COVID-19 HOMEOWNER EXPERIENCE REPORT

May 2020

There's no doubt that the mortgage industry is feeling the effects of the COVID-19 coronavirus.

From the time the Fed started cutting rates in March to the rapid and dramatic increase of forbearance requests, lenders and servicers have had to manage a lot of change. And, they have had to manage this change while communicating to consumers who are under their own COVID-19-related stress. For mortgage companies, managing recent changes has been about gauging the pandemic's financial impact to the entity, and about handling the large influx of refinance loan applications without sacrificing the customer experience. For consumers, COVID-19 changes are more personal as they work to manage their finances through reduced income or job loss. STRATMOR spends a great deal of time with lenders on how they manage their businesses, and our survey products provide deep insights into the borrower's experience with their mortgage company.

To capture how the COVID-19 pandemic has impacted homeowners, STRATMOR Group, in collaboration with CFI Group (CFI), a founding partner of the American Customer Satisfaction Index (ACSI), conducted a study to collect feedback from 1,000 homeowners who have mortgages through the nation's top servicers. The study was conducted April 27, 2020 to April 30, 2020 as some states were in the first phase of re-opening for business.

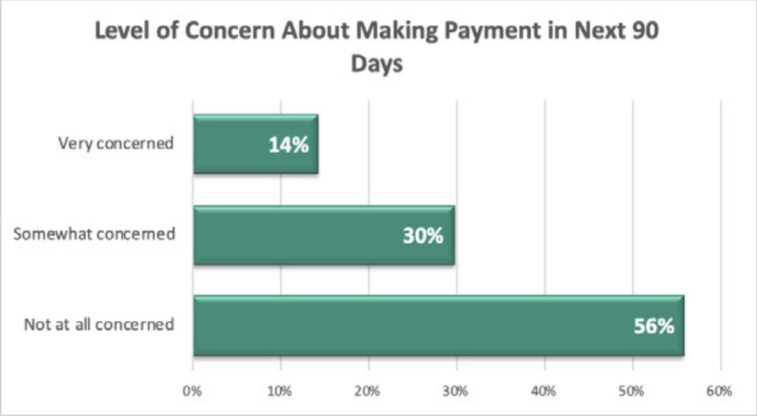
In addition to mortgage-specific questions, the survey asked homeowners about COVID-19's effect on their work lives and income. The results of this study indicate the level of concern homeowners have with making their mortgage payments and provide insight into the factors impacting the homeowner's ability to continue making their payments. Also, the study signals the potential for a significant financial impact to lenders who don't carefully deal with these consumer concerns.

Homeowner Challenges in the Time of COVID-19

Making Mortgage Payments

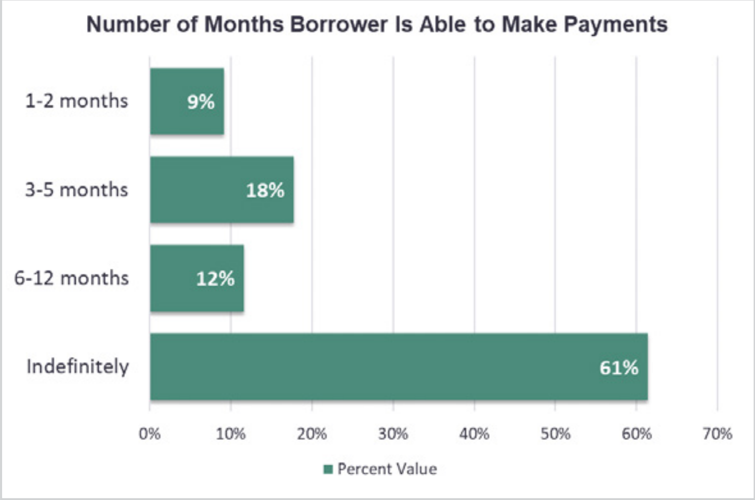
Pre-pandemic, 96 percent of respondents report being up to date on their mortgage payments. Only eight percent of homeowners report making a late payment in the last year, and just four percent report making multiple late payments within the past year.

At the time this survey was conducted in late April 2020, an eye-opening **44 percent** of homeowners were somewhat or very concerned with making their mortgage payments in the next 90 days.



