BANKING, INSURANCE, AND CAPITAL MARKETS

6 WAYS FINANCIAL INSTITUTIONS CAN SUPPORT CONSUMERS IMPACTED BY NATURAL DISASTERS

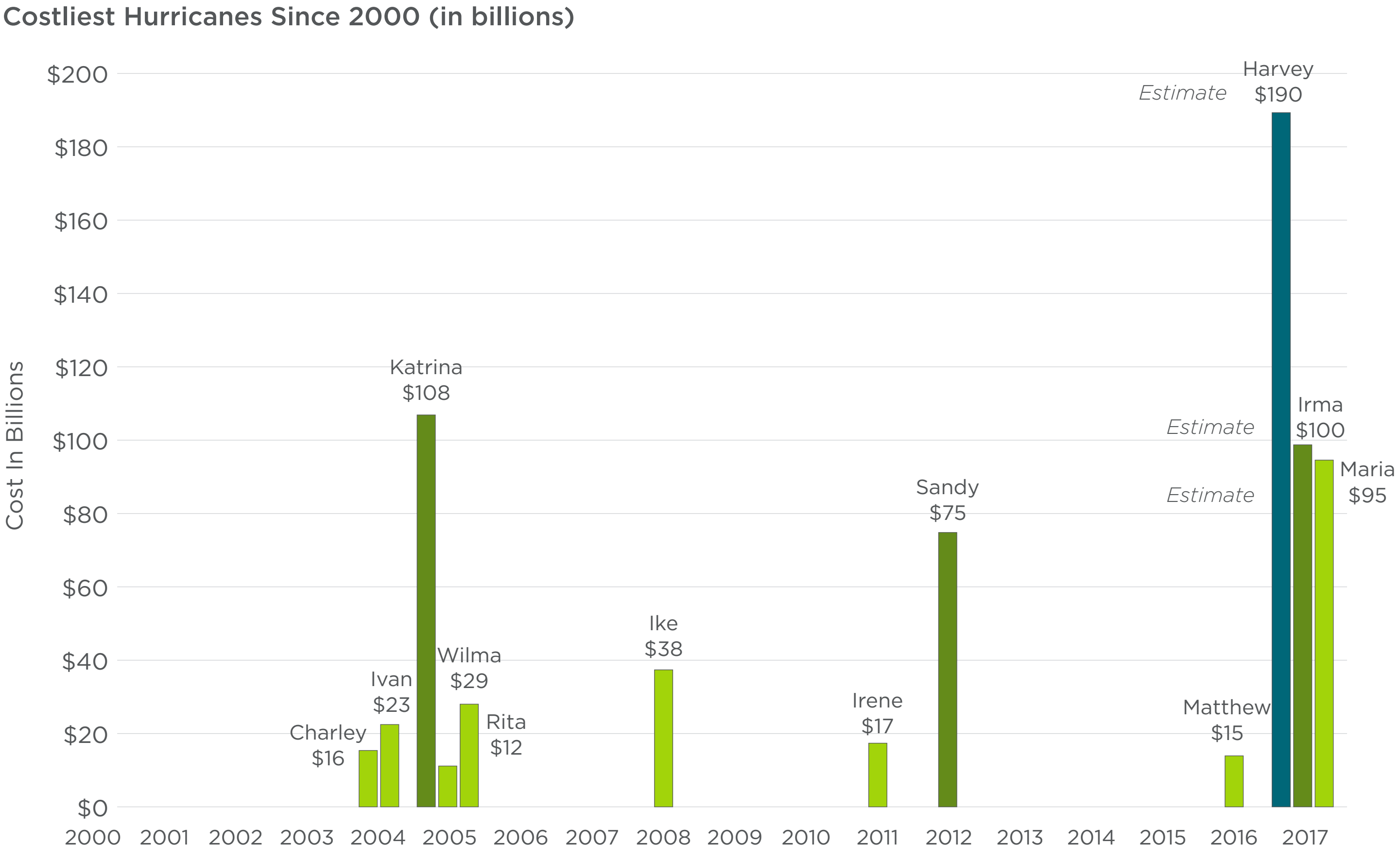
INTRODUCTION

The immense ramifications inflicted by natural disasters are detrimental to both directly impacted consumers and the financial institutions that serve them. Having strategies in place to help mitigate the harmful effects of these events can provide consumers with immediate relief and limit the risk of defaults. Most recently, Hurricanes Harvey, Irma, and Maria destroyed the property and livelihood of millions of consumers across the Atlantic, Gulf and Caribbean coastal regions. Initial estimates indicated that more than 100,000 homes would be damaged or destroyed due to Hurricane Harvey alone.[1] Further, Harvey has the potential to cause first delinquencies for 300,000 mortgages and severe delinquency for 160,000 borrowers.[2] Soon after Hurricanes Harvey and Irma made landfall, wildfires destroyed vast portions of northern California. The fires destroyed over 5,700 structures while displacing nearly 100,000 people.[3] The extent of Hurricane Maria's impact to Puerto Rico's economy and infrastructure remains unknown while damage assessment and recovery efforts continue.

