

Mortgage Lender Sentiment Survey[®] Special Topics Report

COVID-19 Challenges and Its Impact on Lenders' Business Priorities

Second Quarter 2020



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Executive Summary

The health and safety of staff, gaining clarification on loan eligibility and forbearance, and supply chain disruptions were the three biggest challenges cited by lenders and servicers in response to COVID-19. As the virus continues to disrupt business operations, lenders are prioritizing streamlining processes and optimizing consumer-facing technology to keep up with the evolving conditions.

Lenders' Top COVID-19 Related Challenges

(Combined biggest and second biggest challenge %)

Loan Origination



36%

said **gaining clarity from secondary-market investors on loan eligibility guidelines**



34%

said **supply chain disruption**



32%

said **health and safety of staff**



Biggest Challenge % at 20%

Mortgage Servicing*



44%

said **understanding and navigating post-forbearance options for distressed borrowers**



33%

said **gaining clarifications on forbearance programs**



Lenders' Top Two Business Priorities to Maintain or Improve Competitiveness for 2020

(Combined most and second most important priority %)

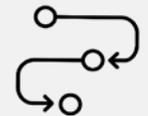
Business process streamlining and **consumer-facing technology** have remained the **top two priorities** for **four** consecutive years



39%

said **business process streamlining** is a top priority

This priority up +10% compared to 2019



33%

said **consumer-facing technology** is a top priority

All digital applications have seen consistent or increased usage during COVID-19



* Servicing questions are asked among lenders who self-reported that they obtain Mortgage Servicing Rights (MSRs).





Business Context



Business Context and Research Questions

Business Context

The COVID-19 outbreak has disrupted how we conduct businesses and live our lives. In the U.S., it has left many Americans dealing with reduced income or unemployment.¹ The federal government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The CARES Act includes provisions that provide assistance to some affected mortgage borrowers and renters.

In early May, we surveyed more than 200 senior mortgage executives via the Fannie Mae Mortgage Lender Sentiment Survey[®] to understand the biggest challenges lenders and servicers have faced for mortgage origination and servicing in response to COVID-19. Additionally, we asked mortgage executives to identify their top business priorities for 2020, the same question asked in the second quarter the previous three years.

Research Questions

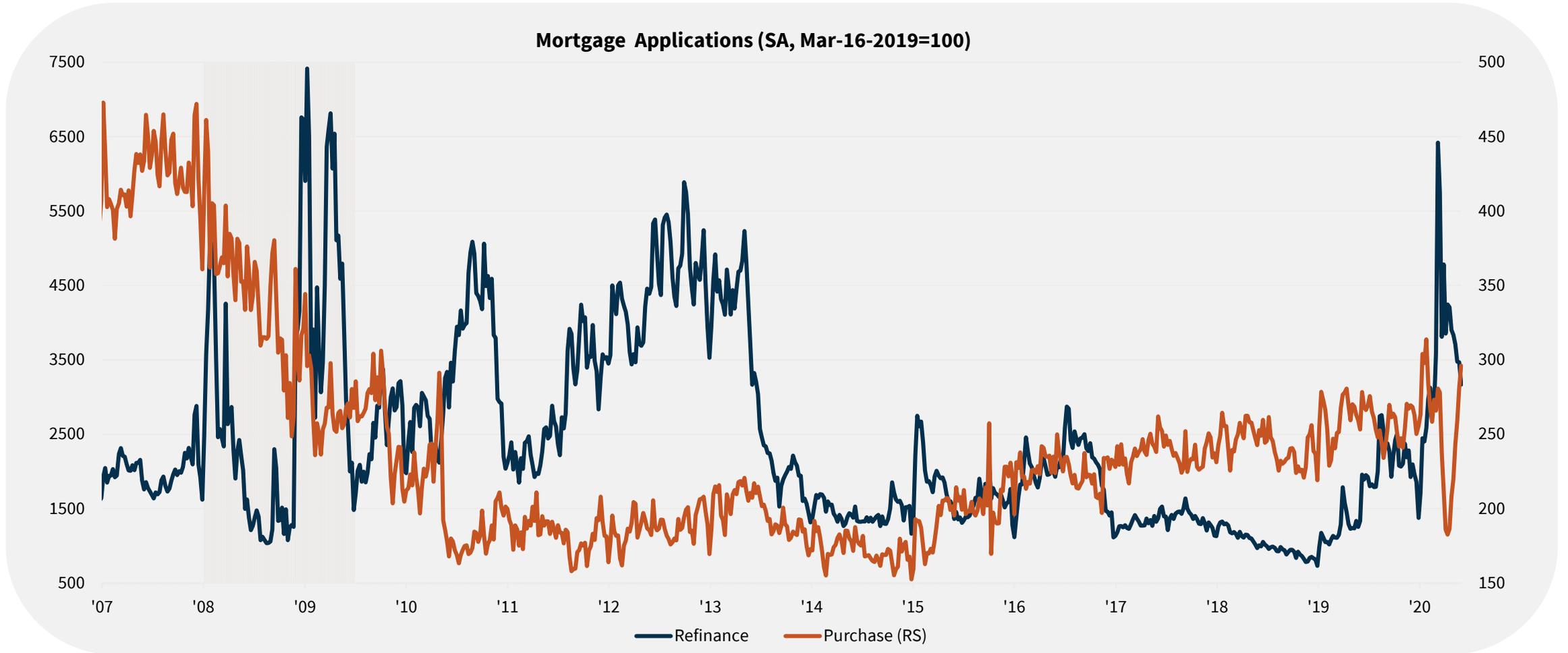
1. What are lenders' most important business priorities in 2020 to maintain or improve their competitiveness in the marketplace? And how are their 2020 top business priorities different from those in the prior three years? What has changed? To what extent does COVID-19 influence the priorities?
2. If cost-cutting is an important business priority for lenders, in which areas do lenders expect to cut costs? And, how are their 2020 cost-cutting areas different from last year (2019)?
3. What are the biggest challenges lenders have faced in response to COVID-19 for loan origination?
4. What are the biggest challenges servicers have faced in response to COVID-19 for mortgage servicing?

