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Put Yourself At The Top Of Your Borrowers' Lists

Myriad strategies can enhance your operation's collections efforts, thereby minimizing the number of deeply troubled loans.

BY BRIAN MOORE & MICHELLE WESTOVER

As subprime woes spill over into all areas of consumer credit, mortgage servicers would do well to position themselves at the top of consumers' payment lists.

The statistics are alarming. Home mortgage default rates continue to soar past 30-year highs, and there are few predictions of a near-term recovery. At the same time, consumer debt payment behaviors have been turned on their head.

According to a study of the subprime lending market conducted last year by Experian, consumers with a credit score of 620 or lower are delinquent by 30 days or more on their mortgage payments more often than on their unsecured bank card payments. This represents a dramatic shift in payment behavior from earlier times when consumers paid their mortgage first to protect their home before paying on bank card debt.

The study also showed that consumers with a credit score of 680 or above continue to pay their mortgage debt over bank card debt. However, the number of borrowers who fit that profile has started to shrink. Consumers from all walks of life now find themselves struggling with the high costs of fuel, food and - for some - job loss. Some consumers who previously paid all their bills every month now must make hard choices: pay some bills and let others go.

In this climate, mortgage servicers are looking for new ways to get to the front of the creditor queue. And that means finding new ways to connect with their customers.

It's never been easy. Lenders have finite resources available for customer service and collections, and those resources are getting scarcer. The pressure of quarterly losses has made additional capital expenditures an unlikely solution. And it's incredibly expensive to scale operations by adding infrastructure or agents to a call center, when the cost of each call is typically at least five dollars - and often a good deal more.

It's also getting harder to locate borrowers. With more people getting rid of landlines in favor of cellular phones, screening their calls and - more importantly - simply ignoring the flood of electronic and direct mail that deluges them daily, call center agents in a traditional setting are spending more of their time just trying to reach borrowers instead of actually collecting past-due payments.

Adopting a systematic approach that leverages automated communication solutions can help lenders do more with less. The right type of automated solutions can help find missing-in-action borrowers and foster greater customer interaction, in terms of frequency, reach and personalization - all with an eye toward improving consumer payment behavior and avoiding foreclosure.

Relationships

If a business associate you hadn't heard from in a while called you up to ask you for money, how would you respond? While you might want to pay them, that person's request would certainly play second fiddle to a request from an associate who was in regular contact with you.

The time to start connecting with your borrowers is at the beginning of the servicing relationship, before any specific collections need occurs. While regular communications can create stronger relationships, individual calls are time-consuming, expensive and can keep loan representatives from bringing in new business or solving the more complex problems of those borrowers heading into foreclosure.

Today, servicers are using automated welcome calls more extensively, even in prime lending. These calls are being used to help minimize first payment default, set up automatic monthly payments (thereby further reducing the chance of nonpayment) and reinforce the customer relationship.

Of course, after the welcome call, your communication shouldn't stop. Throughout the customer life cycle, automated communications can "speak" personally with your customers as if they were being spoken to by one of your best loan representatives. Together with direct mail and other forms of outreach, these communications will

Brian Moore is director of collections at Varolii Corp., Seattle. **Michelle Westover** is senior market manager for financial services at the company. They can be reached at (206) 902-3900.

reinforce the customer relationship in a highly cost-effective way.

Finally, there is another reason beyond cementing the customer relationship to adopt a consistent pattern of communications. It's about minimizing roll-forward rates. You know that a predictable percentage of your borrowers will end up 16 to 30 days late.

At this point, those borrowers should have had at least one or more conversations with you. When you contact them about their late payment, it won't be the first time you've communicated with them. Through ongoing communications, you have created a more solid relationship. And unlike your long-lost colleague, more of your customers will listen, respond and take necessary steps to make their payments.

This isn't a matter of being "nicer" to customers. It's about communicating with customers - providing them with clear, useful information in a timely fashion - and on an ongoing basis.

Even in collections, delivering a solid customer experience is paramount to long-term customer value. In these current market conditions, you'll be contacting a number of borrowers who have previously been great customers. While they are technically delinquent, they don't think of themselves in that way. Your communications should be carefully crafted to remind them of their obligation without sounding overly aggressive or negative. When they have recovered from their financial woes, you want to still count them among your profitable customers.

Finding borrowers

Even under the best circumstances, early communication techniques are essential to building and maintaining the customer relationship and avoiding loan delinquency whenever possible. When a borrower does fall behind, however, the communications challenge increases tremendously. And, again, effective use of automated communications can help generate more dollars collected while maintaining a relationship with the borrower.

