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SERVICING MANAGEMENT®

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Borrower Communication

Various borrower segments can pull servicers in different directions.

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EVICTIONS

4 Tucked into the Dodd-Frank Act is an amendment to the Protecting Tenants at Foreclosure Act (PTFA) of 2009 that may greatly increase the number of leases and tenancies that can qualify for protection under the PTFA.

LOSS MITIGATION

9 North Carolina's Office of the Commissioner of Banks has enacted Rules 702 and 703, which regulate the loss mit activities of nonbank servicers. Although the rules will further delay the foreclosure process, there is a silver lining for servicers.

TECHNOLOGY

24 Many recording offices, realizing the needs of the marketplace and technological feasibility, have developed a strong penchant to convert their paper-based land-recording systems to electronic form.

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Time To Rethink Segmented Communication

Regardless of what segment a particular borrower falls into, it's in a servicer's best interest to deliver a positive customer experience. It can have a quantifiable impact on the bottom line.

by Chris Carlisle

Even as the economy slowly sputters back to life, it is a new world for mortgage servicers. Continued risk, overburdened resources and increasing pressure to deliver a better customer experience mean taking a hard look at how to segment borrower communications.

We are seeing signs of recovery in the U.S. economy overall, but the mortgage industry continues to suffer. In its Midyear 2010 U.S. Foreclosure Market Report, RealtyTrac stated the number of foreclosure warnings issued in the first six months of 2010 rose 8% versus the same period a year ago. But while foreclosure notices are higher compared to a year ago, the same report showed they have dropped 5% from the last six months of 2009, which may mean foreclosure rates have already peaked.

Most financial institutions segment their clients according to criteria such as loan status, geographic location and credit score. Communications with these borrowers typically follow a standard path in a linear fashion, based primarily on whether their loan is current or past due, with the latter segment further divided by how many days or months the loan has rolled past due.

Unfortunately, linear segmentation does not provide many opportunities for personalized communication, and most experts agree that implementing appropriate treatments for different types of customers is fast becoming a best practice not to be ignored. A one-size-fits-all approach to customer segmentation will cause a loss of customers, especially high-quality ones, who can and will look for better terms elsewhere.

Borrower behavior

There are many distinct types of borrowers that have come to the forefront during the recession. Each group will behave differently, and lenders would do well to segment their communications accordingly.

Strategic defaulters - those who can afford to pay their mortgage but choose not to - may look like other past-due borrowers, but if servicers have the analytics and scoring models in place to separate them from truly distressed defaulters, they should take a slightly different approach. The key is to follow communication protocols, but to do so more efficiently and at a lower cost, because the chance of recouping those costs is relatively low.

First-time defaulters form another segment that has rapidly grown during the recession. For people who have paid their bills on time throughout their entire life and have now lost their job, falling behind on mortgage payments and entering the collections process is an entirely new experience. If a client previously had an excellent credit history but has now fallen behind on his or her mortgage, a more sensitive treatment is definitely the right strategy.

And let us not forget first-time home buyers. The recent tax credit program created borrowers who are new to the various financial aspects of homeownership. In late 2009, the National Association of Realtors reported that the number of first-time home buyers rose to 47% of all home buyers - the highest share on record dating back to 1981. For this group, the goal is to proactively educate them about loan milestones and other triggering events to deflect costly, time-consuming inbound calls to the contact center.

Regardless of what segment a particular consumer falls into, it is in a financial institution's best interest to focus on delivering a positive customer experience. It is not just a nice thing to do; it can have a quantifiable impact on the bottom line.

Increasingly, consumers are voting with their wallets. If a company is attentive to their needs, easy to do business with and provides an overall enjoyable experience, its customers are far more likely to remain loyal.

Forrester Research regularly surveys consumers to understand how customer experience impacts overall loyalty. The firm's annual Customer Experience Index ranks more than 100 companies across 13 industries. The results have shown that customer experience leaders have a 14% advantage over non-leaders across three areas of customer loyalty: willingness to buy more, reluctance to switch and likelihood to recommend.

started to change a few years ago, and it has spilled over from subprime borrowers to other consumer segments, including the super-rich. According to a recent study by real estate analytics firm CoreLogic, more than one in seven homeowners whose mortgages exceed $1 million are seriously delinquent. The same study showed that only one in 12 mortgages below the $1 million threshold were delinquent.

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Forrester also found a strong correlation between delivering a superior customer experience and increased revenue, especially for banks. According to the research, a swing of 10 points on the Customer Experience Index can generate up to $305 million additional revenue each year for a bank with more than $10 billion in annual revenue. That trend is increasing. Compared to previous years, Forrester's most recent analysis showed the correlation between customer experience and loyalty increased in every industry, including financial services.

