earnup

Recapture & Loss Mitigation: Mortgage Industry Learnings from 2020 to tackle in 2021

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Data-driven strategies for independent mortgage companies

Executive summary

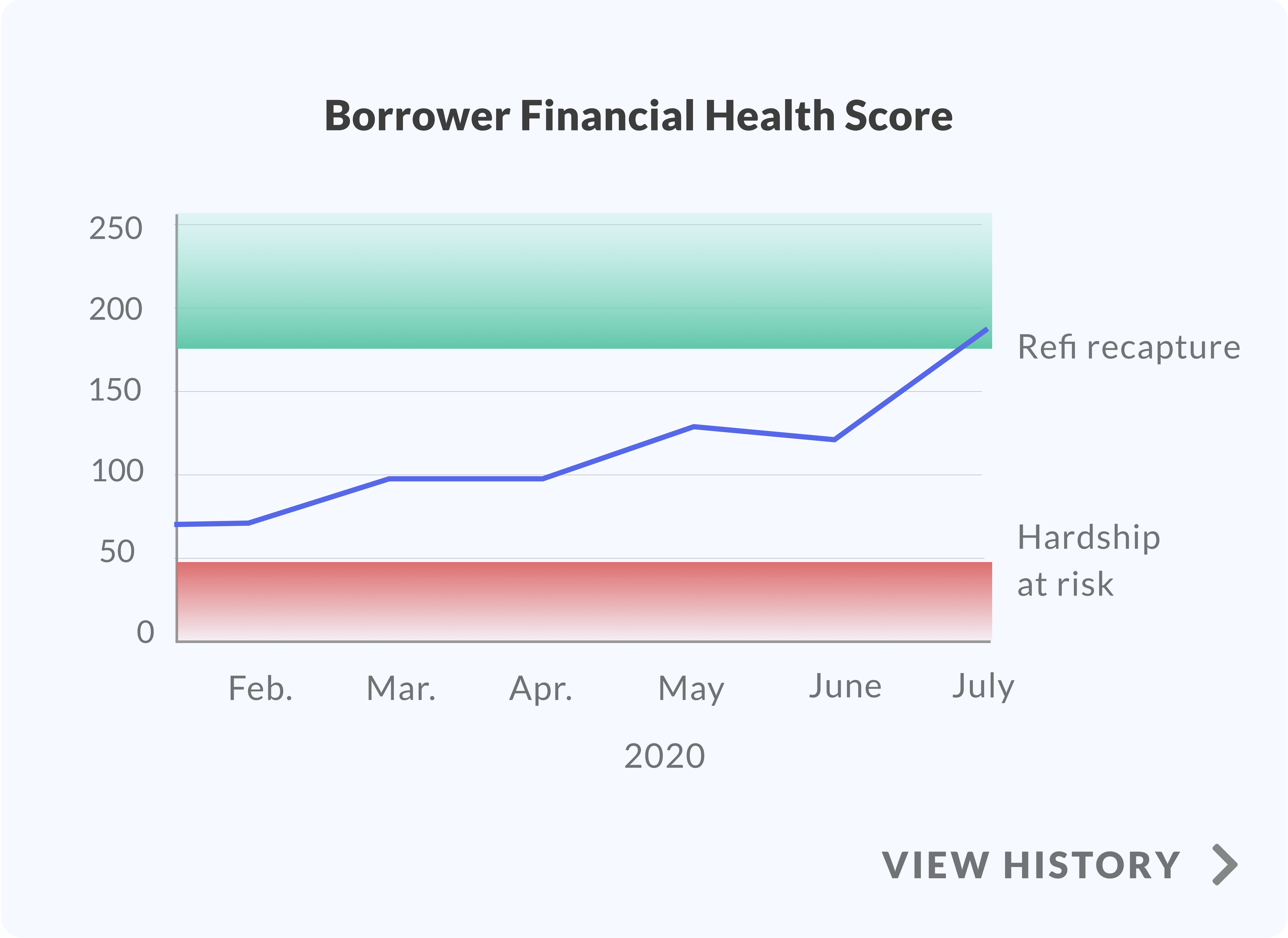
Independent mortgage companies are in a unique position to help borrowers maintain financial stability and weather economic uncertainty.

