Servicing Insights from Covius Experts

2023 was a challenging year, to say the least. What will 2024 look like and what steps can servicers take to be prepared? To answer these questions, we sat down with subject matter experts across our different business units: Chief Revenue Officer Danny Byrnes, EVP-Operations/Settlement Management Joe Chappell, SVP-Compliance Jennifer Keys and VP-Servicing Oversight Sam Shanaberger.

What are some lessons that our industry learned in 2023?

Danny: The biggest lesson we all learned, or rather relearned, over the past 18 months, is that our industry is incredibly cyclical. When rates are low, we go heads down to capture all the volume we can, and often this means pushing off critical decisions, like technology investments and vendor upgrades, that would serve us well in the long term. In 2020 and 2021, many lenders were too busy trying to keep up with refinances (remember them?) to make major investments in technology that would have helped them address structural cost and efficiency issues and improve customer experience. When the music stopped, the cost of technology replaced bandwidth as the reason to delay these decisions.

Now many servicers are stuck in the middle. They have had to reduce staff to protect margins. So, when business does pick up, and there are some signs that this could happen in 2024, their choices are déjà vu – by which I mean staff up again…and then downsize if volume falls off—or bite the bullet and invest in automation or outsourcing to do more with fewer staffers.

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If you are considering these strategies, you need to factor in onboarding time. And the time to start is before you need to throw the switch. I know this is a difficult decision when volumes are where they are today, but true partners, like NTC and Covius, will work with clients to control and spread out the costs.

Jennifer, what are challenges you see ahead in 2024 from a compliance perspective?

Jennifer: Compliance was a moving target in 2023, and it will continue to be in 2024. While this might change in the future with a potentially new administration, in the short term, the CFPB and other federal and state regulators are stepping up their enforcement in several areas. Fees, HMDA reporting and fair servicing are all likely to receive increased scrutiny next year.

Artificial Intelligence (AI) is also in the regulators' sights. The CFPB has warned lenders against using "black box" algorithms in credit decisioning and has noted that it has received complaints about misleading and unhelpful chatbots.

Many state and federal lawmakers and consumer advocates have expressed concerns over the use of AI in the lending process, specifically in appraisals and determinations of the creditworthiness of mortgage applicants.

On the loss mitigation front, our industry is dealing with the phasing out of the last of the COVID-19 measures and moving into a post-COVID environment. It is not an exaggeration to say that the COVID-19 pandemic has resulted in the type of change in loss mitigation that we have not seen since the 2008 financial crisis.

The GSEs, FHA, VA and USDA all changed their programs in 2023 to incorporate lessons learned during the pandemic.

Joe, cybersecurity was certainly a hot topic in 2023. Do you see this as a continued focus?

Joe: We can be assured that cybersecurity will continue to be a critical focus area for all industry participants, particularly with the recent incidents impacting some of our largest industry players. However good we are at compliance and security, we must continue to think and work ahead. While we dedicate an incredible amount of resources to cybersecurity, the criminals continue to get more sophisticated and the risks harder to mitigate. Mortgage value streams can also be extremely fragmented across multiple service providers, which can make them even more difficult to secure. Our ability to drive best practices as individual companies and as a collective industry continues to be critical in providing responsive and secure solutions to the consumers we serve.

Sam, you recently wrote an article about how call-centers are going to be ground-zero for compliance. Could you expand on this?

Sam: Escrow accounts are going to be a big pain point for servicers over the next few years and when this happens, call centers are going to be grown-zero for the problem.

The trends are all there: real estate taxes are going up dramatically for many borrowers, property insurance premiums are climbing (by triple digits in some communities) and flood insurance is going up. This is going to create escrow shortages and economic stress for homeowners and communications and financial challenges for servicers.

Confused, often angry, borrowers who thought they had locked in their total mortgage costs with their escrow accounts will be venting their frustrations to call centers. We are advising our clients to start, if they haven't already, to develop plans to anticipate this situation and to test the quality of the experience their call centers are delivering.

We have covered the several challenges. How about we end on an “up” note and focus on opportunities in 2024?

Joe: Most observers expect volume to pick up, at least modestly, on purchase and home equity next year, which is good news. Recent guidance regarding rate cuts next year could generate some tailwinds (or at least dampen the headwinds) for origination, and I think our industry is going to make some progress on mortgage assumability, which may help more borrowers circumvent higher interest rates and get into homes. We are working with several clients to take some of the friction out of that process.

Additionally, clients and vendors are moving towards increased self-service options and automation, and this will improve the borrower experience and reduce costs.

Finally, new technology and improvements in the utilization of expanded data and analytics is dramatically shortening the time it takes to originate home equity products and make loan modifications.

Jennifer: Another opportunity in 2024 could be improvement in housing affordability. Based on historical trends, high interest rates and housing prices, which previously hindered homebuyers in 2023, are expected to ease slightly, making homeownership more attainable. So, there should definitely be more bright spots in 2024.

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