



Loss Mitigation and Home Retention

for Mortgage Servicers
During COVID-19

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Loss Mitigation and Home Retention for Mortgage Servicers During COVID-19

Like most industries, the mortgage industry has not been spared from the impacts of the coronavirus (COVID-19) outbreak. Beyond business continuity, lenders must grapple with evolving regulatory requirements to support homeowners during the pandemic. They also face the risk of downstream regulatory and litigation scrutiny for actions taken today and the management of reputational risk.

Here, we'll highlight the basics of loss mitigation and how lenders can leverage home retention options to help consumers make or adjust their mortgage payments during the COVID-19 crisis.

Loss Mitigation Overview

When a borrower begins to get behind on their mortgage payments, a servicer must follow investor guidelines to reduce the losses. Ideally, these guidelines help to bring the loan current. Alternatively, the servicer provides an affordable payment option (home retention) or the ability for the borrower to dispose of the property (home disposition). This process is called loss mitigation.

Loss mitigation has two primary outcomes:

1. Home Retention

Home retention occurs when the borrower has suffered a hardship such as unemployment, increased expenses, reduction of income, divorce or death. Home retention options are offered to a borrower who has the financial ability to enter a workout option and wants to stay in their homes. Home retention options include temporary forbearances, repayment plans, loan modifications or partial loan deferrals.

2. Home Disposition

Home disposition occurs if the borrower does not intend to keep the property or a servicer is unable to provide home retention options. Home disposition options including short sales, deed-in-lieu or foreclosure sales.



Home Retention Options

A forbearance plan is provided to a borrower with an eligible hardship that is temporary and has not been resolved. This plan offers a period of reduced or suspended contractual monthly mortgage payments, followed by a full reinstatement of their mortgage or another workout option that allows the borrower to resolve the delinquency.

A repayment plan is provided to a borrower with an eligible hardship that has been resolved and they have enough surplus income to pay a higher monthly payment to bring their loan current. A repayment plan typically spreads the missed payments over a short period, usually not exceeding 12 months.

There are a variety of loan modifications available to a borrower who cannot afford an increase in their payment. They may be able to make their current payment or need a lower payment to stay in their home. Modification programs vary by the investor and can include a combination of rate reduction, term extension, payment deferral or principal forgiveness.



How Does Forbearance Work?

While loan modification is a permanent solution, a forbearance agreement provides short-term relief to a borrower.

With forbearance, the servicer agrees to reduce or suspend payments for a short period. During the forbearance period, the servicer (on behalf of the investor) will not initiate a foreclosure. In exchange, the borrower must bring the loan current through a repayment plan. If they are unable to do so, the borrower can be reviewed for another home retention option. Forbearance plans vary from investor to investor.

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a borrower can request a temporary forbearance on mortgage payments.

Forbearance criteria under the CARES Act include:

- Borrower Eligibility
 - Any borrower experiencing financial hardship due, directly or indirectly, to COVID-19.
- Terms
 - The borrower has the right to request an initial forbearance for up to 180 days.
 - The borrower has the right to be reviewed for an extension for up to an additional 180 days.
 - The borrower can end forbearance at any time.
 - No penalties, fees or interest (beyond the already scheduled amounts) can be charged to the borrower during the forbearance period.
- Request process
 - The borrower must contact their servicer to request forbearance.
 - Servicers are not permitted to require any documentation other than the borrower's attestation of financial hardship due to COVID-19.



Loan Modifications Overview

A loan modification is a permanent restructuring of the loan where one or more of the terms are changed to provide a more affordable payment. If the borrower can't afford their mortgage payment due to a change in circumstances but could make a modified payment going forward, this option might help them avoid foreclosure.

With a loan modification, the investor might use one or a combination of these options to make the borrower's payment affordable:

- Reduce the interest rate.
- Extend the term of the loan.
- Forbear some of the principal balance.
 - Deferring a portion of the unpaid principal balance into a non-interest-bearing deferral. This deferral is payable upon the payoff of the loan, refinance or sale of the property.



How Do Loan Modifications Work?

Generally, to get a loan modification, borrowers must:

- Provide investor-specific documentation to the servicer for evaluation. Required paperwork will likely include income documentation, bank statements, expenses and proof of hardship.
- Demonstrate that they are unable to make their current mortgage payment through documentation.
- Meet investor-specific guidelines and eligibility requirements.
- Complete a trial period of 3–4 months to demonstrate that they can afford the new monthly amount.

After eligibility requirements are met, the borrower is offered a waterfall of loss mitigation programs. The term ‘waterfall’ means that the servicer navigates through the investor’s hierarchy of loss mitigation programs to determine the option that will work for the borrower.

Servicers are advised to try innovative, battle-tested solutions for loan modifications. CoreLogic® IntelliMods™ evolved from the 2008 financial crisis and has been updated over the years to support disaster response, including value-added services to the industry. For example, CoreLogic’s innovative integration with FedEx allows us to ship thousands of packages daily without missing the beat; and we are delivering even during the lockdowns and closures across the country.

We can reduce the impact of COVID-19 on mortgages by working together for compliant, automated, accurate and defensible actions.

About CoreLogic

CoreLogic (NYSE: CLGX), the leading provider of property insights and solutions, promotes a healthy housing market and thriving communities. Through its enhanced property data solutions, services and technologies, CoreLogic enables real estate professionals, financial institutions, insurance carriers, government agencies and other housing market participants to help millions of people find, acquire and protect their homes. For more information, please visit www.corelogic.com.

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