¹ According to the Bureau of Labor Statistics, the unemployment rate has hovered around 3.6 percent over the past few years and slightly climbed to 4.4 percent in March. In April, it sharply jumped to 14.7 percent and declined slightly to 13.3 percent. Over the 11-week period ending May 30, about 42.6 million unemployment insurance claims have been filed.



Mortgage Applications as of May 29

Refinance volumes remain elevated as mortgage rates reach historic lows, while purchase applications have rebounded from the recent trough in April, reflecting industry players' resilient efforts to keep the industry functioning in response to COVID-19.

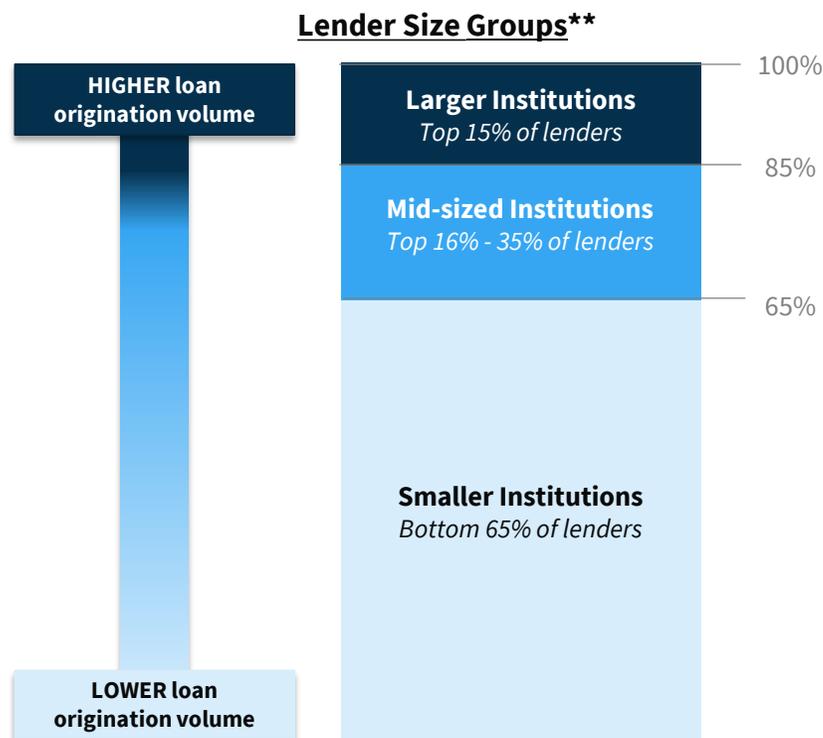


Source: Mortgage Bankers Association



Q2 2020 Respondent Sample and Groups

The current analysis is based on second quarter 2020 data collection. For Q2 2020, a total of 254 senior executives completed the survey between May 5-18, representing 229 lending institutions.*



| Sample Q2 2020 | | Sample Size |
|---|---|-------------|
| Total Lending Institutions The "Total" data throughout this report is an average of the means of the three lender-size groups listed below. | | 229 |
| Lender Size Groups | Larger Institutions Lenders in the Fannie Mae database who were in the top 15% of lending institutions based on their total 2019 loan origination volume (above \$1.25 billion) | 71 |
| | Mid-sized Institutions Lenders in the Fannie Mae database who were in the next 20% (16%-35%) of lending institutions based on their total 2019 loan origination volume (between \$379 million and \$1.25 billion) | 62 |
| | Smaller Institutions Lenders in the Fannie Mae database who were in the bottom 65% of lending institutions based on their total 2019 loan origination volume (less than \$379 million) | 96 |
| Institution Type*** | Mortgage Banks (non-depository) | 89 |
| | Depository Institutions | 89 |
| | Credit Unions | 46 |

