Infosys® | Knowledge Institute

BEING RESILIENT

REDEFINING MORTGAGE PRIORITIES DURING COVID-19

Infosys®
Navigate your next

BEING RESILIENT. THAT'S LIVE ENTERPRISE.

The mortgage industry is being heavily affected because of COVID-19, not only from the banks' perspective but also from the consumers' standpoint as well. Many homeowners have lost employment, are unable to make payments and are expected to lose their houses. Banks are responding to the challenge in various ways, and a lot more can be expected in the near future, such as moving from in-person services to a remote-based service model that leverages contactless experience. Banks need to deal with this uncertainty by taking some concrete steps while keeping the "customer first" idea in mind.

There are key areas that mortgage institutions can prioritize at this juncture, such as customer engagement and communication, revisiting priorities and restructuring the customer service model. As consumers find comfort and value in a new virtual setup by lenders, institutions are likely to embrace a "go digital" idea for their services by using the right digital tools and by collaborating with their technology partners.

The need to strategize

With the advent of COVID-19, each industry is affected differently and has to find its own unique way to deal with the challenge and address it. The financial industry has encountered unprecedented challenges, and the situation has forced banks to rethink their ways of doing business with customers and vendors. Financial institutions are relooking at their ways of running essential services, including customer support, online banking, account management, credit and payments.

COVID-19 has affected both, banks and consumers. Many homeowners have lost employment, are unable to make payments, are expected to lose their houses and turn delinquent. There is no doubt that forbearance plans in different regions can give a bit of relief for homeowners for a few months to a year or so; however, they will not result in the waiving of any missed payments and interest accumulated during the relief period in most of the cases. As the World Health Organization has declared COVID-19 a pandemic, it is imperative for banks to redefine their lending models, including origination and servicing, to serve their customers in a more collaborative manner, to address critical challenges in hand and to find newer ways to reach out to and support consumers.

Though banks have their own disaster recovery and business continuity plans that can certainly help in the short term, other actions are also needed considering the uncertainty the virus has posed in the immediate term and the impact it is expected to create in the long term. With the speed at which this pandemic has grown, various institutions have already taken a series of measures including prioritizing critical business activities, implementing social distancing and planning for business continuity to help address the current situation. The focus will shift toward moving from in-person services to a remote-based service model that leverages contactless experience. Lending institutions need to look from a short-term and long-term view within the mortgage value chain to address customers' concerns and develop resilience. There are a few areas that financial institutions and banks can prioritize at this juncture.

Focus areas for mortgage lenders

1. Enhance customer engagement and communication

a. **Inform:** Provide up-to-date information to customers about the current challenges and be transparent about how the challenges are being addressed. This could include business decisions within the bank, such as loan restructuring, fee waivers, payment relief, repayment options, and service level communications, and outside the bank, such as regulatory changes, government assistance programs, potential options within customers' rights and forbearance plans.

b. **Educate:** Educate customers using online tutorials about such matters as loans, product requirements, eligibility, fees, and approval criteria. Encourage them to enroll for online and digital banking services. Banks that are not using advanced tools can look at enabling websites to submit details to provide virtual assistance from loan officers, associated real estate agents, processors or servicers.

c. **Engage:** Be available to customers for any form of essential support or questions. Let customers know you are with them and how they can reach out to you for any clarification or any new question they have based on the scenario changing day to day. For example, with the increasing numbers of distressed homeowners and the surge in refinance applications, lenders and servicers can play a bigger role by engaging with customers, sharing relief programs and creating a personalized action plan for homeowners.