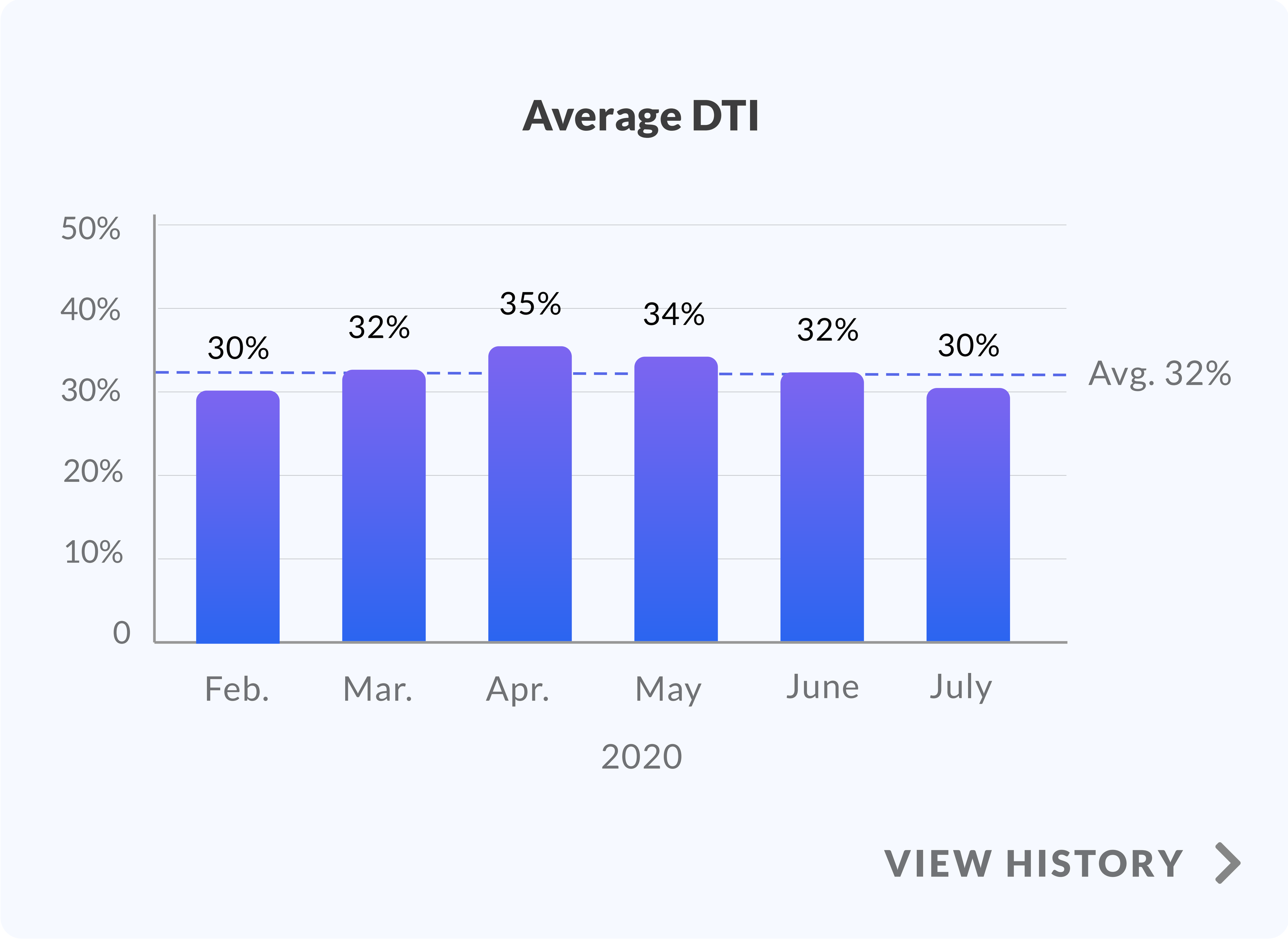
During loan origination, mortgage companies have an opportunity to gather information about borrowers' financial health and offer the best possible products suited to their financial standing. Over time, however, your borrowers' financial picture changes. Like many people, they may be impacted by the economic volatility caused by the COVID-19 pandemic. With 35% of Americans missing a mortgage payment due to the pandemic, there's a good chance your bill will be the one they skip, if they haven't already.

Accurate, up-to-date information on borrowers' financial health is critical to your success. Granular data and risk-based analysis can help you optimize your operations, whether you choose to service the loans you originate or sell that right to mortgage servicers.

In this eBook you'll learn how you can gather meaningful data in a more proactive, transparent, and efficient way than you do today. You'll also learn how you can use that data to support borrowers in different situations, including:

- High-risk borrowers entering or exiting forbearance
- Borrowers at risk of delinquency or default
- High-value borrowers making regular payments and considering refinancing or switching vendors
- Refinancing with your competition





You'll also learn how a new solution from EarnUp can help you achieve these goals. Armed with powerful tools and insights you can preserve the ongoing revenue you receive as a percentage of loan interest and gain new revenue by originating new loans with existing borrowers. You can bridge the 54% recapture rate gap between your company and the industry leader, while reducing delinquencies to under 3%—which is significantly below the industry average.

Mortgage companies must prepare for challenges of 2021

High servicing costs

Most likely, you're already operating with slim margins and limited liquidity. Even if borrowers miss mortgage payments, you're still obligated to advance payments on these loans to investors (plus taxes, insurance, GSE guarantee fees, FHA premium, and Ginnie Mae fees).

Since the start of the financial crisis caused by the pandemic, mortgage servicing costs have increased dramatically. **The cost to service a performing loan has increased two to three times and the cost to service a non-performing loan has increased by four to five times.**

There are a couple of reasons for this. The capital treatment of mortgage servicing assets, increase in servicing costs and, for Federal Housing Administration (FHA) servicing, exposure to the False Claims Act.

