Waiting for loan modifications is 'like watching a tsunami build'

By Bonnie Sinnock

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While servicers have been focused on handling a wave of coronavirus-related forbearance requests, another aspect of the crisis is on the horizon.

What happens when that period of forbearance ends?

"There are about to be a lot of loan modifications in the market," said Joe Chappell, executive vice president at Covius. "Waiting for them is kind of like watching a tsunami build."

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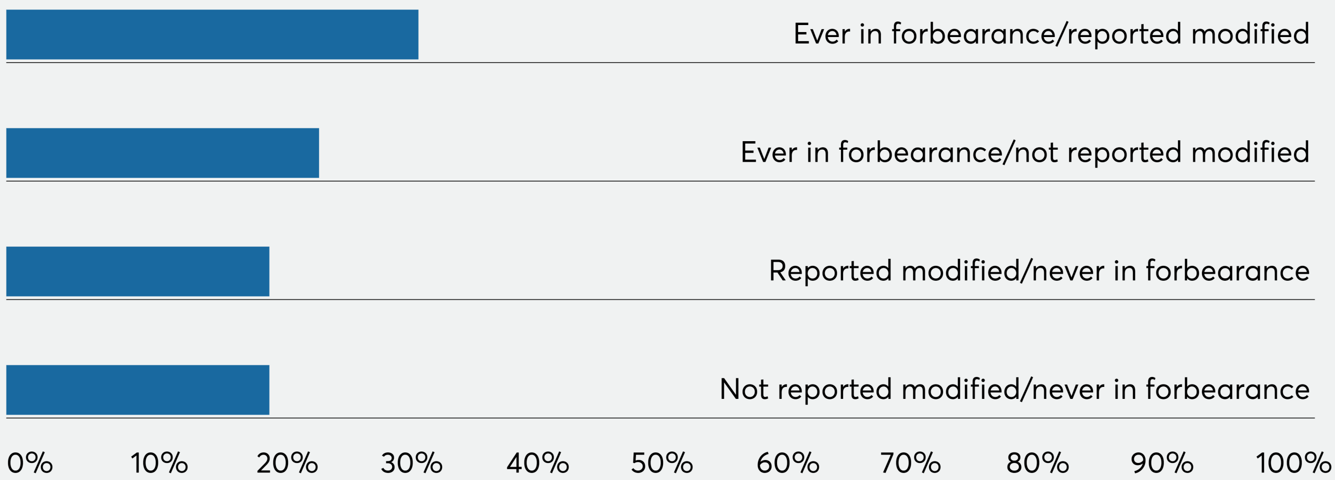

Source: Aspen Grove Solutions/Fannie Mae

It's an eventuality that Fannie Mae and Freddie Mac called attention to Monday, in reminding consumers that they won't be demanding a lump-sum payment once the forbearance period is over. The GSEs noted that loan modifications and other options are available if consumers can't pay.

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But modifying a loan requires a more complex application process than the forbearance in the rescue bill — which is available merely upon statement of a coronavirus hardship — and the number of applications the industry may need to process could be quite high.

At minimum, servicers may want to prepare for the 10% distress rate seen as a result of the 2007-2008 credit crisis. If the coronavirus has an impact similar to natural disasters like hurricanes, forbearance and modification rates could top 50%, an Aspen Grove Solutions analysis of Fannie Mae data found.

A large percentage of borrowers who exercise coronavirus-related forbearance option may need to apply for additional relief after the six-to-12 month period delineated in the rescue package.

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But in some circumstances borrowers may not have been eligible for the coronavirus-related forbearance as specified in the rescue bill in the first place. Only borrowers with government-related loans are eligible under the rescue package's terms. While that constitutes the majority of loans in the market, and forbearance may be offered voluntarily or under local rules on other mortgages, it is possible modification will begin earlier in some circumstances.

Either way, at some point, "those loans are all going to come due and you are going to need documentation," said Eric Rachmel, CEO of Brace, a digital servicing company. Brace partners with a fintech called Ocrolus to help companies manage workflow and data associated with mortgage assistance applications.

While technology that processes modifications and other distressed-loan options isn't currently as hard to find as it was during the credit crisis over a decade ago, it's still has more complexity to it than the automation being used to process forbearances. Those who are already on those platforms will likely have a lot of the capabilities they need to process modifications in bulk, but they may want to beef up their technology, according to Craig Focardi, senior analyst, banking, at Celent.

"I think that mortgage servicers that are on the major servicing platforms will have most of what they need to process forbearance and loan modification," he said, noting Sagent Lending's self-service digital application for mortgagors to initiate loan forbearance as one example.

But some parts of the process, like large-scale management of documents consumers use to apply for and obtain loan modifications, may require more specialized technology. While this is available, it may not be part of core in-house or vendor systems.

"Doc management was a huge issue 10 years ago, and that's where loan modifications and collections processing bogged down. Even today, that isn't necessarily an out-of-the-box offering from a servicing vendor," he said.

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