These unprecedented natural disasters have been particularly detrimental for low-income families. The most recent round of damage caused by the California Wildfires and Hurricanes Harvey, Irma and Maria is estimated to reach over $360 billion, with affected areas bearing the financial burden for years to come.[4][5][6][7] Many consumers and business owners will struggle to rebuild damaged property or ensure timely payments and thus will be faced with the long-term financial consequences of delinquency.

Financial institutions are in a unique position to assist consumers in times of distress and help mitigate the adverse impacts of natural disasters.

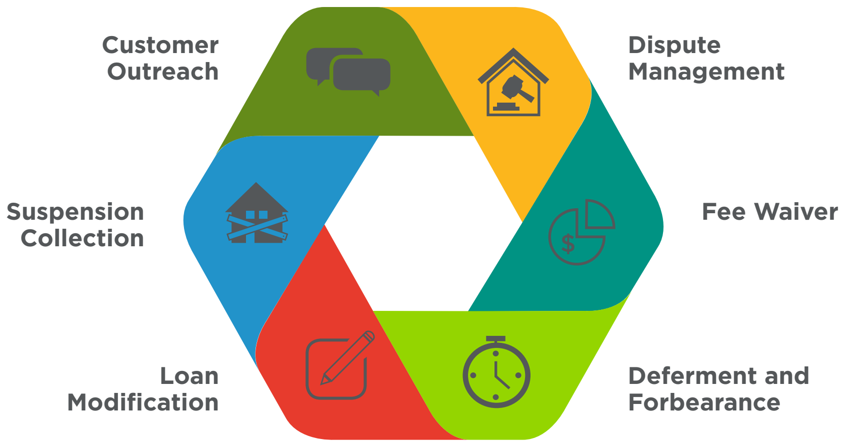
Natural disasters pose challenges to financial institutions as relief programs must be aligned with financial performance metrics as well as investor and regulatory requirements. This is exacerbated when institutions lack clear industry guidelines for disaster relief strategies. A formal disaster relief program with clear guidelines for both implementation and execution is critical, as failure to manage these policies properly can lead to financial, reputational, regulatory, or legal consequences. Organizations should also address how consumers will treated consistently for different impactful events, which is almost impossible without a framework for organizations to follow. This article will review some best practices that financial institutions may employ in the aftermath of natural disasters or similar negative events.



Hurricanes in the United States since 2000 that have caused at least $10 billion in economic costs and losses.[8][9][10][11] These major hurricanes alone account for over 600 billion in losses and do not include other events such as floods, tornados, wildfires, earthquakes and other disasters that can cause significant impacts to businesses and consumers.

NATURAL DISASTER CUSTOMER CARE AND SPECIAL TREAMENT OPTIONS

Best practices for natural disaster response should consider financial instrument characteristics, the overall customer experience, and any applicable regulations. Financial institutions can help customers navigate these difficult times through a variety of programs, but six of the most common relief options are outlined below for consideration.



I. Customer Outreach Initiatives

Proactively reaching out to customers is an effective way for financial institutions to provide a "best-in-class" customer service experience while also assessing a disaster's damage and level of impact to the consumer. Utilizing call centers to contact customers in impacted areas helps to establish a communication channel, collect information for analysis, and tailor a timely response strategy for customers. This can be especially necessary for certain products with time sensitive deadlines. Customers that are unable to make regular payments (e.g. active bankruptcy, loss mitigation workout options, etc.) may warrant servicers to work closely with these customers to properly identify and resolve issues.

II. Customer Dispute Management

Dispute teams (and other customer facing personnel) should be properly trained on the organization's disaster relief strategy to ensure that each account is handled in accordance with the policies employed. Disputes may also be a natural channel for consumers to notify institutions of the impact a natural disaster has had and to request relief – as a result, customer dispute volumes may increase in the aftermath of a disaster. Properly staffed dispute management teams help ensure that institutions stay compliant with federal and state regulations by receiving, processing, and resolving customer disputes in a timely manner.

III. Fee Waiver Programs

Conditions immediately following a natural disaster may cause missed payments due to lost cellular / internet connection, delayed regular income or inaccessible bank accounts. In such circumstances, institutions may waive late payment charges, pay-by-phone charges, deferment enrollment fees, and/or additional miscellaneous charges as a sign of good faith. Credit card issuers have additional opportunities to assist borrowers by waiving cash advance fees and overdraft protection fees.

