SERVICE SHEET

Loss Mitigation Solutions

Financial Services

The current global pandemic has had immediate economic impact, with some experts predicting record unemployment. The recent passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, as well as a number of additional programs and guidance introduced by states and other local governments, is an attempt to blunt the economic downturn.

However, as more borrowers begin to experience financial hardships and default on their mortgages, servicers will be called on to provide additional relief outside the forbearances provided for in the current legislation, in the form of other loss mitigation options.

Current Economic Conditions

- Record numbers of people have filed for unemployment since the beginning of the COVID-19 pandemic, with many experts predicting Great Depression rates of unemployment.
- The number of loans in forbearance rose from 0.25 percent of all loans at the beginning of March to over 7.5 percent by the end of April.[1] The volume of loans in forbearance could potentially reach 16 percent of all first lien mortgages, and up to 30 percent of homeowners may default on their loans.[2]
- Some estimates forecast up to $950 billion in delinquent mortgage debt in 2020 alone[3]

Passage of CARES Act

- Multiple venues for consumer relief for federally backed mortgage loans, including:
  - Foreclosure moratorium for 60 days on mortgages
  - Right to forbearance for up to 1 year for mortgages
  - Credit reporting protection for mortgage borrowers in forbearance or modified payments (includes non-federally backed loans)
  - Temporary moratorium on eviction filings on renters

Anticipated Impact

- CARES Act does not provide for servicer relief during forbearance period, which will likely result in potential liquidity pressure
- Increased demand for loss mitigation options across all consumer credit products
- Resulting strain on housing market could have immediate impacts on mortgage availability and housing prices, with ramifications for the broader economy equaling or exceeding the 2007-2008 financial crisis

1 Mortgage Bankers Association, “Share of Mortgage Loans in Forbearance Increases to 7.54 percent,” May 4, 2020 (https://www.mba.org/2020-press-releases/april/mba-survey-shows-spike-in-loans-in-forbearance-servicer-call-volume);

2 Black Knight, Mortgage Monitor – March 2020 Report,” March 2020 (https://cdn.blackknightinc.com/wp-content/uploads/2020/05/BKI_MM_Mar2020_Report.pdf); Chief Investment Officer, “30 percent of Home Mortgages Could Default, Moody’s Warns,” April 3, 2020 (https://www.ai-cio.com/news/30-home-mortgages-default-moodys-warns/)

3 Markets Insider, “UBS: Nearly $1 trillion in mortgage debt could be delinquent this year as a ‘prolonged credit crunch’ looms,” April 7, 2020

In addition to providing much needed borrower relief, servicers have a vested interest in providing loss mitigation options to borrowers. On average, **a performing mortgage loan costs 12 times less to service than a non-performing one**, due to the additional expenses caused by the labor-intensive process and unreimbursable foreclosure and property preservation costs.[4] In addition, the loss mitigation process can be rife with complications for servicers. Many of these challenges could directly impact consumers and may run the risk of being in non-compliance with regulatory requirements.

High Risk Challenges

Below are some potential high risk issues servicers should be cognizant of as the volume of loss mitigation requests increases.

1	**Inaccurate/Untimely Evaluation of Customer Applications/Requests** Servicers may experience issues with evaluating and responding within the required timeframes or performing accurate evaluations. For instance, servicers must evaluate the borrower within 30 days of receiving a complete application. With increased volumes and workforces impacted by the pandemic, servicers run the risk of being unable to process all applications timely or accurately.
2	**Lack of Cohesive Guidance (Federal, State, & Local Regulations/Programs, Investors)** In addition to the new requirements under the CARES Act, servicers must comply with requirements from states and local municipalities, some of which may conflict or provide additional protections for other populations of loans.
3	**Impacts of Foreclosures and Bankruptcies** Both foreclosures and bankruptcies have the potential to intersect with the loss mitigation process. With anticipated high volumes of both consumer bankruptcies and loan defaults, servicers risk inadvertently proceeding with foreclosure even when automatic bankruptcy stays or loss mitigation holds require the cessation of collection and foreclosure activities, thus running afoul of regulatory requirements.
4	**Inaccurate Fees (Assessed and Capitalized)** With the forbearances provided by the CARES Act, servicers may face issues with inaccurately assessing fees and subsequently capitalizing them in loan modifications. Additionally, as servicers can be reimbursed for fees/claim expenses from federal agencies and private mortgage insurers, it is imperative that fees are accurately assessed and documented to recoup the maximum allowed.
5	**Inaccurate Credit Reporting** New reporting requirements for loans in forbearance from the CARES Act, as well as the anticipated increased loss mitigation volume, may require manual intervention in automated furnishing processes to appropriately report loan statuses and also potentially lead to an uptick in consumer disputes.