The implementation of the Consumer Financial Protection Bureau's (CFPB's) national servicing standards, which locked in many of the requirements initially imposed on the largest servicers as part of the National Mortgage Servicer Settlements reached during the peak foreclosure period, has been a major factor in these increased costs.

As forbearance periods end in the coming months, high-risk borrowers will have questions about their options. They're likely to increase your inbound call volume and complexity. In such an environment, any increase to your operating costs in 2021 will be painful.

A current EarnUp customer has indicated that gaining access to a metric that would indicate confirmation of a payment posting would save them close to **$1mm** in operational costs. **We have that metric.**

The traditional, manual, servicing model simply can't scale to meet expected demand. Sure, you can add agents to your call center and increase outreach. But watch your costs start to spiral. You're going to need a more efficient process.

EarnUp provides a more efficient way to gather information on your borrowers' financial health and address their questions, without needing to expand your call center.

Dissatisfied borrowers

In a market with little brand loyalty, **only 17% of borrowers plan to their current mortgage company for another loan.**[3] In fact, mortgage companies have lower customer satisfaction scores than almost any other industry. Over the past year, COVID-19 has amplified gaps in customer support that have been brewing for some time.

To retain high-value borrowers in 2021, mortgage companies must do a better job of building trust and differentiating their service. That means personalizing interactions with borrowers and tailoring product offerings to meet their needs.

EarnUp helps you retain high-value borrowers by demonstrating that you understand their circumstances and providing them easy, self-service options to manage their payments.

How well do you know your borrowers?

Making decisions based on trends, outdated information, and isolated data points is a recipe for disaster.

Many mortgage companies rely on aggregated forbearance trends for directional guidance. But trend data doesn't provide the specificity you need to take directed action.

Compared with banks, you have many fewer touchpoints with borrowers to understand their financial status. What data you do have was probably collected at the time a loan was initiated and it's most likely out of date.

You may have sources for data on property values and credit scores, but without direct information on depository accounts, it's much more difficult to determine changes in income or bill payments, and that's what really matters to understand financial health.

Consider that FICO scores hit a record high in November 2020. If stimulus benefits and enhanced unemployment were the true reasons your borrowers were able to pay their bills, then they aren't financially healthy even if they maintained their credit scores.[5]

Income and asset data are crucial to building an accurate picture of your borrowers' financial health.

Gathering this type of financial health data is only part of the process of managing risk. To meet the coming challenges facing the mortgage industry, you also need a process to analyze the risk indicators and surface information so that you can take action. EarnUp continually tracks and aggregates data to provide a real-time picture of measurable risk.

To understand your borrowers, you need to know:

- Who lost their job?
- Who has less or more income than before?
- Who is receiving unemployment benefits?
- Who has debt obligations?
- Who has liquid cash?
- Who is making or missing payments?

Become an expert on your borrowers

Fortunately, independent mortgage companies can adapt to a changing economy more nimbly than traditional banks. Innovative tools for data capture and analysis help you become better informed and more intentional at every part of the mortgage lifecycle.

When you have a realistic picture of your portfolio you can make proactive changes to your business, such as offering new products and services to fit your borrowers' needs.

Instead of a one-size-fits-all approach, EarnUp helps you differentiate your outreach based on borrower-specific risk levels. You can make better predictions of which borrowers are likely to struggle so you can offer help at the right time to prevent delinquencies. On the flip side, if you see that a borrower has improving finances and significant liquid cash, they may be getting ready to purchase a home; you may want to offer them an option to finance.

At the same time, access to real-time data can help improve the quality and efficiency of inbound calls and inquiries to improve borrower satisfaction.

Real-time data and analysis gives every stakeholder in your organization the power to meet their goals.

Data-driven actions create more financially healthy borrowers, so every part of the mortgage ecosystem earns money with positive ROI.

Originators

- Offer the right loan at the right time to the right borrower.
- Improve brand reputation.
- Increase revenue sources.

Servicers

- Improve operational efficiency.
- Decrease multi-source data gathering and call center costs.
- Improve customer experience.

Portfolio managers

- Value clients portfolios more accurately.
- Expose portfolio to minimum amount of risk.
- Adjust underwriting practices to reduce risk.

Once you have the full picture, you can take action to support your borrowers

1 Provide a soft landing for loans in forbearance

Lack of insight into borrowers' financial health is an especially challenging issue for non-performing loans because borrowers weren't required to provide much information when they took advantage of the CARES Act to go into forbearance. The mortgage industry is now bracing for a coming tidal wave of loans exiting forbearance. It's hard to know which path borrowers will take at the end of the forbearance period. Will they be able to get payments back on track? Extend forbearance? Or, need other workout solutions?