* The results of the Mortgage Lender Sentiment Survey are reported at the lending institution parent-company level. If more than one individual from the same institution completes the survey, their responses are weighted to represent their parent institution.

** The 2019 total loan volume per lender used here includes the best available annual origination information from Fannie Mae, Freddie Mac, and Marketrac. Lenders in the Fannie Mae database are sorted by their firm's total 2019 loan origination volume and then assigned into the size groups, with the top 15% of lenders being the "larger" group, the next 20% of lenders being the "mid-sized" group and the rest being the "small" group.

*** Lenders that are not classified into mortgage banks or depository institutions or credit unions are mostly housing finance agencies or investment banks.





COVID-19 Challenges



Top Loan Origination Challenges Presented by COVID-19

The “health and safety of staff” was the “biggest” challenge cited by lenders in response to COVID-19 for loan origination. “Gaining clarifications from secondary-market investors on loan eligibility” was most frequently cited as either the “biggest” or “second biggest” challenge, while “supply-chain disruption on loan origination” rounded out the top three.

Top Loan Origination Challenges Presented by COVID-19

N=229

Biggest challenge

Second biggest challenge



Highest % for the “biggest” challenge



Larger and mid-sized institutions were significantly more likely than smaller ones to say **gaining clarification from secondary-market investors and liquidity issues** are top challenges as a result of COVID-19.



Smaller institutions were significantly more likely than larger and mid-sized ones to say **maintaining productivity** is a top challenge as a result of COVID-19.

Q: Listed below are some challenges presented by COVID-19. What are the biggest challenges your loan origination business has faced? Please select up to two biggest challenges and rank them in order of importance.



Reasons for Top COVID-19 Related Challenges for Loan Origination

Lenders pointed to delays in getting employment verification, appraisals, titles, and closings completed due to office closures, reduced staff or hours, and fear of virus contagion. Lenders also commented that there were many policy changes within a short period of time, making it difficult to keep up with and manage.

Why is this a top COVID-19-Related Challenge for Loan Origination?

Asked of Those Who Listed the issue as one of top 2 challenges

Gaining clarifications from secondary-market investors on loan eligibility guidelines

“There is so much information to review and convey to employees. Policies need to be changed daily to keep up.” – Mid-sized Institution

*“Many investors were making **significant changes to guidelines**. The changes were different from investor to investor and the timing of effective dates was also different. **Very difficult to manage**.” – Mid-sized Institution*

*“**Changes have been fast**, causing everyone on the chain to play defense and disrupting the flow of credit.” – Smaller Institution*

Supply-chain disruption on loan origination such as employment verification, appraisals, and titles

“It is taking more time to get the verifications, appraisals, and title policies. Appraisers do not want to go out in the field, and borrowers do not want to let strangers in their homes.” – Larger Institution

“Turn around time for items such as VVOE's, appraisals, etc. have faced pressure due to work schedules, volume, and remote working.” – Larger Institution

*“Appraisals are taking longer and delaying the process. I believe this is due to the increase in volume as well as the complications of Covid-19. **Employment verification requirements are more difficult** with Covid-19 and many HR people working from home.” – Smaller Institution*

Q: You mentioned that [CHALLENGE] is the biggest challenge for your firm. Could you please share some details about why? (Optional)



