How to Manage Increased Defaults & Delinquencies as a Bank

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Introduction

While financial institutions are relatively protected from the immediate impact of the coronavirus-induced recession, they face the looming threat of a chain reaction that pulls even financial giants into collapse.

How can banks and other financial institutions prepare now to handle increased defaults and delinquencies as consumers face greater hardship brought on by the coronavirus crisis? Though no one has experienced this exact crisis before, looking at reactions to the 2008 recession is a helpful frame of reference.

> This ebook will explore best practices for effectively managing increased defaults and delinquencies as a bank during the coronavirus crisis and beyond.

Do encourage auto payments.

Encourage your borrowers to set up auto payments on any loans they have with your institution. When they don't have to think about the money coming out of their account every month, they'll be less likely to stop paying.

Don't disregard relationships.

Building relationships is key to keeping borrowers engaged and paying. An unengaged borrower dealing with financial hardship may be forced to halt loan payments in order to prioritize other expenses. Facilitate ongoing engagement to establish a relationship with your borrowers that ensures they come to you with questions or concerns regarding their accounts.

Do offer payment flexibility.

Times are tough right now and many borrowers are facing financial hardships as a result of the coronavirus crisis. When borrowers have the option to contribute late or reduced amounts, they'll be more likely to continue paying something, as opposed to ceasing payments altogether.

Explore different ways to offer flexibility for loan accounts, such as:

- Waving late fees and penalties
- Not reporting late payments to credit bureaus
- Allowing 3-6 months of forbearance for accounts in good standing with proof of financial hardship

Don’t assume you can keep operating as lean as before.

Financial institutions have been increasingly lean the past few years, with fewer and fewer employees. As an influx of people are applying for PPP and small business loans, combined with increased mortgage inquires due to historically low rates, these institutions are realizing they don’t have enough staff to do everything.

Once financial institutions reopen to the public and they need tellers again, tellers will be doing day-to-day work and won’t be able to continue handling loan applications that they may have been helping with while working remotely.

Without a tax service provider, you’ll already be stretched thin; piling on increased delinquencies and defaults could be chaos resulting in subsequent increases in tax liens or tax sales if you don’t have a well-prepared team.

Do stash cash in loan reserves.

Learning from 2008, financial institutions need to hoard cash. Canceling dividends ensures the cash stays with your bank until the risk is reduced. Be sure to communicate transparently with your customers and members about the situation. Be empathetic and considerate of their financial hardships when explaining that this is the best move for your institution.

Don’t assume your tax monitoring process is fine.

Farmers are getting hit hard. Many people believe that this pandemic could kill a lot of farms nationwide. If you have lots of agriculture loans, specifically dairy farms, be prepared for an influx of delinquencies.

During the 2008 recession, many financial institutions who were unserviced from a real estate tax monitoring perspective were unprepared for a max influx of delinquencies when it came to real estate tax payments.

The institutions that did service internally thought they had a really good process in place having their Loan Officers or service team periodically monitoring for delinquencies or tax sales but found out they really did not. If your process isn’t solid right now, it will only be more difficult to reconcile when delinquencies and defaults increase over the coming months. Ensure your institution is prepared.

Conclusion

No one can be completely certain of the outcome of the coronavirus pandemic and beyond, but what is certain is that it will impact the banking industry. Banks should learn from the 2008 recession to best handle the looming threat of COVID-19 impacts.

While it's important to prioritize your business, don't forget to keep empathy at the forefront of your interactions. With unemployment rates historically high and benefits stalled for many Americans, some borrowers will have to choose between paying bills and feeding their families right now.

Do your best to be flexible and understanding.

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