

Consumer lending institutions play an important role in the coronavirus response



The coronavirus (COVID-19) outbreak is causing widespread concern and economic hardship for consumers, businesses, and communities across the globe. The situation is fast moving with wide impacts. We've prepared some general guidance on [COVID-19: What US business leaders should know](#): crisis management, supply chain, financial reporting, tax and trade, and workforce issues.

Here is our take on some additional issues that consumer lending institutions might face.

Most financial institutions already have business continuity plans, but those may not fully address the fast-moving and unknown variables of an outbreak like COVID-19. Typical contingency plans ensure operational effectiveness following events like natural disasters, cyber incidents, and power outages, among others. They *don't* generally take into account the widespread quarantines, extended school closures, and added travel restrictions that may occur in the case of a health emergency. Financial institutions face additional scrutiny due to potential reputational issues and regulatory requirements.





Both bank and non-bank lenders and servicers face some unique challenges at the moment.

- For example, mortgage lenders are seeing a spike in refinance applications after rate cuts by the Fed.¹ You'll likely continue to be inundated in the coming weeks as more homeowners realize the savings available to them by refinancing. One estimate shows more than 11 million refinance candidates as of early March, when Freddie Mac's average for a 30-year fixed-rate mortgage hit a new low of 3.45%.²
- At-risk customer segments such as gig-economy workers and those who work in hospitality and other service industries could easily find themselves losing hours and struggling financially. Those who continue to find work may also face a higher risk for exposure to the virus. Servicers for mortgages, auto loans, student loans, and credit cards should prepare to help borrowers who are either already late on payments or anticipate that this might soon be the case.

As a financial institution, your response to these issues could be critical to future customer and employee relationships, and it could very well damage your public image if not handled well. Here are our thoughts on how you should be mobilizing now to care for your customers and your employees.

¹ Orla McCaffrey and Ben Eisen, "Mortgage Rates Fall To Lowest Level Ever," *The Wall Street Journal*, March 6, 2020, accessed via Factiva, March 6, 2020.

² Jann Swanson, "There are 11.1 Million Refi Candidates, With \$2.99B in Potential Savings," *Mortgage News Daily*, March 2, 2020, accessed via Factiva, March 6, 2020.

Caring for the customer

Specific segments of the population are finding themselves in increasingly vulnerable positions, and this has the potential to affect both lenders and servicers. Here are a few trends that are now center stage as we face the current situation.

The gig economy has grown. More than a third (36%) of US workers participate in the gig economy, a term referring to hourly contractors such as Uber drivers, Instacart shoppers, and Care.com workers who pick up work assignments through apps. These individuals receive 1099 forms and are classified for tax purposes as independent contractors.³ Gig workers face a complicated situation at the moment. Demand for some services actually saw an immediate spike in early March as online food and grocery delivery orders started to climb.⁴ But, because of the nature of the work, these individuals have higher odds of being exposed to the virus and getting sick.⁵ This raises another issue: The vast majority of gig-economy workers don't receive sick-leave benefits through the companies they work for. Uber, Lyft, DoorDash, and others are already discussing creating a fund for drivers who contract COVID-19. Uber announced that it will guarantee 14 days of paid sick leave for any driver who contracts COVID-19.⁶

Many service industry workers will likely see shrinking paychecks. One in ten (10.6% or 16.3 million) Americans work in the hospitality and leisure industry.⁷ If travel bans and conference cancellations continue, these individuals will be some of the most affected economically. Of those, hourly and contract workers will be the hardest hit.

Many of these individuals already live without a comfortable emergency fund, so it won't take long before consumer finance companies start getting requests for help. A study by the Federal Reserve found that four in ten Americans would have difficulty covering a \$400 emergency expense.⁸ For credit card companies, you should prepare for delinquencies to climb quickly. Data released in December shows the delinquency rate for credit cards was 2.6%, compared to a rate of 6.8% in the second quarter of 2009, the height of the financial crisis.⁹



³ US Government Publishing Office, "House Education and Labor Subcommittee on Civil Rights and Human Services Hearing: 'The Future of Work: Protecting Workers' Civil Rights in the Digital Age,'" February 2020.

⁴ Carolyn Said, "Panic buyers turn to deliveries," *The San Francisco Chronicle*, March 4, 2020, accessed via Factiva, March 8, 2020.

⁵ Alana Semuels, "'If We Don't Work, We Don't Get Paid.' How the Coronavirus Is Exposing Inequality Among America's Workers," *Time*, March 4, 2020, accessed via Factiva, March 7, 2020.

⁶ Preetika Rana, "Uber, DoorDash and Others Discuss Fund for Drivers Affected by Coronavirus," *Dow Jones Institutional News*, March 8, 2020, accessed via Factiva, March 8 2020.

⁷ Bureau of Labor Statistics, "Employees on nonfarm payrolls by industry sector and selected industry detail," February 2020.

