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LOSS (MITIGATION) DURING A CATASTROPHE

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Loss (Mitigation) During a Catastrophe

I. Introduction

Close your eyes…imagine if I told you in March that just six months later, over 5 million Americans would have contracted a virus that resulted in over 175,000 deaths.[1] In just 60 days, unemployment would go from 3.8% in February, among the lowest on record in the in the post-World War II era, to almost 15% in April.[2] Consequently, early-stage mortgage delinquencies (30-59 days past due) went from all-time lows to their highest level in 21 years during that same 60 day span. Now, open your eyes – welcome to 2020 and the COVID-19 pandemic.

As we are acquainting ourselves with this "new normal" and essentially learning on the fly, so are mortgage servicers and investors. Although the mortgage industry has experienced two serious downturns in the last couple decades (The World Trade Center attacks on September 11, 2001 and the 2008 Housing Crisis), this is an incessant, catastrophic tsunami in comparison. As one can visualize, this creates issues that are unprecedented yet must to be dealt with.

This article will cover the impact of COVID-19 on the mortgage industry, how the industry is responding, options available for borrowers to attempt to retain their homes (both the good and bad), as well as the impact of governmental intervention and the overall effect of the pandemic on lenders and how that will influence their behavior in the future. Buckle up.

II. The Issue

Covid-19's impact on the mortgage servicing industry has been unlike anything ever seen before, not just in the magnitude of the economic downturn, but also in its precipitousness. Back in 2007 when New Century failed, essentially being the first domino to initiate the sub-prime mortgage crisis, unemployment increased 5.5% in the following 18 months to 10% in October 2009. Paradoxically, COVID-19 wreaked such havoc on the workforce, unemployed basically quadrupled in less than 90 days. The unemployment rate in May might have been as high as 16%, by the U.S. government's estimate. But it is not recorded

[1] https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html
[2] https://www.pewresearch.org/fact-tank/2020/06/11/unemployment-rose-higher-in-three-months-of-covid-19-than-it-did-in-two-years-of-the-great-recession/

as such because of measurement challenges that have arisen amid the coronavirus outbreak. Also, a sharp decline in labor force participation among U.S. workers overall may be adding to the understatement of unemployment. In May, 9 million Americans not in the labor force were in need of a job compared with 5 million in February, per government estimates. But these workers are not included in the official measure of unemployment. Thus, the COVID-19 recession is far more comparable to the Great Depression of the 1930s, when the unemployment rate is estimated to have reached 25%.[3] As goes unemployment, goes housing.

A. Comparison to the Mortgage Crisis

COVID-19's impact has manifested at 22 times the speed of the 2008 mortgage crisis. Over 8 million foreclosure occurred, $ 19.2 trillion dollars in household wealth evaporated as a result, home price declined 40% on average across the United States. Couple this with the S&P 500 dropping over 38% proximately causing $ 7.4 trillion dollars in lost stock wealth, and we appeared to have what was indeed a "perfect storm."[4]

After the economic destruction unleashed by the 2008 crisis, it took several years to create solutions, roll out programs, deal with options and ultimately resolve the issues. It took over 5 years for mortgage servicers and investors to process the backlog, partly due to a lack of preparation and partly due to systemic constraints: regulations and government programs took time to enact; technology was not as advanced; there was great uncertainty about the impact of programs; experience was lacking; consumers were quite frankly not prepared to fully embrace digital engagement; and traditional practices were difficult to change and adapt. Servicers were unsure how to deal with the onslaught of the plethora of aggressive auditors who previously were nonexistent or laissez-faire, at most.

However, as brutal as it was for the industry as a whole to adapt to a "new normal", the government issued several pieces of new legislation with the sole purpose of regulating financial institutions and activities while also bailing out certain industry sectors. The most influential and controversial of these was the Dodd-Frank

[3] *Id.*

[4] https://www.investopedia.com/news/10-years-later-lessons-financial-crisis/

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