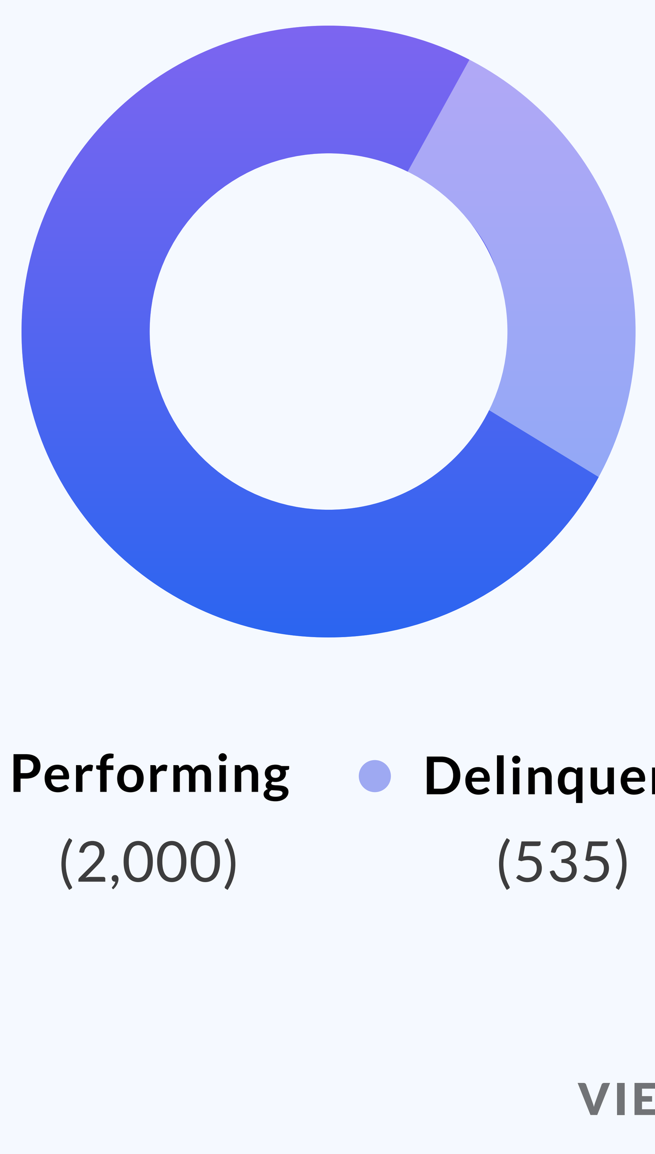
EarnUp gives you the ability to match more borrowers in forbearance with appropriate workout solutions so they can get back on track.

2 Lower the number and cost of non-performing loans

EarnUp surfaces signs of distress in not-yet-delinquent accounts. Based on risk indicators, you can prioritize outreach to at-risk borrowers and proactively offer solutions such as forbearance, before missing payments pile up and loans reach non-performing status.

In addition, data helps you control the escalating costs of servicing non-performing loans, both managing inbound calls and outbound calls. When they have data at hand, agents can triage their strategy based on a borrower's situation. They save time on a call because they already understand the status of a borrower's health and can quickly offer personalized solutions, such as flexible payment options to help borrowers stay on track.

Performing vs. delinquent loans



3 Increase retention and recapture rate for borrowers with performing loans

Accurate data reflecting strong financials helps you ensure that borrowers who are making payments have an easy, positive experience with your company. With EarnUp, you can execute personalized digital communication and offer low-touch service options for low-risk borrowers. Since your call center is operating more efficiently when servicing high-risk borrowers, any low-risk borrower who does call in will have a shorter wait and a better overall experience.

Proactive, automated communication can also improve your overall retention and recapture rate. With the right information, you can offer targeted refinance and new home purchase offers to low-risk, high-value borrowers before your competitors do.