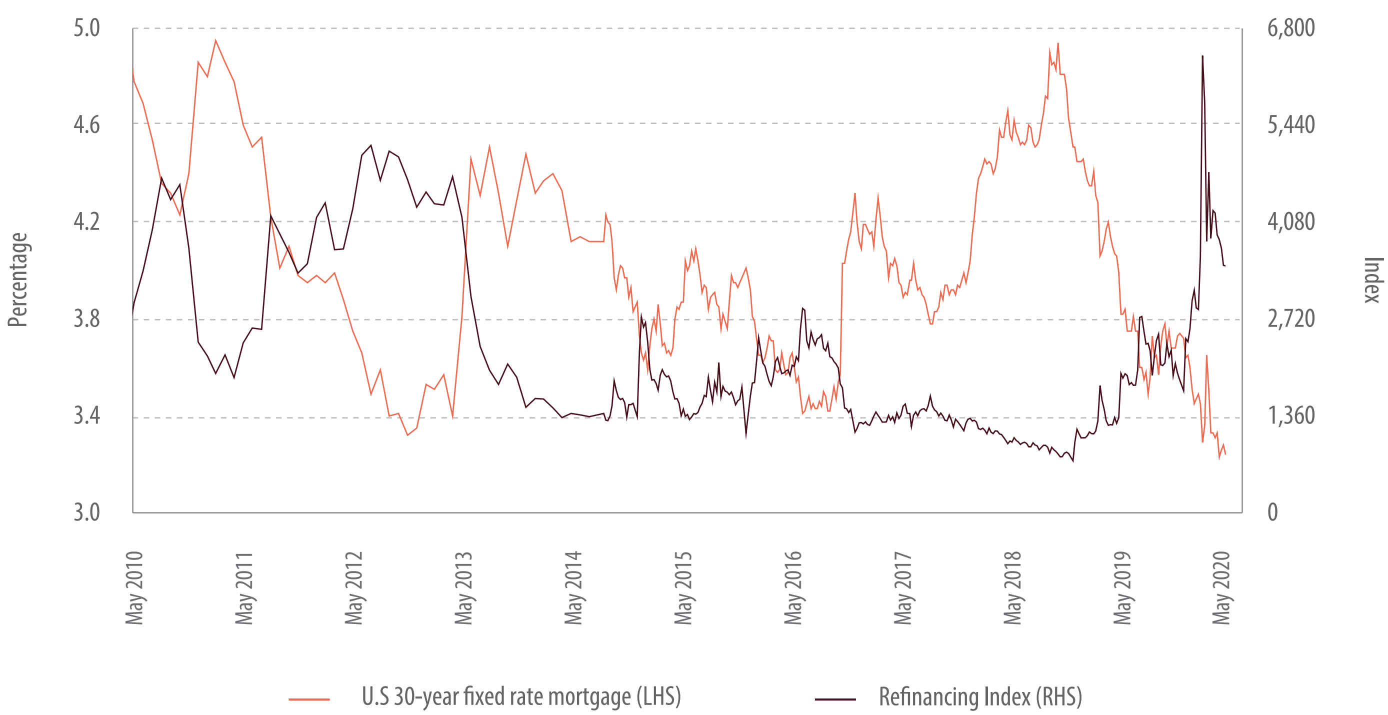
2. Revisit priorities

a. **Review guidelines and alternatives:** First, review the minimal acceptance criteria for loan approvals, underwriting guidelines, parameters and allowed credit by continuously engaging with institutions and implementing guidelines issued by authorities according to their region, such as mortgage guidelines issued by the Consumer Financial Protection Bureau in the U.S. or the Financial Conduct Authority in the U.K. Some of these agencies have already relaxed guidelines such as appraisal and income verification to smooth the origination process for lenders, and further support can be expected in the coming days. Second, interim solutions and flexibilities are provided for lenders to address some of the new challenges faced by lenders. Third, new provisions are being introduced for credit bureaus' reporting to avoid any adverse impact on homeowners.

b. **Enable digital services:** Engage with third-party vendors to make the mortgage journey simple and "more digital." Lenders are expected to receive support from regulatory authorities. For example, the flexibilities offered by regulators for remote online notarization during the closing process could become the norm, and more and more institutions will be encouraged to bring such tools into their ecosystem, particularly in areas where face-to-face interaction is not mandatory. Potential target areas could be lead generation, e signing, mortgage note processing and loan closing.

c. **Prepared to manage volume:** Any update from government agencies or regulatory bodies requires a quick turnaround time and might require changes in technology applications. As the government offers support to homeowners by offering low-rate mortgages, more applications are expected to enjoy these low-rate benefits. For example, the recent announcement by the Fed for a rate cut in the U.S. to the lowest level in more than 50 years has already created a spike in the number of refinance applications (see Figure 1), and lenders are finding it overwhelming to review them with the current available staff. Banks need to align with internal teams, marketing teams and business teams to handle such changes efficiently and to prioritize the services and product offerings along the mortgage value chain to avoid any potential staffing and liquidity challenges.