⁸ Alana Semuels, "'If We Don't Work, We Don't Get Paid.' How the Coronavirus Is Exposing Inequality Among America's Workers," *Time*, March 4, 2020, accessed via Factiva, March 7, 2020.

⁹ Board of Governors of the Federal Reserve System, "Delinquency Rate on Credit Card Loans, All Commercial Banks," March 2020.



Student loan debt. In 2009, total outstanding student loan debt in the United States was \$772 billion. In late 2019, that amount had ballooned to more than \$1.6 trillion.¹⁰ Today's college graduates leave school with an average of \$30,000 in student loan debt. That translates to monthly payments of \$304 over ten years.¹¹ When financial hardship hits home, individuals will likely find themselves deciding which bill will sit unpaid.

Since these trends will likely affect lenders and servicers differently, we'll discuss them separately.

- **Lenders:** As a lender, you should address borrower concerns related to both new and in-progress loan applications. Customers are already asking: Can I close on my loan without going to a physical office? Do I really need an appraisal to get a refinance? What happens if my credit score changes between the time I'm preapproved and when my loan closes? Can I get a short-term loan until my income stabilizes? What happens if I need to postpone my closing due to a travel restriction or quarantine?
- **Servicers:** As a servicer, you should be prepared to address a range of issues as customers deal with financial uncertainty. Borrowers facing financial distress will want to know: Can I skip a loan payment? What special programs are in place and do I qualify? Do I qualify for student loans forbearance? What documentation do I need to show that I'm directly affected?
- **Caring for employees:** It's important to ensure employee safety and security, and you should be looking for appropriate precautions and maintaining timely, consistent, and transparent communications. Questions already being raised include: Can I work from home if my child's school closes? Are temporary measures in place for employees who don't normally work from home? What about employees essential to keeping physical operations running?

¹⁰ Board of Governors of the Federal Reserve System, "Student Loans Owned and Securitized, Outstanding," March 2020.

¹¹ T. Norman Van Cott, "Einstein and college loans," The Tribune, February 28, 2020, accessed via Factiva, March 7, 2020.

Caring for the customer: Your role as a lender

As a lender, you'll want to make sure that customers can easily find the information they're looking for, regardless of whether they're thinking of applying for a loan, line of credit, or credit card or have already applied. Here's what we suggest you do.

- **Provide clear guidance on approval criteria.** Many firms could see record web and phone traffic in response to low mortgage rates. Revisit or develop the guidance that you give to customers on the requirements for approval, including what documentation they need. This can help reduce call volume that takes valuable time away from other activities.
- **Improve transparency through clear communications.** Let customers know the steps you're taking to make sure that their applications are being handled as quickly as possible. They'll want to know where they are in the process, who they can go to with questions, and how the virus situation is affecting the timing of approvals.
- **Consider using estimates from automated valuation models (AVMs) instead of full appraisals for refinances.** Unless waived, home mortgage refinances depend on data from a current appraisal. The industry has already seen capacity constraints due to the number of qualified appraisers falling in recent years. The current situation is further complicated by the fact that most appraisers are over the age of 50¹² and that the CDC has recommended that older Americans in communities with an active outbreak should stay home.¹³ We suggest that you decide when you can skip the appraisal in favor of AVM results. You'll need to develop processes, training materials, and communications about these new policies to be sure that they're handled consistently for all customers.
- **Offer virtual service options.** In affected areas, you'll have customers who can't, or don't want to, go somewhere in person to sign paperwork. Make sure that options are clearly communicated. In addition, if online requests spike, be prepared to move in-person staff to online channels to provide additional support to strained call centers.
- **Decide how you'll handle surprises between preapproval and close.** You may have to deal with unanticipated twists to the application process should the current situation deteriorate. Some customers, hospitality and travel industry workers, for example, may experience reduced hours. Others may find that their credit score has declined due to an increase in credit card use. Develop a policy to address these kinds of situations and then stick with it.

¹² Amy Hoak, "The number of real estate appraisers is falling. Here's why you should care," MarketWatch, November 18, 2015, accessed via Factiva, March 8, 2020.

¹³ Centers for Disease Control and Prevention, "People at Risk for Serious Illness from COVID-19," March 8, 2020.

Caring for the customer: Your role as a servicer

As a servicer, you will likely interact with customers who are facing financial struggles firsthand. It's crucial to prepare your customer-service personnel to treat these borrowers with dignity and respect during this stressful time. Here's what we suggest you do.



Know who will likely call before the phone rings

- **Identify at-risk segments.** Analyze customer data to understand which segments have a higher chance of needing help, such as those who work in the gig economy or hospitality industry. Your freelancer segments in hospitality and leisure will likely be the first ones affected. You'll also want to pinpoint segments with large debt-to-income ratios, as they'll likely be struggling as well.
- **Identify at-risk geographies.** Monitor CDC data to keep track of the geographic areas most affected by the outbreak. Examine locations of large event cancellations, regardless of whether the virus has impacted that area or not. Identify locations that rely heavily on tourism.
- **Combine at-risk segments with at-risk geographies.** Overlap findings of the two analyses and evaluate individual mortgage, loan, and credit customer circumstances to determine who should qualify for forbearance or other types of payment assistance. Consider modeling various "what if" scenarios.