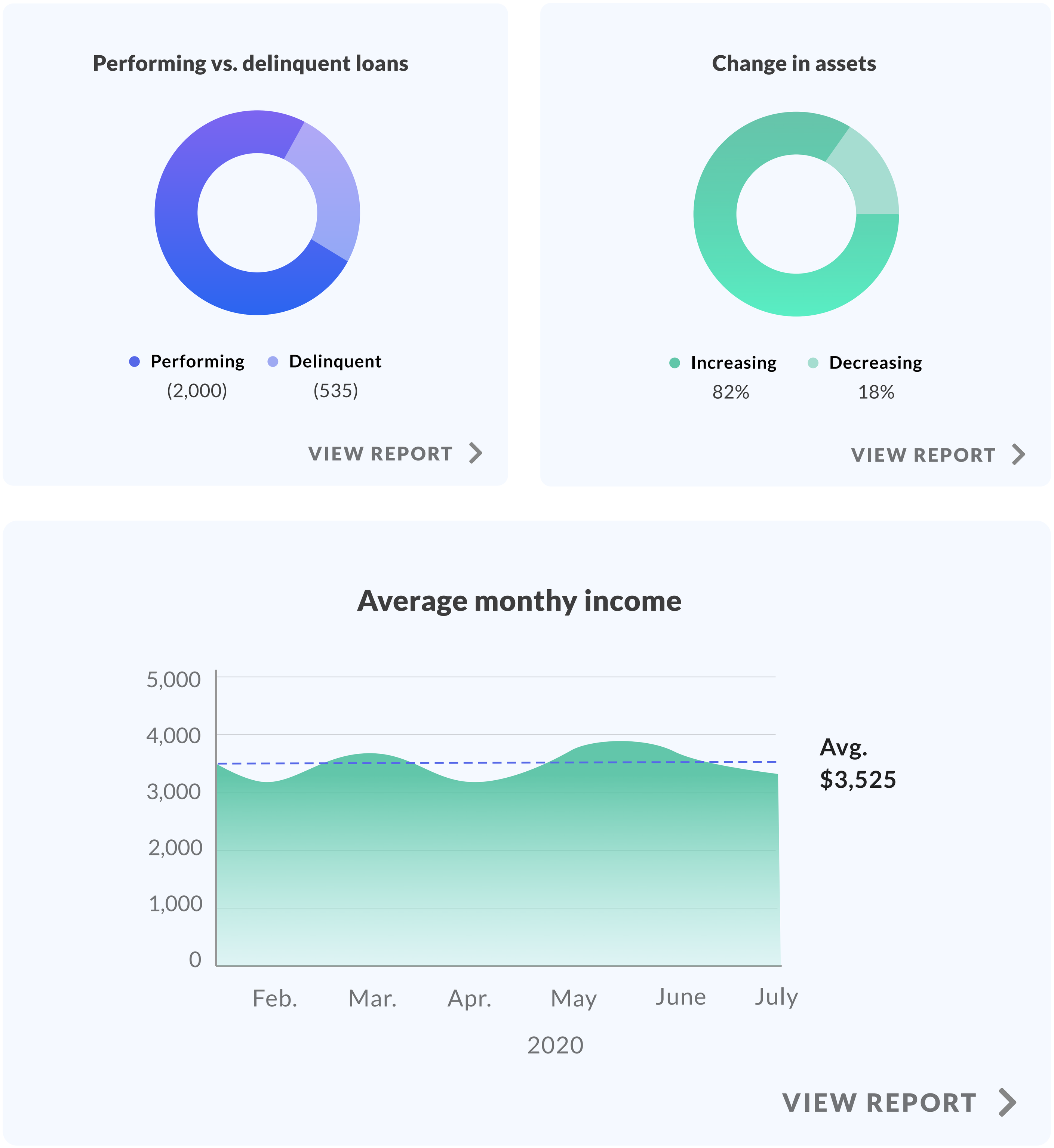
In addition to borrowers with performing loans, you also want to include borrowers in forbearance in this target group if they're continuing to make payments. In fact, approximately 25% of borrowers in forbearance do continue to make payments, using forbearance more as an insurance policy.[6] These borrowers may consider refinancing loans and switching mortgage companies when possible, so be sure to provide them a positive experience working with your company.

A decisioning engine surfaces insights to take action

EarnUp's GetAhead Dashboard

EarnUp has a proven history helping consumers repay their loans. Launched in 2013, we manage more than $10 billion of loan repayments on the EarnUp platform. By improving communication with consumers and enabling flexible payment scheduling, EarnUp has decreased delinquency rates by at least 20% and has a DQ 45+ & Forbearance rate of 2.97%.

Building on our success working with consumers, we've added a component of our payments platform to offer insights to enterprise lending institutions. Via EarnUp, servicers can access accurate, up-to-date data on consumer financial health so you can focus your efforts where support is needed most.



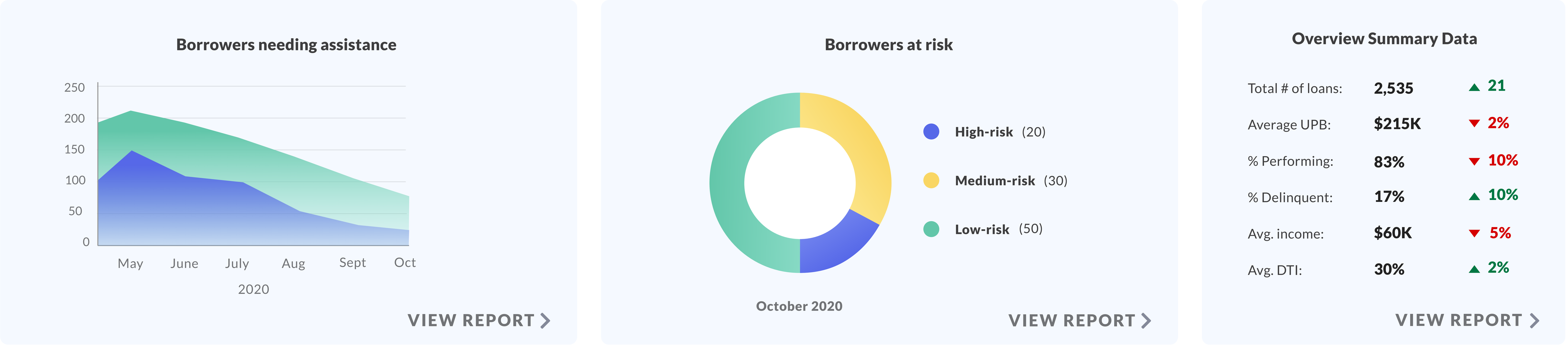
Decision criteria to identify risk

Mortgage companies can access accurate, up-to-date data to evaluate the financial health of borrowers via EarnUp's GetAhead Dashboard.