The concept of "social bias" comes into play here. People are often embarrassed when they have to discuss an overdue obligation with another person. The result: They avoid the contact.

In many cases, delinquent borrowers prefer to communicate with an automated solution over a call center agent. They are saved the embarrassment of speaking with someone who they fear is passing judgment, and they know they won't feel pressured into making a payment promise they can't keep.

According to the Housing Policy Council of the Financial Services Roundtable, approximately 50% of borrowers whose homes go into foreclosure never even talk to their lender.

But what if you don't have good contact information? Traditionally, lenders have used skip tracing in attempts to improve the quality of their customer record data and reach more customers.

While conventional skip tracing can certainly help update contact information, actually using that information can be problematic. Maintaining a list is a full-time job. With traditional skip tracing methods, it's typically a highly manual process, which means it can't provide immediately actionable results for collections operations.

For example: If you have an outreach campaign to collect money from delinquent borrowers, and your plan is to contact 25,000 customers each day, five days a week, that's well over half a million customer contacts each month. Now imagine that 20% of your list contains bad or missing contact information - not an unreasonable concept, given the frequency with which consumers switch phone numbers and e-mail addresses.

During the course of a single month, you're failing to contact more than 100,000 customers. In a year, you'll have missed out on over a million opportunities to contact your customers.

You can apply your own metrics for customer and contact value, as well as for percentages of bad data. The point is, if your list has invalid data and your skip tracing efforts are slow and unwieldy, you're leaving money on the table.

With this in mind, there is a distinct advantage in using a skip tracing solution that can automatically update "uncallable" records with fresh data from leading residential and commercial providers, contact those customers the next day and update your internal records with the new contact information. A fully integrated skip tracing solution like this can extend your reach while improving your data quality.

Need for speed

The next challenge that looms largely for lenders in today's market is the sheer volume of delinquent borrowers. For the best collections results, servicers must contact these borrowers before someone else does. In economically stressed times, rapid execution is critical.

Whether you're competing with a credit card company, auto lender or any other consumer creditor for your share of a limited wallet (and whether you realize it or not, you are competing with these organizations), you need to be able to reach all your delinquent borrowers as quickly as possible and as often as possible.

Automated communications solutions can reach hundreds of thousands of borrowers every day with multiple call attempts, increasing the rate of right party connects and therefore achieving a greater interaction rate: driving payments, promises to pay and, when necessary, direct transfers to agents or even specialized loss mitigation groups.

While increasing your reach and the speed at which you connect will certainly deliver greater results, you can get even better results by carefully designing the borrower's experience.

The three key elements in communicating with borrowers are:

■ creating your message to engage your customers' attention;

■ using tone and words that get them to listen to what you're saying; and

■ making it as easy as possible for the borrower to take action - to pay.

For example, if you route borrowers to your interactive voice response (IVR) unit, make sure your communications solution can navigate the IVR and drop the borrower directly into the area where he or she can make immediate payments. This will ensure the highest possible payment rates. Simply transferring customers to a top level of the IVR and forcing them to enter their data all over again will cause frustration and lead to demonstrably lower completion rates.

Better still would be allowing your borrowers to make their payments directly through the outbound message itself. Outbound communications solutions that are integrated to payment processing networks provide this enhanced functionality, increasing cure rates per contact.

If your communications solution has the capability to store and analyze the response data, you can use that data to optimize your segmentation and treatment strategies. Additional segmentation enables more specific treatments, which again lead to greater results.

You can communicate more intensely and in a different fashion with those customers who have been less responsive during previous communications. You can even use the response data from your earlier automated communications to determine which borrowers don't respond at all and should be called only by a loan service representative.

The point is, your initial results should only be the baseline. By using analytics and optimization techniques, you can continue to improve results.

The mortgage meltdown and credit crunch have given lenders a lot to think about. They know that more borrowers are increasingly strapped for cash and taking a hard look at which bills they will pay first. And as we've seen today, in a change of behavior, those "first pay" bills frequently do not include mortgage payments.

Developing a communications strategy that leverages automated communication solutions can help lenders successfully navigate today's current stormy conditions. By establishing a strong customer relationship before borrowers end up in default - and then communicating early, fast and often once they do - mortgage servicers can go a long way toward ensuring they are at the front of their borrowers' creditor queues today, and that they are well positioned to take advantage of the market upturn when it occurs. SM