many homeowners from foreclosures, these deferred obligations will inevitably spell trouble down the road as the moratoria and forbearances end. We have seen this in the not-too-distant past.

A look back to the Great Recession of 2008 and the mortgage crisis that resulted is a reminder of the devastation that the current economic environment could bring to distressed homeowners. It also provides an opportunity to reflect and learn from the lessons of the past to better prepare for the expected deluge of potential foreclosures. And perhaps most importantly, to anticipate how the home mortgage modification process can be improved and streamlined to assist those homeowners in distress.



LESSONS FROM THE PAST

As a result of the financial fallout from the Great Recession, more than 10 million people lost their homes and millions struggled to find assistance with their home mortgage modification.² While the cause of the distress was different, and home values haven't fallen as they did in 2008, the impact and complexities to delinquent borrowers are predominately the same. Among the many challenges they faced, primary among them is the reality that homeowners were not able to easily navigate the mortgage modification process. In large part, this was due to the lack of an organized and transparent process for debtors to submit and exchange information with their mortgage servicers and others.

In an effort to provide the help that distressed homeowners needed, the federal government established the Home Affordable Modification Program (HAMP) in 2009 under the Troubled Asset Relief Program (TARP). HAMP allowed homeowners who paid more than 31% of their total income towards home mortgage payments to lower their interest rates and/or mortgage principal, postpone payments temporarily and extend their loans. At the end of 2016, the HAMP program expired and was not renewed.

In 2017, Fannie Mae and Freddie Mac created the Flex Modification program under the direction of the Federal Housing Finance Agency to fulfill many of the same goals of the expired HAMP program with elements of Fannie's and Freddie's loan modification programs. Like HAMP, the Flex Modification program provides the guidelines servicers are to follow to determine a borrower's eligibility for relief.

While these programs have provided assistance for many distressed homeowners, one challenge that has remained a constant thread is the administrative backlogs and roadblocks created by the paperwork and forms that are required in the home mortgage modification procedures. Documentation and communication issues are often the root causes behind loan modification failures, and the streamlined exchange of information between key stakeholders – including servicers, borrowers, attorneys, debt counselors, court and mediators – is essential for the process to move forward smoothly. There are a lot of moving pieces and historically not a great mechanism to

bring all stakeholders together effectively and transparently.

PREPARING FOR ROUGH CONDITIONS AHEAD

As we look ahead to a post-COVID economic recovery, home mortgage modifications are likely to take center stage once again. Many industry analysts predict that the fallout from the current economic crisis will be far worse. One could compare this scenario to having been on the Titanic during the Great Recession and now we are at sail once again in the North Atlantic in equally (if not more) dangerous waters. This time, with experience and hindsight as navigation aides, we have the opportunity to avoid the same fate.

In addition to defining clear rules for repaying forbearances and strengthening home mortgage modification programs and options available to distressed homeowners, it is imperative that better systems are put into place to manage the volumes of documentation that will undoubtedly be a part of any program that's to come. Without changing our course, we will be headed for the same iceberg that was hit during the Great Recession.

Professionals and all involved stakeholders will need to understand with specificity what home loan modification programs are available. Having clarity and familiarity with these programs will help eliminate delays as the volume of these transactions multiply at a rapid rate. The CFPB has already taken a step in this direction by proposing amendments to Regulation X for borrowers impacted by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act (RESPA) with the intention of giving these distressed homeowners the opportunity to be considered for loss mitigation prior to the initiation of foreclosure. The amendments would create a temporary COVID-19 emergency pre-foreclosure review period for principal residences through December 31, 2021. They also would allow mortgage servicers the ability to temporarily provide certain loan modifications made available to borrowers facing hardship resulting from COVID-19.

But, while all of this is necessary, it will be insufficient if the process by which distressed homeowners enroll in these programs is not vastly improved. Mortgage servicers need to find new ways to streamline communications and remove inefficiencies to facilitate how people can enroll and move through each

step. Otherwise, we will be nothing more than a ship that has charted a better course but failed to improve the engines and steering needed to help us get there.

Fortunately, today, these resources and systems are available and ready to be deployed for those who are seeking to meet these goals and preparing for the next wave of home mortgage modifications. Centralized web-based technology platforms can be scaled to facilitate document preparation and submission so that the process stays on track and keeps moving, leading to a better outcome. Some offer built-in validation to ensure documents are completed with all required information to eliminate delays and ensure that the debtor is prepared to engage in loss mitigation before a package is even submitted for review. Debtor- and creditor-specific information and forms can be customized with wizard-based, intuitive questions. Through online portals, documents can be submitted with real-time, proof of delivery with the time and date stamped. Transparency and access throughout the process will ensure that everyone – debtor and creditor – are contributing, accountably and predictably.

While the outlook ahead for distressed homeowners is troubling and threatens to be far worse than what we've seen in the last economic crisis, there is a way forward to a more streamlined and efficient approach to guiding and meeting the goals of home loan mortgage modifications programs. It only requires forethought, preparation and the application of the latest technology tools to create a brighter future, the navigational beacons, for today's troubled homeowners. ■

ABOUT THE AUTHORS

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FOOTNOTES

- 1 <https://www.consumerfinance.gov/about-us/newsroom/new-report-from-consumer-financial-protection-bureau-finds-over-11-million-families-at-risk-of-losing-housing/>
- 2 <https://www.latimes.com/business/la-fi-financial-crisis-experiences-20180915-htmlstory.html>