Figure 1: Refinancing is growing as the 30-year U.S fixed-rate mortgage rates have declined sharply



Source: Mortgage Bankers Association, Freddie Mac

3. Restructure customer services

a. **Shifting gears of engagement:** So far, the customer service model has been mostly reactive, whether it's the origination or servicing of loans. Banks need to proactively reach out to customers, address queries on existing product plans, such as mortgages, a home equity line of credit and auto loans, and offer the required support. This can also open up a unique marketing opportunity for lenders to engage with new and existing homebuyers, understanding their challenges and serving them better. Tools using interactive voice response (IVR) with outbound features can be leveraged, along with services such as overdraft, fraud protection or any form of loan update.

b. **Manage customer requests:** With the limited availability of branch visits, a dedicated customer support system can be built that focuses on basic and advanced-level queries. Lenders and servicers can look at potentially using this system to handle large call volumes and assist customers in a variety of areas, such as loan options assistance, creditworthiness evaluations, refinancing options, next payment date, payment amount, customer documentation review, loan product change requests and new loan plans. Additionally, FAQs can be continuously enhanced using the right artificial intelligence and machine learning tool based on the customer request history.

c. **Diverse customer support team:** Forming a support team of marketing, legal, risk and business professionals to answer advanced-level customer queries about mortgage can help not only in faster resolution of customer queries but also in enabling the branch personnel, loan officer or closer to assist remotely. Tools such as video chat, virtual assistants, IVR solutions and chatbots can be used for different types of requests.

The road ahead

Lenders are aware of the need of the hour and are genuinely finding ways to assist customers. A view of where they stand in terms of maturity of these focus areas can help decide where they want to focus on in the near term. This will force banks to think about investing in digital initiatives in a calculated manner considering immediate benefits and the investment needed. First, lenders would like to stay competitive and are likely to enhance technology solutions such as APIs to integrate with various products and channels or engage with a fintech partner to leverage digital solutions that are needed during this pandemic. Second, enhancing customer experience leveraging innovative applications such as mobile chat apps, chatbots, video streaming, etc. to communicate with customers can help retain customers and provide customers a sense of sincerity from a lender's standpoint. Third, enabling contactless nature of transactions such as e-signing and e-disclosures are required during this time as they also help process loans faster. All these measures will achieve the goal of digital banking in the long term.

The impact of COVID-19 is substantial and has exacerbated the liquidity risk in the mortgage market. Banks need to deal with this uncertainty by taking some concrete steps to keep the customer-first idea in mind. Therefore, continuous engagement with customers is essential at this juncture. As regulatory and financial institutions are likely to revisit guidelines on mortgage rules such as e-signature laws, institutions are likely to embrace going digital for their services by using digital tools and leveraging support from technology partners.

With the large millennial population seeking homeownership now and in the coming years, it is likely that consumers will embrace the new virtual setup by lenders using different digital methods. Homeowners will seek support from lenders, while lenders will expect support from government for distressed customers to address servicing and liquidity challenges. It is obvious that lenders will receive much support from all parties, including regulators, bureaus, government and third-party vendors, to assist their customers in an empathetic way. Post COVID-19, when homeowners will look back and recollect how well they were treated and how they received consistent support, lenders and servicers are expected to enjoy a higher level of customer satisfaction, more contactless applications and digital services, and improved customer engagement.

Author

Amit Lohani

Principal Consultant, Financial Services
amit_lohani@infosys.com

About Infosys Knowledge Institute

The Infosys Knowledge Institute helps industry leaders develop a deeper understanding of business and technology trends through compelling thought leadership. Our researchers and subject matter experts provide a fact base that aids decision making on critical business and technology issues.

To view our research, visit Infosys Knowledge Institute at infosys.com/IKI

Infosys®
Navigate your next

For more information, contact askus@infosys.com