GSE Activity Report

Wednesday, August 11, 2021

En Garde!

Summary

As we briefly noted yesterday, the CFPB released a report assessing how the largest servicers handled borrowers over recent, chaotic months. Identifying wide dispersion in industry practice, the Bureau warns of enforcement actions to come even as it continues to assess the "outliers." Actions based on past behavior are likely to focus on alleged fair-lending violations; those to come under the new servicing rule will quickly address customer-service bottlenecks and delayed loan-mod offers.

Impact

The CFPB started this survey in spring of this year, just as it launched its new servicing rule and even as it was under strong pressure from Congressional Democrats to demand a lot more of servicers as forbearance comes to a close. Data run from December of last year to April of 2021 and, as noted, come from the sixteen largest bank and nonbank servicers. Key conclusions include:

- Given the mortgage deluge, customer service was remarkably (our word) good, but some firms were outliers with long wait times and high abandonment rates. The Bureau views this as a supervisory concern because borrowers are less likely to obtain needed loan-mod information under these circumstances.
- Some servicers had large populations of delinquent borrowers in their forbearance pools, telling the Bureau that they put vulnerable borrowers at undue risk.
- Failures to properly collect borrower race data may lead to fair-lending violations.
- The CFPB acknowledges that these findings often do not differentiate servicers based on factors such as borrower risk profile without indicating how – if at all – the agency will consider this in its outlier review or indeed even if outliers will be identified once risk criteria are considered. For example, would servicers with low-risk portfolios be judged more harshly due to wait times that compare favorably to higher-risk servicers presumed to have higher call loads? And, despite stating that risk factors are not considered, the report often differentiates subprime servicers from the pack. Still, a detailed review of the metrics shows data points the agency considered outlier results and, in some cases, the reasons why this might still be forgiven (e.g., sharp spikes in call volume).

Outlook

Even so, the data points provided on the range of results and the extent to which exonerations are provided for certain servicers provides a roadmap for servicers seeking to assess their supervisory risk.

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com

Plotting a company's responses against the results and then assessing the extent to which externalities apply will afford insight into where the Bureau may turn and on whom.

But, along with its direct statement about further outlier assessment, the report goes out of its way to say that it's not telling all about what the CFPB thinks it found. Combining this with political pressure leads to the high risk of some big enforcement actions, a few likely out of the blue despite the information afforded in this CFPB report.

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E-mail : info@fedfin.com www.fedfin.com