The GetAhead Dashboard provides a 360° view into your borrowers' personal finances: income and assets, debt obligations, credit score, employment, and financial trends. EarnUp gathers and analyzes this data and assigns a score for each borrower to help you measure risk and prioritize action.

Dashboard visualizations are easy to understand, filter, and share. Everyone can view the same information and can easily collaborate. That way you can triage your outreach and customize support.

You can see insights at a summary level to understand trends, such as number of accounts performing vs. delinquent, average debt-to-income (DTI), average monthly income, and changes in assets. And, you can drill down into individual accounts to gain a deep understanding of a borrower's specific situation. You'll see how their health score changes over time and understand specific indicators of hardship.



You can set and receive automated alerts that will trigger when key risk indicators reach a certain threshold, so you'll know immediately when action is needed.

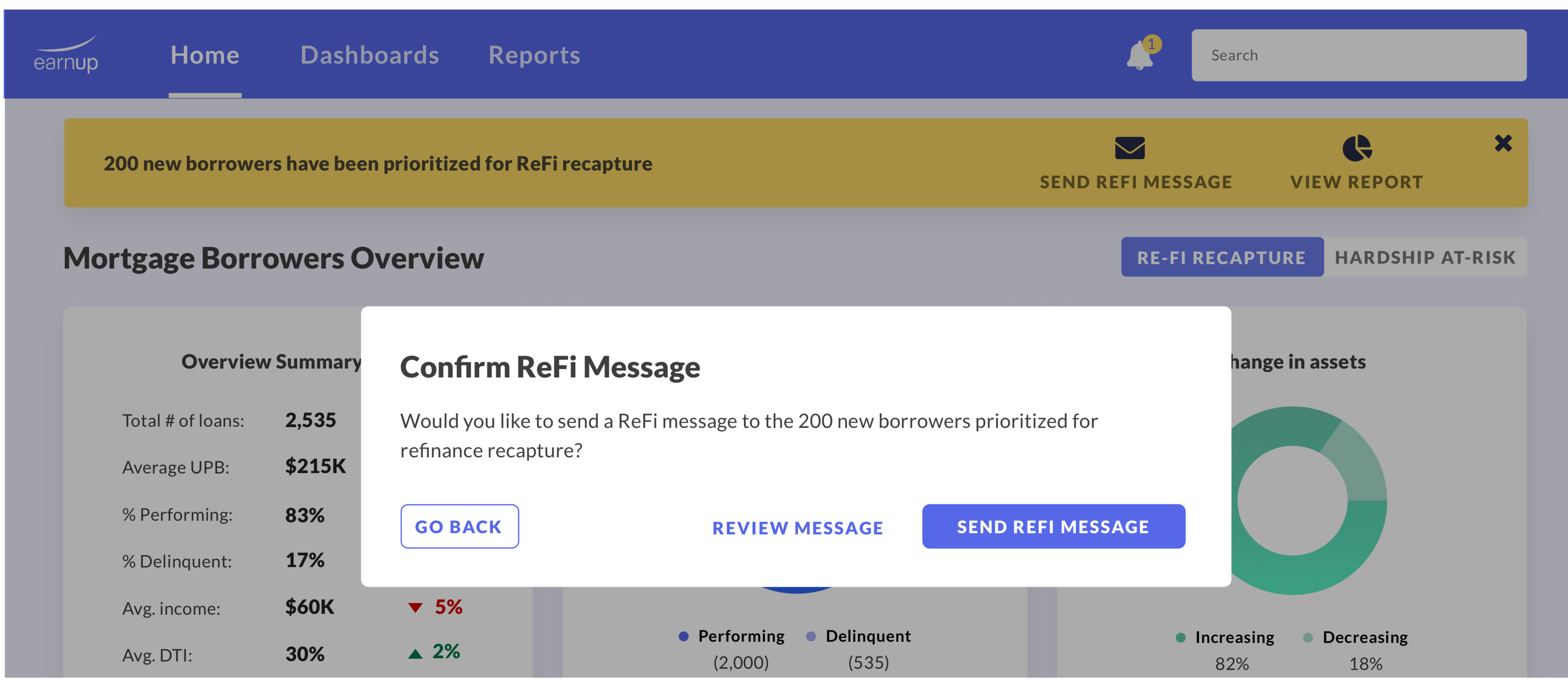
We understand there is no one-size-fits-all solution. Every mortgage company has a unique set of customers and appetite for risk. You have the ability to set your own thresholds to determine risk and trigger alerts, and you can adjust them as needed.