Plan customer-centric measures for distressed borrowers

- **Know how you'll handle late and missed payments.** For affected customers, develop guidelines that outline how you'll handle forgiveness for late and missed payments. How long will you suspend credit reporting for payment arrearages? How long will you suspend auto repossessions and home foreclosures? Will you waive late fees on credit card payments?
- **Develop loss mitigation strategies.** You'll need to decide how you'll handle loss mitigation. These should include short- and long-term considerations, including when you'll move from payment deferrals to loan restructures.



Develop a plan to help and engage customers

- **Develop consistent criteria for assistance programs.** Consult with your legal and compliance partners to confirm appropriate and consistent measures in providing assistance. How many programs will you offer? Who will qualify for which program? How will you make sure that you're treating all customers consistently, regardless of protected-class status? You don't want your hastiness today to lead to fair-lending issues later.
- **Develop and implement processes for assistance programs.** Document steps employees are authorized to take when assisting customers, such as overdraft or late charge reversals. Tailor interactive voice response (IVR) messaging/call campaigns to direct affected customers to dedicated employees who can discuss assistance options. Provide additional training for those employees. Develop job aids/FAQ documentation for single point of contact (SPOC) agents.
- **Create a communications strategy for affected customers.** Once you understand the at-risk customer segments, you should plan your outreach. How will you explain your programs? What regulatory disclosures are necessary? And once you've crafted those messages, how will you deliver them? Will you place a banner at the top of your mobile app? Will you mail instructions to borrowers on how to reach out for help? You'll probably need to do both of these, and send emails as well. Make sure that the messaging is consistent across channels, and that you're "living your brand" with every communication.

Caring for your employees

[Start here](#) for our recommendations on how to approach workplace issues. For lenders and servicers, here are some specific examples of areas to focus on.

- **Prioritize remote capabilities.** Most employees of consumer finance firms, both lenders and servicers, are in-office positions, so take a lesson from Seattle's experience. Amazon, Facebook, Redfin, and others encouraged employees to work from home where possible.¹⁴ You should be prepared with similar action plans, especially in areas where you have a lot of employees. For example, Dallas is home to corporate operations for multiple financial institutions.¹⁵

Before you shift work from in-office to remote locations, you'll need to assess whether your current technology and communication infrastructure has the necessary bandwidth. Will your employees have access to all the systems they need to do their work? If not, can you develop workarounds that can be implemented quickly? Consider temporary changes to certain protocols if that will help keep the business running smoothly.

Longer term, you should reconsider your ability to support a virtual workforce more broadly. We suggest you consider the additional training and technology you need to address customer inquiries and applications submitted by workers remotely.

- **Assess the impact on global mobility and business continuity.** We're already seeing financial institutions starting to review and enhance their contingency plans. In addition to understanding your own preparedness, we suggest you coordinate with key vendors to plan for potential service disruptions due to affected vendor employees.
- **Think creatively about how to get the work done.** Currently, underwriters are in demand because of low interest rates driving an increase in loan applications. How can you keep applications moving along if you don't have enough people to review them? We're already seeing firms moving people from other areas of the business to fill this need. JPMorgan Chase, for one, told its home-equity staff in early March that half the team would be transferred to mortgages to keep up with demand.¹⁶

In a few months, we may see a situation in which requests for loss mitigation and servicing start to climb. Prepare for that now. You'll also want to build cross-functional knowledge so responsibilities can be transitioned if key employees become ill or are unable to work.

- **Keep in mind that your employees may also be your customers.** Develop protocols that can be implemented quickly to provide loan modifications, payment deadline extensions, short-term loans, payroll advances, and other accommodations to employees.

¹⁴ Benjamin Romano, "Tech workers told: Stay home," *The Seattle Times*, March 5, 2020, accessed via Factiva, March 6, 2020.

¹⁵ Governor's Office of Economic Development and Tourism, "Texas Financial Services Industry," August 2015.

¹⁶ Shahien Nasiripour and Prashant Gopal, "Rates fall; hiring jumps; Mortgage companies are adding workers as loan demand soars," *The Los Angeles Times*, March 5, 2020, accessed via Factiva, March 6, 2020.

Apply learnings

The coronavirus outbreak is, hopefully, a once-in-a-century event. As an industry, we're likely to learn a great deal from our response to this crisis. When we look back, we're likely to see that we made remote work more accessible to a larger number of employees, made e-signature loans more efficient and customer friendly, and made a variety of other improvements that we didn't foresee. We'll also likely learn some hard lessons in areas where things didn't go so well.

For now, however, it's too early to think about the lessons we'll learn. It's crucial to let your customers and employees know that you are there for them and that you have plans to address their concerns and provide your services with as little interruption as possible.



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