Given the customer experience data and a finite amount of resources, how can mortgage servicers provide such an experience to increasingly divergent types of borrowers? One approach is to develop different communication strategies for different types of borrowers, all while providing a positive experience - even in collections. Doing so can make the difference between borrowers sending what available cash they have to the mortgage company rather than to the credit card company. The key to success is tailoring the entire communication strategy around various borrower scenarios or behavior. Using automated communications is a valuable part of the strategy, particularly in terms of containing costs and not overburdening the contact center.

It used to be a given that consumers would always pay their mortgage before any other type of loan. That behavior

It is hard to tell the difference between strategic defaulters and truly distressed defaulters, but there are a few clues. According to a new study by Experian and Oliver Wyman, strategic defaulters have higher VantageScores (a generic credit scoring model developed by Equifax, Experian and TransUnion) and higher mortgage origination balances. And while it may seem counterintuitive, those borrowers who also have home equity lines of credit (HELOCs) are more likely to stay current on their HELOCs prior to mortgage default than the general population.

When deciding how to communicate with a strategic defaulter, consider that most borrowers who fit this description likely understand the gravity of the situation and are simply choosing to work the system. Strategic defaulters are not likely to respond to a threat, but collectors must be frank about what the consequences of not paying will be. Servicers may want to use a more stern approach earlier, but then shift to a warmer, "We're trying to work with you" message.

Strategic defaulters are ideal for automated communications because the cost of such an approach is low relative to a conversation with an agent. It is important for an automated technology to start the message right away, as opposed to the extended pause, which will only make a strategic defaulter hang up. The bottom line is that servicers always need to communicate with strategic defaulters, but they also need to do so as cost-effectively as possible.

First-time defaulters are a group most mortgage servicers have seen - but not necessarily paid attention to - as separate from other defaulters. It is also a group that is growing as the foreclosure crisis spreads from subprime borrowers to those who have lost their jobs. Servicers should treat this group of borrowers very carefully. A firm lead message might not be the most appropriate choice for handling a past-due borrower who had not previously been delinquent and who had a good credit score. Instead, a gently worded courtesy-call reminder is the best starting point.

If the servicer has reason to believe the borrower is truly in trouble, it is important for the servicer to intervene as quickly as possible. If it is known that a borrower is using credit cards to pay other bills or is getting cash advances, servicers may consider modifying their courtesy-call reminders to include a tactful offer of help and to mention the availability of loan counselors.

Progressive mortgage companies - those that have stringent scoring models in place - can identify first-time defaulters and will be able to message strategically as a result. For those servicers that have the analytics and technology to recognize such borrowers and treat them differently, the potential return in customer loyalty justifies the special treatment.

On the flip side, the tax credit program gave many consumers the financial incentive they needed to make their first home a reality. Even though they are not past due, this group will benefit from segmented communications. A well-thought-out series of communications will not only help these borrowers avoid payment issues, but it will also help deflect time-consuming inbound calls to your contact center.

Consider sending a welcome call specifically designed to acknowledge the borrower's achievement and state how delighted you are to be a part of his first homeownership experience. From there, you can go on to explain payment terms in other messages. This strategy is especially helpful if the borrower's loan was originated elsewhere. But it is also important for servicers to not inundate first-time home buyers with too many automated messages. It is more effective to send messages only when a key milestone is coming up. For example, first-time home buyers tend to react when they get their first escrow analysis, especially if it means their payment is set to increase. The call the borrowers subsequently make to a servicer's contact center is one of the most painful for a servicer's agent to handle.

A better approach is to let borrowers know what to expect before the analyses are mailed. Personalized messages should inform borrowers that the billing statement has changed due to the analysis, tell them to be on the lookout for the changes, and confirm what changes have occurred and why.

Other milestones that are ideal for proactive calls are an adjustable-rate mortgage reset or an upcoming balloon payment. For homeowners with nontraditional loans, it is important for servicers to explain the type of mortgage they have, the terms and important dates. Servicers should set the expectation that they will continue to receive updates.

First-time home buyers are also likely to be younger and more technology-savvy, and it is essential for servicers to not forget the mobile channel for these borrowers. Many of these borrowers do not even have land lines, so the mobile channel is critical for maintaining open communication.

The mobile channel is critical for maintaining open communication.

The lingering recession and increasingly fragmented consumer base have given lenders much to think about. They know that not all borrowers look alike, even if their loans are exactly the same. Along with the traditional distressed defaulter, servicers are increasingly seeing strategic defaulters who choose to walk away from their mortgage payments rather than keep paying for houses that are no longer worth more than what they owe. While lenders must make every effort to bring a loan current, they need to balance the level of resources they use against the likelihood of success.

Many borrowers are falling behind for the first time. Those with previously spotless credit histories should be handled very carefully and with dignity. While it may seem counterintuitive to focus on delivering a positive customer experience in the collections process, it can pay quantifiable dividends in the long run.

By establishing a strong customer relationship with first-time home buyers and segmenting borrower communications based on something other than a generic loan-status bucket, mortgage servicers can go a long way toward ensuring they are effectively using the resources they have to maximize near-term collections without putting long-term customer relationships and profitability at risk. SM

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