

RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.



Alert Type

Awareness

Watch

Warning

COVID-19 Impacts Credit Union Lending Practices in Multiple Ways

Credit unions are facing unprecedented challenges due to the unpredictability of the COVID-19, including in lending. Regulators have encouraged FIs to meet the needs of members in minimizing the potential adverse effects of a pandemic, including a recommendation to offer proactive loan modification programs. Additionally, mortgage lending is experiencing uncertainty due to government-mandated closure of many county recorder's offices - causing disruption in the ability to record mortgages and other documents related to a real estate transaction.

Details

Credit unions are facing unprecedented challenges to lending operations due to the unpredictable scale and duration of COVID-19.

Agencies' recommendation: Offer proactive loan modification programs

On March 22, 2020, federal financial institution regulatory agencies and state banking regulators encouraged financial institutions to work constructively with borrowers. Notable is the agencies' recommendation to offer proactive loan modification programs to customers/members affected by COVID-19.

A proactive approach can mitigate adverse impact on borrowers and lead to improved loan performance and reduced credit risk. Not all modifications of loans result in a Troubled Debt Restructure (TDR) classification. Short-term modifications made on a good faith basis, in response to COVID-19, to members who were current prior to any relief, will not be considered TDRs.

Credit unions should establish procedures to evaluate requests for COVID-19 mitigations and document all action taken in the loan file as well as with a tracking system to capture the portfolio wide implications of the pandemic crisis. Credit union management should also consider operational procedures and approval authority to address File Maintenance to existing loans.

Fraudsters seize the moment

Online member engagement should utilize all identity verification and member authentication solutions available. For loans closed using electronic document signing, credit unions should deploy an identity verification solution that includes out-of-wallet questions for online account opening. Most e-sign vendors use Knowledge Based Authentication (KBA) to establish the e-sign account, so it is important to take full advantage of all authentication methods available.

Date: April 7, 2020

Risk Category: Lending; Consumer Lending; Real Estate Lending

States: All

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COVID-19 Impacts Credit Union Lending in Multiple Ways

Title agents request indemnification

The mortgage lending industry is experiencing uncertainty due to government-mandated closure of many county recorder's offices. Closures occur with little or no notice causing disruption in the ability to record mortgages, transfer, lien, and other documents related to a real estate transaction.

The period between the disbursement or funding of a mortgage and recording of transfer and lien documents is commonly referred to as the "gap period." The gap period is expected to increase as more county offices are closed. Title companies have indicated that they plan to continue closing and funding mortgage transactions in counties where recording is at risk, with certain restrictions. In jurisdictions where electronic recording is available title agents are requiring electronic recording be utilized. Almost all title underwriters have provided specific, additional language for title policies and sellers affidavits to address recording office protocols.

These procedures are intended to continue productivity, but some mortgage lenders may decide not to close if recording will be delayed as a result of county closures.

Title insurance companies are requesting gap indemnities when the date of recordation is a moving target. Some Hold Harmless agreements are specific to the inability of the lender to sell an insured loan in the secondary market or initiate a foreclosure proceeding if recording information is not complete. There is a greater risk of intervening liens as the gap period lengthens. Credit unions are concerned that the title company's gap coverage could be insufficient if there is a need to pursue claims against the title company to defend their lien position.

To address recording process concerns, [Fannie Mae \(FNMA\) issued LL-2020-03: Impact of COVID-19 on Originations](#) (updated 03/31/2020).

Risk Mitigation

Credit unions should follow these mitigation tips:

- Establish procedures to evaluate requests for COVID-19 mitigations and document all action taken in the loan file as well as within a tracking system to capture the portfolio-wide implications
- Consider operational procedures and approval authority to address File Maintenance to existing loans.
- Promote online or digital lending processes. In-branch interaction will be greatly impacted and employees and members can benefit from virtual engagement.
- Utilize eRecording programs to address recorder's office closings. County offices appear committed to maintaining the property record functions.
- Close loans early or begin the closing process sooner.

Additional proactive loan-specific mitigations:

- Waive fees for loan deferrals / late payments; ease credit terms for new loans.
- Offer or expand Payday Alternative Loan (PAL) programs or low and no-interest loans, such as no payments / interest for first 90 days; no application fee or prepayment penalty.
- Increase Line of Credit and Credit Card limits for creditworthy members.
- Offer credit counseling and payment accommodations, such as payment deferrals or skip-a-pay; extending due dates to avoid negative credit bureau reporting; implementing procedures to deal with the potential for negative amortization - particularly on interest-only Home Equity Loans.



Risk Prevention Resources

Access CUNA Mutual Group's [Protection Resource Center](#) at [cunamutual.com](#) for exclusive risk and compliance resources to assist with your loss control efforts. The Protection Resource Center requires a User ID and password.

Review these resource to learn more:

- [An Employee's Guide to Loan Fraud](#)
- [Online Loan Application Fraud Prevention Checklist](#)
- [NCUA Interagency Statement on Loan Modifications and Reporting](#)
- [FFIEC Interagency Statement on Pandemic Planning](#)

Facing risk challenges?

[Schedule](#) a free personalized discussion with a Risk Consultant to learn more about managing risk.

Or contact a Risk Consultant at:

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