IV. Deferment and Forbearance Programs

Deferment and forbearance programs are commonly seen as effective workout programs to help customers avoid account delinquency when abnormal situations and unexpected costs make regular payments difficult. Well prepared financial institutions often have established protocols for enrolling customers into these programs. Deferment programs can cause more immediate relief for consumers by pausing regularly scheduled payments before resuming to normal payment periods. Forbearance programs can offer a similar benefit or reduce the regularly scheduled payment to a more manageable amount, for a specified period, to aid consumers. Both programs allow institutions to leverage existing procedures and reduces the effort and risk of customized solutions which often cause operational complexity if not properly designed prior to implementation.

V. Loan Modification Programs

Longer term relief should also be offered as part of disaster relief programs and can be granted in the form of loan modification and refinancing. Loan modifications help borrowers by adjusting loan terms to reduce the monthly payment amount or to reduce interest rates to manageable levels. Other modification options include loan extensions or adding skipped or deferred payments to a later balloon payment. Modification and refinance options can offer long term relief throughout the remaining lifecycle of the product and provide borrowers with much needed flexibility.

VI. Suspension of Collection or Collateral Recovery Activities

For collateral-secured products, creditors can suspend activities such as collection, auto repossession or foreclosure on a case-by-case basis. For mortgage products, there are additional, explicit requirements regarding natural disasters for servicers to grant relief and / or forbearance to borrowers. For example, Fannie Mae suggests to not begin or continue foreclosure actions on current accounts or accounts not severely delinquent for a 90-day period and to grant relief to borrowers who could not remain current on their Bankruptcy repayment plan after a natural disaster.[12] Though such relief is not required for all financial products, relief may even be explicitly required by a government-sponsored enterprise for home mortgage loans. Altering procedures or minimum recovery timelines for consumers in impacted areas can grant consumers the needed time and opportunity to cure delinquency and resume normal payments.

FAIR CREDIT REPORTING ACT ("FCRA") AND DATA FURNISHER CONSIDERATIONS

Negative credit reporting and payment history information can linger on a consumer's account history for years by impacting their credit score and inhibiting a borrower's ability to obtain future lines of credit or by increasing the cost of credit with resulting higher interest rates. Most financial institutions furnish credit reporting data to consumer reporting agencies, and therefore can impact a client's credit depending on the reporting approach taken. Financial institutions should refer to the Consumer Data Industry Association ("CDIA") for specific industry guidance on natural disaster reporting. The following are three reporting options which are outlined in the annual CDIA issued Credit Reporting Resource Guide ("CRRG") although the specific approach taken is left to the discretion of each organization.[13]

OPTION	REPORTING INSTRUCTIONS	APPROACH AND IMPLEMENTATION CONSIDERATIONS
1	Report the Special Comment 'AW' to indicate a natural disaster is impacting the account	This option is the **most straightforward and does not require reporting adjustments** from "business as usual". This option appears to be the easiest to implement if time or system constraints make the other options more challenging. As this approach is the simplest to apply, it is also **easier to 'unwind'** than some of the other options provided by the CDIA.
2	Report account as current along with Special Comment 'AW' (regardless of if account is delinquent or not)	This approach appears to provide **more direct protection from negative reporting** by proactively removing delinquent reporting statuses. Note that this reporting may **not necessarily be an accurate representation of the account's status** (as impacted consumers may be delinquent on payments based on the situation).
3	Report the account **as deferred**, along with the Special Comment 'AW'	This reports the account as if a deferral has been granted and the consumer is not obligated to make payments in the current reporting period, thus suspending negative reporting. Reporting accounts as deferred is **more complex, but may already be a reporting capability that organizations can leverage** for natural disaster consideration when necessary.

Reporting only the Special Comment places the burden of masking derogatory information on consumer credit reports on the reporting agencies. Options Two and Three require more effort for furnishers to implement, but may also assist customers more directly by proactively masking the negative information following disasters and thus not relying on consumer reporting agencies for this task. Reporting only the Special Comment assumes that consumer reporting agencies will take the proper steps to shield consumers from negative reporting.

CONCLUSION

The natural disasters of 2017 resulted in widespread disruption for local economies and severely impacted consumers in each effected community. As the average debt carried by American households increases, **financial institutions must develop effective and holistic strategies for customer treatment both during and after natural disaster events**.[14] Policies and procedures to address all aspects of servicing – from payment processing functions and customer outreach to credit reporting and loss mitigation – should be established prior to natural disasters to allow for an optimal response to unpredictable events. To further strengthen disaster relief programs, financial institutions should periodically review policies and procedures to ensure proper adherence to regulations and industry best practices.

HOW NAVIGANT CAN HELP

Navigant has substantial experience and expertise in assessing and enhancing Disaster Relief Programs that encompass a wide range of servicing operations. Navigant's consultants take immediate action once engaged to develop a tailored strategy for each organization. Whether building a framework or targeting operating model, remediating identified gaps and risks, or refining already developed procedures, Navigant ensures that best practices are implemented and each organization's strategy is operating efficiently and effectively. Navigant's broad range of experience with organizations ranging from regional to global financial institutions, as well as our familiarity across industries and product types allows for solutions that meet each customer's specific needs and goals.

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