Top Mortgage Servicing Challenges Presented by COVID-19

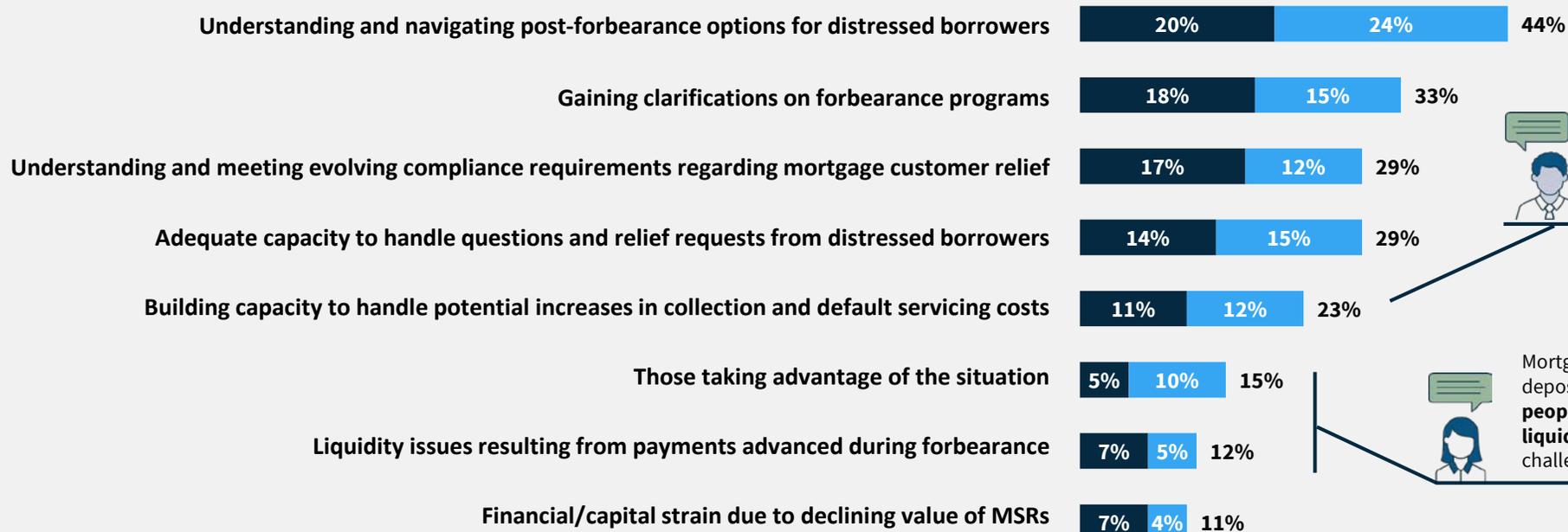
For mortgage servicers, forbearance-related issues were at the forefront. Lenders said “understanding and navigating post-forbearance options for distressed borrowers” was the biggest challenge, followed by “gaining clarifications on forbearance programs” and “understanding and meeting evolving compliance requirements regarding mortgage customer relief.”

Top Mortgage Servicing Challenges Presented by COVID-19

Select up to two, among those who retain MSRs (N=198)

Biggest challenge

Second biggest challenge



Credit unions are significantly more likely than mortgage banks and depository institutions to report **building capacity to handle potential increases in collections and default servicing costs** as a top mortgage servicing challenge faced as a result of COVID-19.



Mortgage banks are significantly more likely than depository institutions and credit unions to report **people taking advantage of the situation and liquidity issues** as top mortgage servicing challenges they faced as a result of COVID-19.



Q: Listed below are some challenges presented by COVID-19 for mortgage servicing. What are the two biggest challenges your servicing business has faced? Please select up to two biggest challenges and rank them in order of importance.



Reasons for Top COVID-19-Related Mortgage Servicing Challenges

With the policy and compliance landscape changing rapidly, lenders expressed concern with navigating post-forbearance options for borrowers and sought clarity on the programs so they could stabilize workflows.

Why Is This a top COVID-19-related Challenge for Mortgage Servicing?

Asked of those who retain MSRs and listed the issue as one of top 2 challenges

Understanding and navigating post-forbearance options for distressed borrowers

*“The **landscape is constantly evolving** and not yet to a steady state so it’s **hard to plan and staff**.” – Larger Institution*

*“The new forbearance policies are making it extremely easy for a borrower to request forbearance. That is a good thing since many people are impacted directly or indirectly by COVID-19. **However, how a customer exits forbearance will not be easy for the customer and will be complicated for servicers.** There needs to be an easy exit approach for consumers to reestablish their loan with no downstream impacts.” – Mid-sized Institution*

*“**Aggregators implemented guidelines differently.**” – Mid-sized Institution*

Gaining clarifications on forbearance programs

*“**It was hard to build workflows and customer notifications** as requirements and clarifications continued to be issued. I think as an industry, we all had the same challenges with this issue.” – Mid-sized Institution*

*“We found it difficult because **we have not used many of these forbearance forms before.**” – Smaller Institution*

*“We use a subservicer. **Ensuring accurate reporting to properly manage and report deferrals** [was a challenge].” – Smaller Institution*

Q: You mentioned that **[CHALLENGE]** is the biggest challenge for your firm. Could you please share some details about why? (Optional)





