

Clarifire, IndiSoft loop HUD counselors in on loss mitigation

Clarifire and IndiSoft on Monday announced they've partnered on technology that facilitates third-party counseling in the loss mitigation process, drawing on the latter's deep-rooted involvement in the highly regulated space.

"Counselors can step in and handle the hand-holding that takes a lot of time and money for the servicers," said Jane Mason, CEO at Clarifire. "That alleviates the pressure of the volume coming into the servicer shops, plus you have a complete audit trail for regulators."

The partnership integrates technology Clarifire provides to help mortgage companies work with distressed borrowers using an IndiSoft client management system used by counselors, servicers and government-related entities.

"Our mission is to fully integrate certified housing counselors into the mortgage servicing and origination paradigm," said Cam Melchiorre, IndiSoft's president, director of regulatory compliance, and one of the current owners who bought out the founding principal's stake in the company last year. "This connectivity to Clarifire is one of many steps that we're taking in integrating with servicer systems so they can more easily interact with HUD certified housing counselors and the housing counselors can more easily interact with them."

Counselors certified by the Department of Housing and Urban Development may serve in advisory roles related to loss mitigation and homeownership considerations in the mortgage process, and it's particularly encouraged where loans backed by HUD or government-sponsored enterprises are concerned. These two loan types combined make up a sizable portion of the U.S. mortgage market.

"The GSEs and HUD are supportive of leveraging these third parties and have a long history there," said Faith Schwartz, CEO and founder of Housing Finance Strategies, a consultancy that hosts an annual policy conference. "The counseling case management system combined with workflow for loss mit is likely a helpful avenue to support at-risk borrowers."

The IndiSoft platform's roots go back to predecessor technology the company built for a government-supported nonprofit entity called Hope LoanPort during the Great Recession. Hope LoanPort was aimed at resolving paper-based loss mitigation processes that got terribly bogged down due to the mass underperformance of loans often made with insufficient regard for the ability to repay. Melchiorre previously was a Hope LoanPort executive.

IndiSoft decided to continue supporting the technology after the nonprofit shut down in late 2019. The move proved to be prescient on IndiSoft's part given the arrival of COVID-19 and related forbearance in 2020.

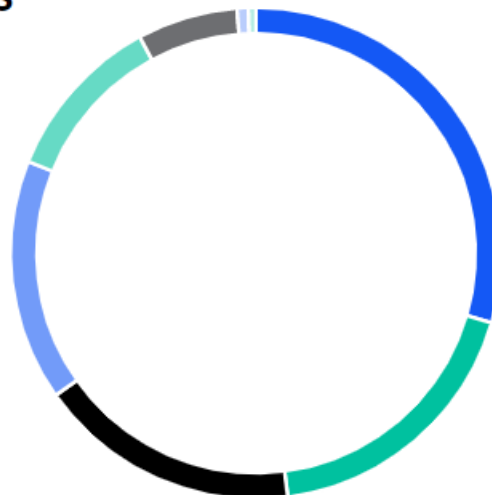
While putting payments on hold was a relatively simple process during the pandemic, IndiSoft's management foresaw a point down the road when borrowers would exit it and could find more need for counseling in negotiating more complicated loss mitigation.

That time may have arrived. The majority of the millions of borrowers who went into forbearance due to the pandemic have largely exited and servicers' attention has increasingly shifted to the more detailed process involved in helping those who remain delinquent explore options.

Over half of those exiting are either no longer delinquent or chose a simple deferral option for repaying forbore amounts down the road while resuming regular monthly obligations, but a little over one-third have required workouts, according to Mortgage Bankers Association data.

Cumulative forbearance exits

- Payment deferral/partial claim, 29.56%
- Canceled/stayed current with no loss mit, 18.38%
- Canceled/not current without loss mit, 17.26%
- Modification or combo, 15.89%
- Reinstatement, 11.05%
- Loans paid off, 6.62%
- Replayment plan, 0.74%
- Other (short sale, deed in lieu, etc.), 0.50%



Note: Reflects reasons at the time of exit between 6/1/20 and 8/31/22.
Source: Mortgage Bankers Association

The workouts for those borrowers can require more complex determinations regarding their ability to repay, such as modifications of their loan terms to amounts more in line with reduced incomes or agreements to resolve debt by handing homes over to mortgage companies outside of foreclosure. The latter can be preferable to the foreclosure process as it does not damage borrower credit and may leave a borrower with some extra cash due to the huge run-up in home price appreciation in the past couple of years.

And those determinations are only getting more complicated. While equity levels remain historically strong, home prices have reversed course recently as other consumer costs have risen.

"I think everybody is provisioning for some real problems because of the high interest rates and inflation," Melchiorre said.

Natural disasters like Hurricane Ian also could lead to more workouts, Mason said.

The two technologies, which each charge separate licensing fees to servicers, can work together to help handle workout determinations. Melchiorre cites the example of borrower document uploads accessible through a mobile website in consultation with counselors. These could then be submitted into automated underwriting for a modification decision, for example, through Clarifire, Mason said.

HUD certified counseling isn't required in the loss mit process, but some studies find it improves loan performance. Also, it has received increased government funding through the Homeowners Assistance Fund in the wake of the pandemic. Those servicing loans insured by the Federal Housing Administration in particular must make sure distressed borrowers, who never pay for counseling, are aware of its availability, Melchiorre said. Servicers and counselors pay licensing fees for use of IndiSoft's system.

"I want to see how many adopt it and embrace it because to me it looks like a win-win," Mason said.

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