As lenders have scrambled to create communications about borrower assistance programs and forbearance, many are anxious about how large the number of requests for assistance could grow.

According to the Mortgage Bankers Association's Forbearance and Call Volume Survey as of May 3, the total number of loans in forbearance increased from 7.54 percent of servicers' portfolio volume to 7.91 percent. For reference, these numbers are roughly 100 times greater than the early March baseline and are not trending positively. As unemployment continues its upward climb (more than 36.5 million Americans are out of work at the time of this writing), the number of borrowers in financial straits will likely continue to grow, suggesting we are far from seeing a forbearance peak.



In addition to the more immediate (90-day) concerns about ability to pay, the data suggests that a potential second wave of economic impact will come within four to six months. Of the 1,000 surveyed, **27 percent** do not foresee being able to make their mortgage payments for more than five months.

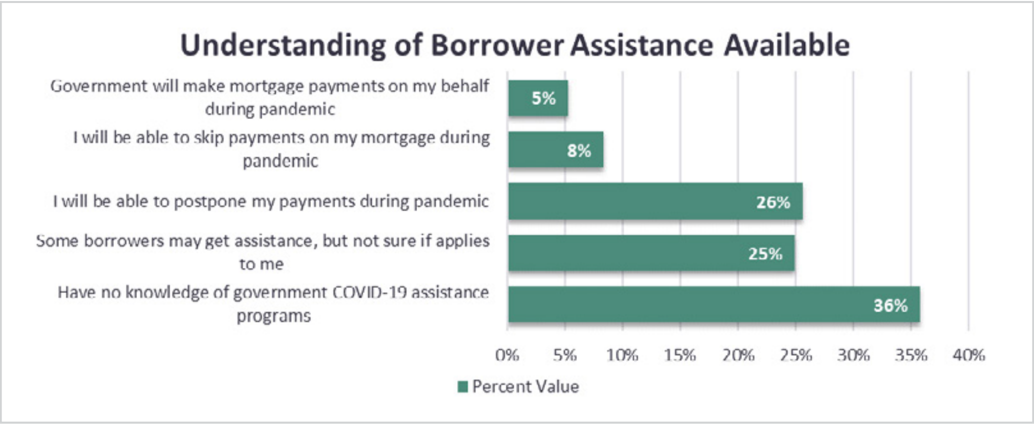
Even with reopening plans moving forward in most states, many industries will continue to feel the pinch of social distancing and reduced business into the third and fourth quarters of this year. Mortgage-adjacent industries like real estate, largely dependent on in-person home viewings and credit worthy consumers, may be facing a long road ahead even as quarantine restrictions are eased.

Adding to the strain placed on the economy, borrowers are facing liquidity issues as many have the resources to weather the storm for a while, but not indefinitely. While the limited savings of the 27 percent of homeowners noted above will be exhausted in five months, the savings for many others will start running out in the months to follow. For many would-be homeowners, their depleted savings may no longer be sufficient for down payments.

Understanding Assistance Options

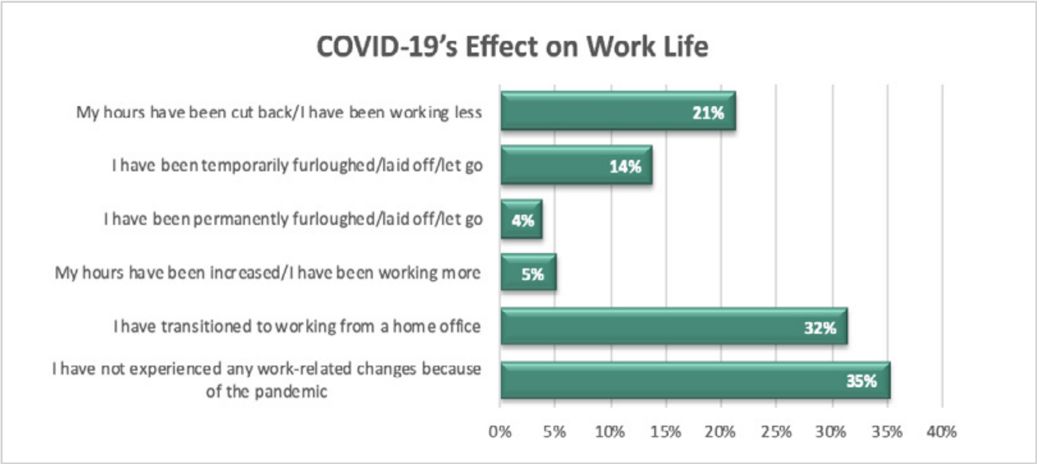
When asked about their knowledge of government COVID-19 assistance programs, **61 percent** of the respondents had either no knowledge of COVID-19 assistance programs or were unsure if the available assistance applies to them.