Business Priorities in 2020

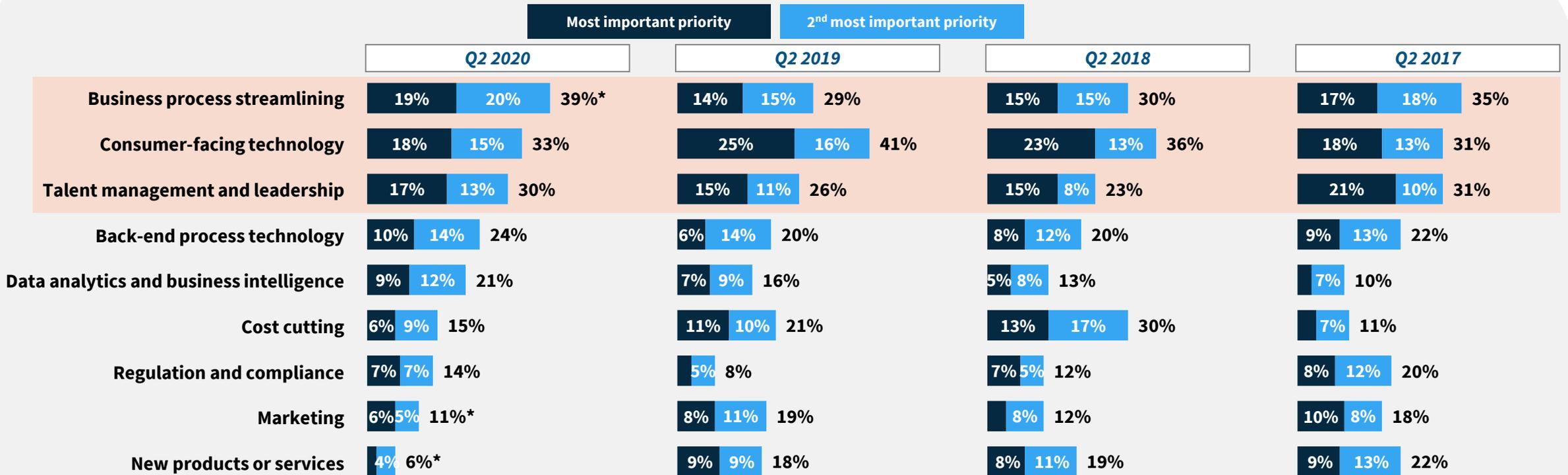


Top Business Priorities in 2020

“Business process streamlining” and “consumer-facing technology” have remained the top two business priorities for four consecutive years, with the importance of “business process streamlining” growing significantly from 2019. “Talent management and leadership” also remained one of the most important priorities for 2020.

Most Important Business Priorities for 2020

Select up to two, N=229



* Indicates a significant difference between 2020 and 2019 at the 95% Confidence Interval

Q: To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2020? Please select up to two most important priorities and rank them in order of importance.



Reasons for Firms' Top Business Priorities in 2020

The top two business priorities have remained the same for four consecutive years, but COVID-19 has created a new urgency to streamline business process and enhance consumer-facing technology to ensure continuity and efficiency amid rapid changes.

What Are They Hoping To Achieve?

Asked of Those Who Listed Top Priority, Showing Top 2 Priorities

BUSINESS PROCESS STREAMLINING

“We were **already moving towards primarily on-line applications and verifications**. We want to **continue that for seamless and efficient customer experience**.” – Larger Institution

“Plan to **reduce the cost to originate, process, close and deliver loans** by 25% or more, invested in **auto bot technology, increase productivity per employee**. We will reduce office space requirements, **utilize work from home**.” – Larger Institution

“For loss mitigation and forbearance programs, **we want to have an efficient and compliant process in dealing with state and investor requirements**. We also work on managing cash advances and being prepared for the onslaught of loss mitigation programs. The goal is to educate the borrower.” – Larger Institution

“With the demand on us to respond to increased threat of repurchase, margin calls, etc., **businesses need to be as efficient as possible in compliance and other areas to keep up with the changing conditions**.” – Mid-sized Institution

CONSUMER-FACING TECHNOLOGY

“**Broker or borrower facing portals** that would make it easier for loan documentation to be submitted.” – Larger Institution

“**Enhancing the consumer online portal** for a better customer experience and more automation.” – Mid-sized Institution

“We want to go **paperless and develop remote processing work**. COVID-19 is the main reason.” – Smaller Institution

“**Make it as easy for a member to get a mortgage (remotely)**. COVID-19 has made it more difficult because some members have been laid off.” – Smaller Institution