A decisioning engine surfaces insights to take action

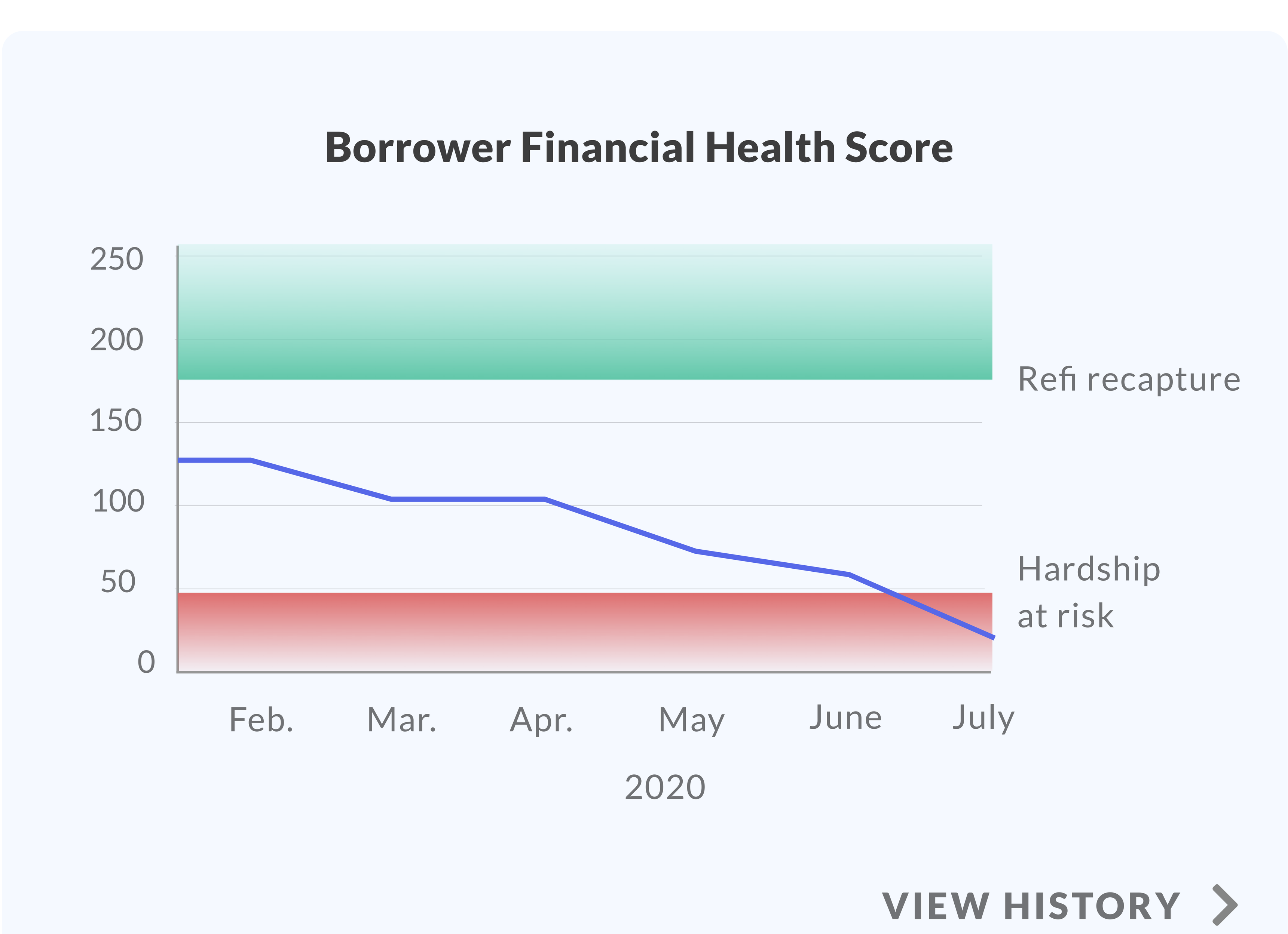
Personalized, automated communication

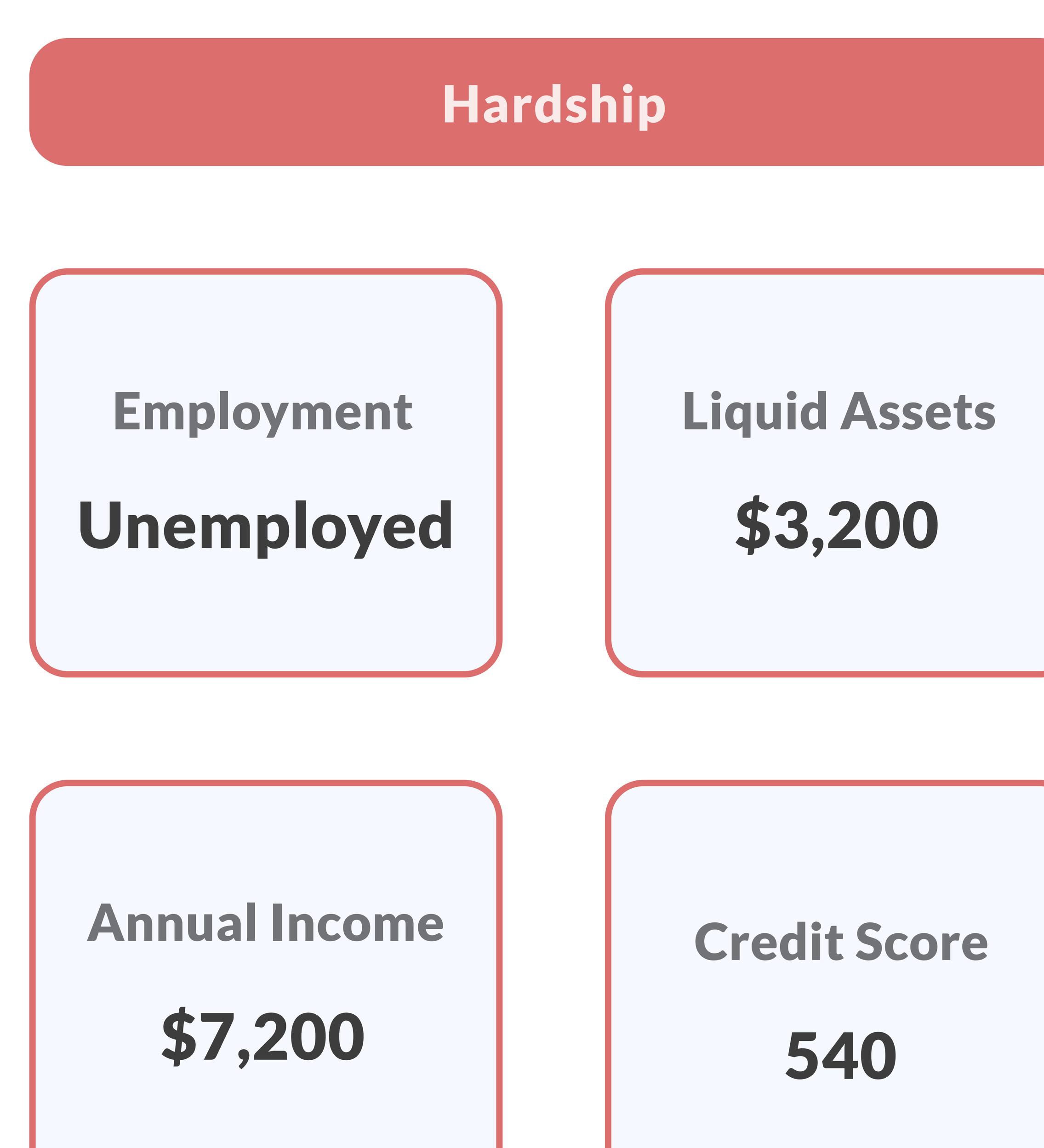
Via EarnUp, mortgage companies can create scheduled or ad-hoc communications that educate borrowers and strengthen your relationships with them, without increasing your servicing costs.

Recapture Module: When thresholds are met for high-value borrowers, you can automatically send them refinance and new home purchase offers before they start shopping around.



Hardship Module: When signals indicate borrowers may start to struggle, you can present the right workout to prevent missed payments and reduce delinquency rates.





Email templates and workflows make this process easy to set up

- They can be designed to match your branding, with content personalized for each recipient. All private information is secured behind a log in, not included in email communications.
- Communications are sent automatically, so you don't need to recreate the wheel or remember to send them.
- You can track how borrowers' interact with your communications so you know who is engaged and who may need additional outreach through other channels.

A decisioning engine surfaces insights to take action

Flexible payment plans

Borrowers opt in to EarnUp to access a self-service portal that empowers them to take control of their payment options and make adjustments without accessing a customer service representative. For example, they can schedule debits and