Other challenges servicers may encounter include insufficient staffing for the anticipated increased volumes, service transfers and in-flight modifications, availability of documentation for applications, early intervention/pre-default borrower outreach/assistance and increased reputational risk due to potential media and congressional focus.

4 Urban Institute, "Servicing Costs and the Rise of the Squeaky-Clean Loan," February 2016 (https://www.urban.org/research/publication/servicing-costs-and-rise-squeaky-clean-loan)

Effective loss mitigation strategies and efficient processes can minimize losses and improve liquidity at a time when liquidity is an existential concern to many servicers. FTI has been retained in matters working on behalf of mortgage servicers to determine the most effective strategy to address a variety of loss mitigation issues. We leverage a team with deep expertise in mortgage servicing and deploy a collaborative approach when developing comprehensive solutions.

Our teams take an industry first approach, bringing veteran practitioners and former industry executives to bear on the most complex challenges and opportunities facing mortgage servicers.

Process Improvement

- Evaluate end to end loss mitigation processes across all programs from application to resolution
- Review and remediation of policies and procedures against regulatory expectations
- Develop tailored target operating models depending on an institution's business processes, geographic footprint and mortgage product portfolio

Data Analysis

- Develop customized tools to identify issues with loss mitigation programs per servicing system data
- Design customized dashboards including Key Risk Indicators (KRIs) related to all loss mitigation types, including loan modification and forbearance

Staff Augmentation

- Provide experienced loss mitigation specialists who can work at the direction of combined client/FTI teams
- Partner with institutions to review and decision loans for loss mitigation options using existing business processes and applicable regulations
- Develop training materials and standard operating procedures to ensure a smooth handoff of loss mitigation

Regulatory Lookback Reviews

- Evaluate and assist institutions with exam readiness, including assessment of current processes to mitigate risks of potential lookback reviews or other regulatory actions
- Develop and execute testing methodology and customized test plans to address all in-scope regulations at the loan level (including reperformance of loss mitigation decisioning)

On Point Experience

FTI Forensic & Litigation Consulting Segment: We provide the industry's most complete range of forensic, investigative, data analytic and litigation services. As an independent consulting firm, we have unmatched qualifications in all types of risk, dispute, investigations and litigation scenarios. We have extensive experience serving leading corporations, governments and law firms around the globe.

Industry Relationships: FTI has served companies, boards of directors, secured lenders, bondholders, equity investors and other stakeholders in all financial service sectors.

Financial Services Experience: Our past engagements include financial advisory services to a wide array of financial institutions, including banks, consumer lenders, vendors, third parties and other market participants.

53

53 of Fortune Global 100 corporations are clients

96/100

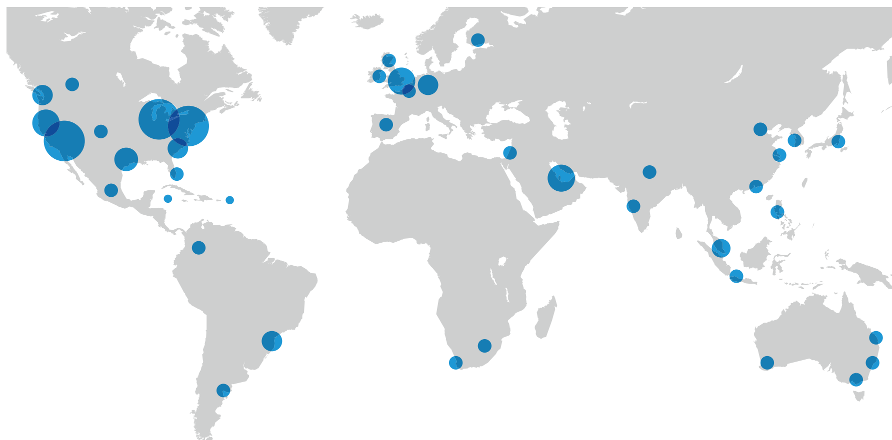
Advisor to 96 of the world's top 100 law firms

8/10

Advisor to 8 of the world's top 10 bank holding companies

$4.7BLN

Equity Market Capitalization*



*Number of total shares outstanding as of April 23, 2020, times the closing share price as of April 30, 2020.

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