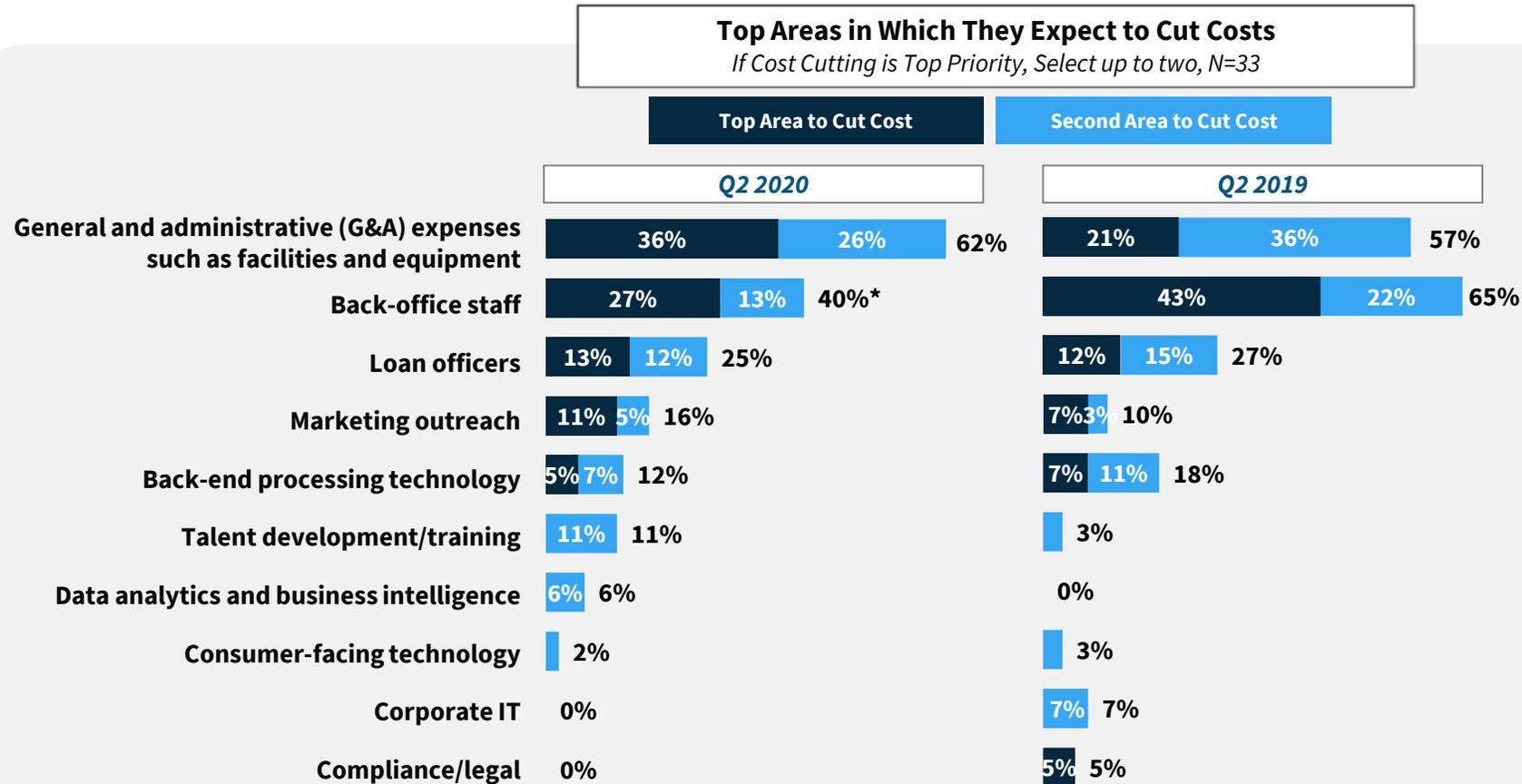
“We continue to leverage our **Point of Sale system to work more consistently with our Loan Origination System**. We are looking at implementing **technologies that sync well with our LOS to reduce hours of labor**.” – Smaller Institution

Q: You mentioned [PRIORITY] is a top priority for your firm. Could you please share some details about why it is a top priority? What do you want to achieve? Has COVID-19 had an impact on making this a priority? (Optional)



Top Areas for Cost Cutting (if cost cutting is selected as a top priority)

Most lenders who expect to cut costs cited general and administrative expenses as the top area. Some lenders also plan to cut back-office staff, though a significantly smaller share compared to 2019.



A significantly smaller share of lenders report cutting **back office staff** as a way to maintain or improve competitiveness in 2020 than in 2019.

