SERVICING MANAGEMENT®

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Before Mitigating Losses, You Must Communicate

The flood of new defaulters has impacted the once very personal relationship between servicers and borrowers, causing some servicers to treat borrowers as though they're all the same.

by Susan Casella & Chris Carlisle

Almost everyone remembers the scene from the 1967 film "Cool Hand Luke" in which the prison warden shakes his head at rebellious inmate Paul Newman and declares, "What we've got here is [a] failure to communicate."

Exactly the same words could be used to describe the disconnect between mortgage servicers and their borrowers in default. Making matters worse, the U.S. unemployment rate, which reached 9.8% in September, is expected to hit double digits before the end of the year, which means a swift recovery and an expanding labor force are unlikely anytime soon.

Personal bankruptcy filings topped 1 million for the first nine months of this year, as Americans continue to grapple with debt, unemployment and devalued homes, according to figures from the Administrative Office of the U.S. Courts. And rising unemployment continues to make more Americans late on payments - a sign that the rate of U.S. personal bankruptcies will keep going up, indicates data from the Equifax credit bureau in July.

With delinquency numbers continuing their ascent, it is not unusual for financial institutions to look for ways to prevent a default from progressing to a foreclosure and to avoid accumulating additional expenses - typically, by creating a loan resolution group.

The loan resolution group acts like a triage center between the collections and loss mitigation departments to determine what goes to loss mitigation and what could potentially go straight to a modification.

The loan resolution group may arrange a modification or further qualify a short sale to settle most of the outstanding balance of the loan prior to

being assigned to a loss mitigation specialist. Much of the activity handled by the loan resolution team focuses on working with the borrower to complete the necessary workout documentation prior to handing it off to loss mitigation. However, days can often pass just trying to connect with the customer in order to provide status updates or to communicate information about missing documents.

Conversely, more debtors want immediate information on the status of their workout plans, flooding call centers and tying up department resources and staff. Financial institutions are unable to meet this rising demand from a larger customer default base without adding resources.

In some cases, the sharp rise in workout volumes forces a shift of the best loan counselors from the front end of default (collections) to the back end (loan resolution and loss mitigation,) which has left many collections groups either shorthanded or staffed by inexperienced personnel. Shifting these resources introduces the risk of less contact with borrowers in early stages, ultimately causing more accounts to roll into default unnecessarily.

Additionally, the flood of new defaulters has impacted the once very personal relationship between the servicer and the borrower. Servicers struggle to answer all incoming calls while still providing personalized and immediate service for each borrower. While it may sound odd to talk about managing a customer's "experience" when attempting to collect a debt, in fact, that's precisely what creditors must do.

Companies that emphasize customer service only when trying to close a sale, while neglecting it in collections, run the risk of alienating customers who may go elsewhere for future transactions.

It is important to note that many of these new defaulters are not necessarily chronic defaulters, but rather, are experiencing temporary financial difficulties. They may very well still be profitable customers when they get back on their financial feet, and the lender should not alienate them with a poor customer experience.

One strategy financial institutions can implement to deliver a positive experience and to streamline communications during the collections process is to use personalized, proactive outbound communications, according to a May 2009 Yankee Group Anchor Report, "Proactive Communications Bring Peace to the Customer Service Cold War."

A positive experience doesn't simply mean a friendlier collections notice; it means clear, consistent communication with your customers throughout the delinquency process that describes the collections issue and offers immediate options to take action (for example, the opportunity to pay a bill or connect to a live agent).

Proactive outbound communication helps loss mitigation groups reach more borrowers in a shorter time frame and with immediate status updates. This reduces the amount of inbound calls from borrowers, lowering costs and freeing staff to focus on more important issues.

The big question is, how do you get customers to pay attention to your message? The quality of the message is the biggest factor in whether it will achieve the desired outcome. For simplicity's sake, message quality can be divided into two categories: what is said and how it is said. For example, a message delivered to a prime borrower who is past due for the first time should be different in content and tone than the message delivered to a borrower with a high-risk loan and a history of broken promises to pay.

The following examples offer practical ways that servicing shops might be able to improve their collections practices.

Don't invade your customers' personal space. The first thing mortgage servicers need to be focused on is gaining permission to contact borrowers in multiple ways. With more than 20% of people disconnecting their land lines in favor of cell phones, according to the Center for Disease Control and Prevention's National Center for Health Statistics, and newer regulations inhibiting lenders from calling cell phones, it's especially important that a borrower has given the lender permission to call or send a text message.

Educate customers early in the process. Set customers' expectations that they will be contacted on a routine basis as events occur during the life cycle of the loan. If you do this up front, trust can be established between the servicer and the borrower, and the borrower will be less likely to avoid communications.

Automate the process. While automation isn't the best strategy for every situation, automated outbound communications can be a cost-effective method of reaching borrowers and following through with effective messages in the appropriate tone. It can also empower a customer to take action, without ever having to talk to an agent about a potentially embarrassing situation. If a company were able to avoid playing phone tag with customers and shave a day or two off the overall loss mitigation timeline, the reduction in inbound calls and resulting cost savings could be considerable.

Integrate with marketing. The collections department and the marketing department need to work closely together to formulate a customer life-cycle strategy. Typically, the marketing group works from a customer relationship management system that has no connection to the collections system. Sharing data between these two departments will help collections groups deliver a richer customer experience, as marketing groups often have better insight into their customer base and more access to tools and data that can help the collections group better segment their customer base, strategize the best ways to elicit payment and drive a better customer experience.

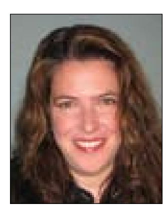
Focus on that split second of time when they first hear or see the message. It is at this moment that customers decide whether or not the message is of personal value. The No. 1 hurdle is getting the borrower to not hang up. A collector typically only has a two- or three-second window to reach borrowers and grab their interest.

The first thing you can do is be sure to not say "Hello." In place of "hello," servicers should immediately identify themselves by saying their company name. In our experience with our clients, 40% more customers took action when the company name was presented right away, as opposed to later in the call.

Personalize the message. The message and call strategy should take into account multiple variables, such as age, gender, location, socioeconomic status and the media channel utilized. By looking at these factors, companies know how to better reach and communicate with each segment for the best response. The ultimate personalization strategy creates a segment of one individual.

Learn from experience. By tracking the outcome of each communication, companies can continually improve results by remembering customer preferences. And because they learn more about their customers with every interaction, each subsequent message will be more targeted, more relevant and less likely to be ignored. Tracking both successful strategies and unsuccessful ones can help companies reduce costs by sending communications only when each person is most likely to respond.

Personalized, proactive communication empowers customers, helping them feel that the company they're doing business with truly cares about them. It is through this type of consistent communication that solid relationships form between companies and their customers. For servicers, this means they can utilize an effective and cost-saving strategy for ensuring ongoing relationships with borrowers, especially if and when a loan is forced into a critical and time-sensitive loan workout process. SM



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