

CARES Act Forebearance Testing

Financial Services

The CARES Act provides for various consumer relief, notably in mortgage forbearances and credit reporting. The fast-tracked legislation left open many practical implications, resulting in a multitude of logistical challenges to servicers in administering the forbearance programs and other consumer protections, such as credit reporting provisions. With the FHFA's Office of Inspector General already issuing a report raising the GSEs' lack of oversight on servicers' compliance with the CARES Act, the CFPB sending prioritized assessment requests to certain servicers and the House Financial Services Committee requesting information from 11 of the largest servicers, further regulatory scrutiny is inevitable.

FTI's deep mortgage servicing expertise has provided us with specific insights into the challenges posed by loss mitigation and credit reporting to help navigate the potential risks to servicers, particularly in proactively identifying and addressing any potential issues that may result in future regulatory or reputational concerns and also informs our methodology for conducting these assessments.

AREAS REQUIRING SPECIAL CONSIDERATION AND ATTENTION

Lack of Cohesive Guidance	<ul style="list-style-type: none"> – While the Government Sponsored Entities (GSEs), Federal Housing Agency (FHA) and Department of Veterans Affairs (VA) are all issuing their own guidance, states and local municipalities are increasing the complexities by releasing their own requirements. The multitude of guidance requires servicers to stay on top of a wide array of requirements. – Servicers must be nimble to adapt to new guidance, while also maintaining consistency to allow for employees to provide appropriate information to borrowers.
Customer Call Quality	<ul style="list-style-type: none"> – With the CARES Act only requiring verbal requests for forbearances, many requests will be through customer calls. Any differences in what options are provided to customers in these calls may result in Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) or Fair Lending violations. – Additionally, with the remote work conditions caused by the current pandemic, call quality and adherence to scripts will be more difficult to maintain and monitor.

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Lack of Documentation	<ul style="list-style-type: none"> – With only verbal requests and no requirements for formal attestation, documenting a customer’s request for COVID-related accommodations may result in inconsistently or inadequately documented requests. – In a potential push to alleviate financial distress for customers, media reports have reported some borrowers being placed in forbearances when they did not request them and only merely inquired about potential accommodation, underscoring the need for documentation.
Nuanced Credit Reporting Requirements	<ul style="list-style-type: none"> – The CARES Act requires that all loans, not just federally backed loans, should be reported at the same status prior to the accommodation. This may result in manual intervention in any automated furnishing processes, which lead to potentially higher error rates. – Additionally, the manual interventions may also potentially result in an uptick in consumer disputes.

FTI is well equipped to assist mortgage servicers identify critical errors in the forbearance process related to the CARES Act in a variety of ways, which will allow servicers to detect potential systemic issues within its processes and remediate loans and any processes, as required. Some of our featured solutions include:

- **CARES Act Forbearance Testing** – Loan testing for compliance with CARES Act forbearance requirements based upon test procedures developed by FTI for various loan forbearance stages (e.g., application, extension, exit).
- **Assessment of Policies and Procedures** – Independent review of loss mitigation policies and procedures, focusing on compliance with CARES Act requirements, and/or vendor oversight program of subservicers, if applicable.
- **Loss Mitigation Review** – Loan testing for compliance with FTI’s defined general loss mitigation test plan.
- **Credit Reporting Customized Solutions** – Tailored solutions for the servicer's portfolio and credit reporting policies, including current state assessments, Metro 2® file analysis/data analytics, tradeline testing or a combination of these.



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