Mortgage and depository institutions are significantly more likely than credit unions to say they will **cut loan officers** in Q2 2020.

* Indicates a significant difference between 2020 and 2019 at the 95% Confidence Interval

Q: You mentioned that cost cutting would be a top priority for your organization to maintain or improve competitiveness. In which areas do you expect to cut costs? Please select up to two areas.





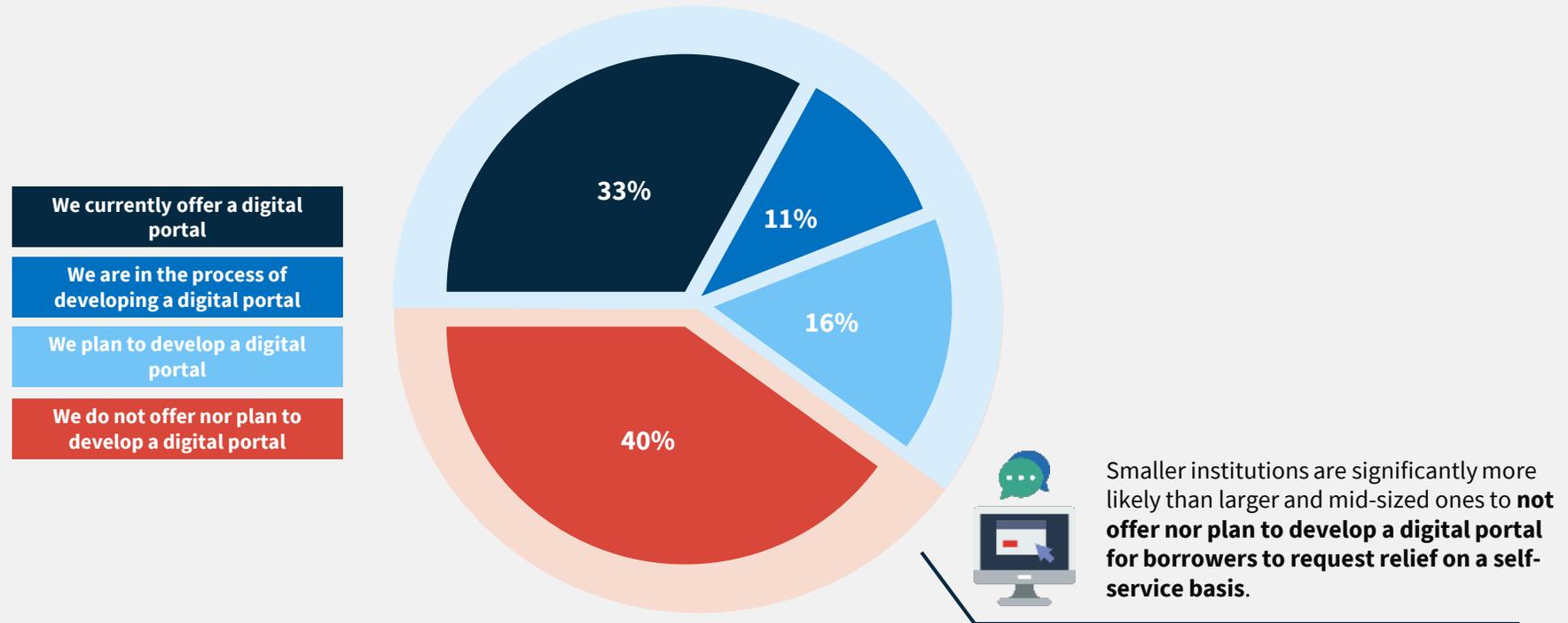
Impact of COVID-19 on Digital Applications

Status of Digital Portal for Relief Options

Lenders are split on their digital portal offering, but the majority offer or are developing a digital portal for requesting or activating simple relief options for borrowers.

Status of Digital Portal for Requesting or Activating Simple Relief Options

Among Those Who Retain MSRs (N=198)