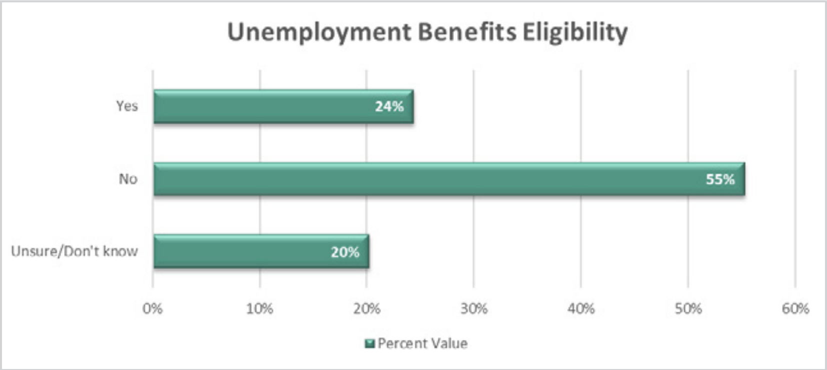
Even more disconcerting is the fact that **13 percent** of respondents either think the government will be making their payments for them or that they'll just be able to skip their payments during the pandemic. This should be a wake-up call to servicers to ramp up communication efforts to help borrowers understand their available payment options.



Work Life Impacts

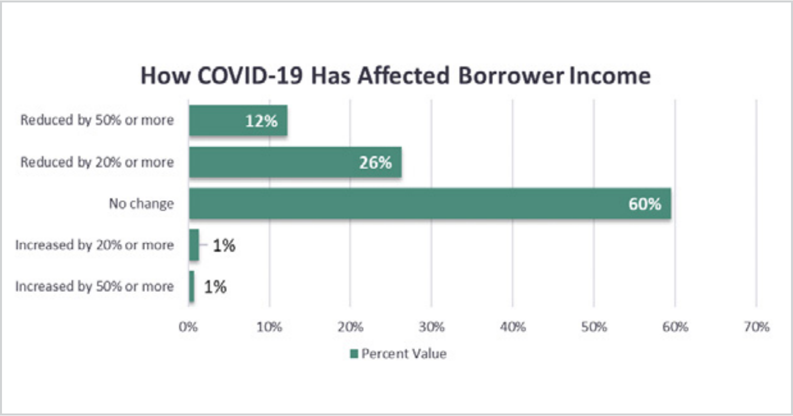
Respondents were asked how the pandemic has impacted their work life. A full **65 percent** report some impact. Cutbacks in hours, temporary or permanent furloughs and remote work top the list of changes workers have experienced; five percent reported experiencing an increase in their work hours.