reserve a portion of their loan payment at each pay day. Simply, equal portions of the total mortgage payment is debited from a borrowers bank account and held in reserve. Then, the full payment is made when the payment is due. This helps stabilize a borrower's budget, month over month, and ensures payments are made on time.

Healthier, happier borrowers

Borrowers appreciate the support EarnUp provides. They report that EarnUp has helped them make on-time payments, pay down debt, and manage their budget.

- Using the EarnUp platform, **35% of borrowers pay off their mortgages faster** and **26% save money on interest.**
- **Over 42% of EarnUp borrowers in forbearance go right back to paying their mortgages at the end of their relief periods, twice the industry average.**

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To learn more about how EarnUp can help and get a personalized demo of our solution, please get in touch.

[1] https://www.housingwire.com/articles/even-with-mortgage-assistance-47-of-homeowners-have-considered-selling-their-home-due-to-pandemic

[2] https://internationalbanker.com/finance/why-have-banks-stepped-back-from-mortgage-servicing

[3] https://dsnews.com/daily-dose/08-05-2020/how-to-streamline-mortgage-servicing

[4] https://dsnews.com/daily-dose/08-05-2020/how-to-streamline-mortgage-servicing

[5] https://www.cnbc.com/select/average-fico-credit-score-hits-record-high

[6] https://dsnews.com/daily-dose/08-19-2020/urban-institute-outlines-six-things-to-know-about-mortgage-forbearance