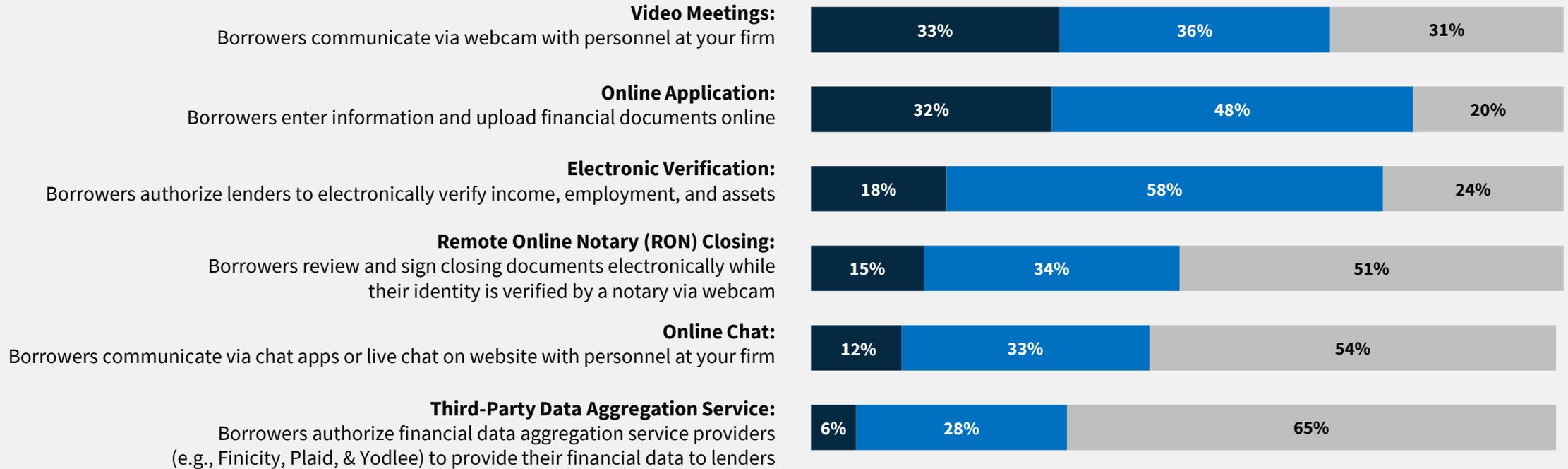
Q: Which of the following best describes your firm's status in developing a digital portal allowing borrowers to request or activate simple relief options themselves on a self-service basis (including a declaration of their hardship)?



Impact of COVID-19 on Consumer Usage of Digital Applications for Loan Origination

Through the COVID-19 period surveyed, all digital applications saw increased or consistent usage. Lenders reported the most significant increases in consumer usage of video meetings and online loan applications.

Changes in Consumer Usage of Digital Applications for Loan Origination due to COVID-19 (Among Total, N=229)



Q: Listed below are some digital applications for loan origination. For each, please indicate the degree to which your firm has seen consumers' usage increase or decrease in response to the COVID-19 outbreak..



Question Text

QR391A-B: To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2020? Please select up to two most important priorities and rank them in order of importance.

QR392A-I: You mentioned [INSERT FROM QR391A-B] is a top priority for your firm. Could you please share some details about why it is a top priority? What do you want to achieve? Has COVID-19 had an impact on making this a priority?

QR393A-B: You mentioned that cost cutting would be a top priority for your organization to maintain or improve competitiveness. In which areas do you expect to cut costs? Please select up to two areas.

QR394-399: Listed below are some digital applications for loan origination. For each, please indicate the degree to which your firm has seen consumers' usage increase or decrease in response to the COVID-19 outbreak.

- **QR394: Video Meetings:** Borrowers communicate via webcam with personnel at your firm
- **QR395: Online Chat:** Borrowers communicate via chat apps or live chat on website with personnel at your firm
- **QR396: Online Application:** Borrowers enter information and upload financial documents online
- **QR397: Third-Party Data Aggregation Service:** Borrowers authorize financial data aggregation service providers (e.g., - Finicity, Plaid, & Yodlee) to provide their financial data to lenders
- **QR398: Electronic Verification:** Borrowers authorize lenders to electronically verify income, employment, and assets
- **QR399: Remote Online Notary (RON) Closing:** Borrowers review and sign closing documents electronically while their identity is verified by a notary via webcam

QR400A-C: Listed below are some challenges presented by COVID-19. What are the biggest challenges your loan origination business has faced? Please select up to three biggest challenges and rank them in order of importance.

QR401: You mentioned that [INSERT FROM QR400A] is the biggest challenge for your firm. Could you please share some details about why? (Optional)

QR402: Does your firm retain MSRs (Mortgage Servicing Rights), servicing loans either in-house or via a sub-servicer?

QR403A-B: Listed below are some challenges presented by COVID-19 for mortgage servicing. What are the two biggest challenges your servicing business has faced? Please select up to two biggest challenges and rank them in order of importance.

QR404: You mentioned that [INSERT FROM QR403A] is the biggest challenge for your firm. Could you please share some details about why? (Optional)

QR405: Which of the following best describes your firm's status in developing a digital portal allowing borrowers to request or activate simple relief options themselves on a self-service basis (including a declaration of their hardship)?