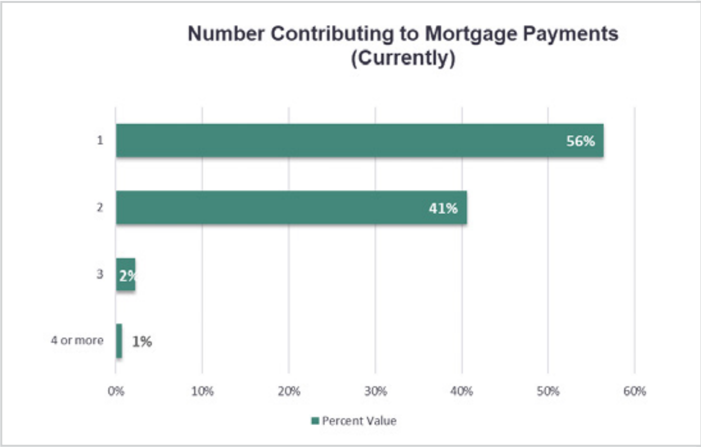


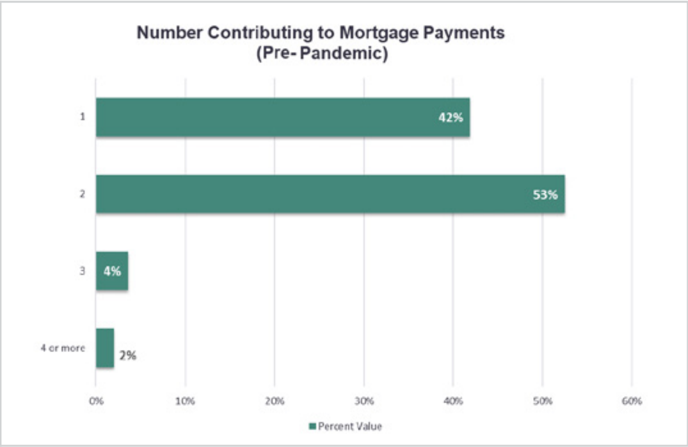
Only 24 percent report having unemployment eligibility and another 20 percent say they are unsure or don't know if they qualify for unemployment benefits.

Income for 38 percent of homeowners has dropped by 20 percent or more; 60 percent report no change and two percent report an increase of 20 percent or more in their income.



Also, there has been a shift in the number of people in the household contributing to making mortgage payments. The number of households with two people contributing to the mortgage fell from a pre-pandemic 53 percent to 41 percent at the time of the survey.





The prospect of becoming jobless isn't the only economic pressure borrowers are enduring. Reduced income has become a reality for many Americans who are living paycheck to paycheck. The potential for insolvency with reduced income is just as serious for these homeowners as losing their jobs.

What Does This Mean for the Mortgage Industry?

The mortgage industry, at least in the near-to-mid-term, fares relatively well in most COVID-19 scenarios. Low interest rates are fueling another wave of refinances which could offset a decline in purchase originations resulting from unemployment, fear and a decline in borrower financial assets that would otherwise be a source of down payments.

The mortgage industry also has been relatively immune to stay-at-home quarantine requirements. Most mortgage companies have been able to transition smoothly to having virtually all of their origination and servicing staff work from home. Adoption of electronic closings and remote online notarizations have sharply increased to allow loans to be fulfilled without face-to-face contact between a borrower and fulfillment workers.

Despite the advantages, the industry is facing an extremely challenging environment once refinances "burn out." Depression-like unemployment is not conducive to a robust housing market. Lenders need more than just a short-term plan to address the coming waves of borrowers in crisis. Now is the time for mortgage companies to:

- Invest in and implement digital mortgage operations and practices to alter the processes and costs of mortgage origination and servicing.
- Build brand loyalty and emotional equity with customers by reaching out proactively to discuss options and to take care of the customer.
- Automate wherever possible. Many in-place systems are already equipped with the tools needed to ramp up communications with borrowers such as auto-emails from the president, short videos like those created by the MBA or CFPB, etc.

To discuss the details of this study and for assistance with implementing strategies for managing through the impacts of COVID-19, contact STRATMOR Group. STRATMOR works with bank, independent and credit union lenders on strategies to solve complex challenges, streamline operations, improve profitability and accelerate growth.

The COVID-19 Mortgage Customer Experience survey was conducted from April 27 to April 30, 2020, completed by 1,000 individuals with current mortgages through the nation's top lenders.

About STRATMOR Group (stratmorgroup.com)

STRATMOR Group is a leading mortgage industry advisory firm that provides a range of programs and services designed to counsel lender CEOs and senior executives. STRATMOR serves more than 250 companies annually, providing strategies that increase growth and improve profitability in sales, marketing, technology, operations and mergers and acquisitions. The company leverages comprehensive, propriety data and key insights gained through extensive experience in the mortgage industry. STRATMOR is well known for its financial models and its collaboration with the Mortgage Bankers Association in the PGR: MBA and STRATMOR Peer Group Roundtables Program.

About CFI Group (cfigroup.com)

Since 1988, CFI Group has delivered customer experience measurement and business insights from its Ann Arbor, Michigan headquarters and a network of global offices. As founding partner of the American Customer Satisfaction Index (ACSI), CFI Group is the only company within the United States licensed to apply customized ACSI methodology in both the private and public sectors.