

CCR-2

If there is one thing the credit crunch has taught us, it is this: it is absolutely vital you know your debtor.

There are many guilty parties whose cavalier, incompetent or indeed complacent attitudes to risk contributed to the credit crunch. But whatever the cause, whoever was culpable, fundamentally, it is our ongoing lack of understanding of risk which prevents us dragging ourselves from the mire of this financial mess.

It is now accepted practice to do an in-depth fact find on borrowers seeking a mortgage. But as recently as three years ago, when house prices were rising and Britain had not faced the threat of recession for more than a decade, anyone could walk into a bank, fill in an application form and be awarded a mortgage if they had a substantial-enough deposit.

It is partly this which is contributing to the now ingrained uncertainty in the mortgage market. It seems like madness now, with a 60% to 70% LTV mortgage requiring a perfect credit score. But in the economy of the early noughties, lenders were giving a 75% LTV mortgage to anyone deemed pretty low risk.

Knowing your debtor now is crucial for mortgage lenders. Particularly when loans go into arrears

Even if you did not have a large deposit you could still get a mortgage with very little proof of income. Whatever the rights and wrongs of this scenario, the point now is how we deal with the fallout.

And while many of those whose mortgages were approved on the strength of an application form alone may continue to pay their monthly debts, there are those who have fallen into arrears. Knowing your debtor now is crucial for mortgage lenders. Particularly when those loans go into arrears.

Urgent need to review strategies

Many lenders have arrears management strategies in place. Indeed, they have had those strategies in place for four or five years.

But collections has developed a lot in the recent past – particularly in the

secured market. The FSA's introduction of Treating Customers Fairly (TCF) principles should have altered collections strategies across the board, but the reality is that arrears levels have been negligible for the past 15 years and in-house collections teams were able to cope well with the volumes.

There has not been a pressing need to review collections strategies until now. The deterioration in the economy, rapidly rising unemployment and credit lines still gasping for breath has meant arrears are mushrooming. Rather than relying solely on lettering and calling to follow up with customers in arrears, a more TCF compliant, forward-thinking approach is in order.

Imagine this: five years ago Mr Bloggs was a newly appointed director at Widget plc, he had just married Caroline and they were planning a family. His salary was good, his bonus was better, and he had a Porsche Boxster he was making monthly payments on. At the time Mr Bloggs was an excellent candidate for a mortgage.

Because of the competitive pressure in the market, his lender ran him through a scorecard, income calculator, ticked all

the boxes and lent him the inordinate sum of money he had asked for.

They lavished cash on their home and lifestyle. By 2007 Mr Bloggs and Caroline were the proud parents of two children. Then, last year, Mr Bloggs got divorced from Caroline because he met Natalia.

Last month, Mr Bloggs lost his job at Widget plc and stopped paying the mortgage. He is still paying Caroline's mortgage, and now has child support to pay on top as well as the repayments on his new Porsche 911. He also took out a mortgage for Natalia for a city centre pad 18 months ago.

It is impossible to assess Mr Bloggs' arrears by looking at his mortgage application from 2004. It is for this reason that we make it a priority to meet customers face to face, early on in the arrears process. Helping borrowers to sort out their financial situation early

can significantly reduce the number of cases lenders have to deal with in the future – it is much easier to get someone back on the straight and narrow if they are one month behind with their payments than if they are two.

But historically, lenders have waited 60 days or longer before knocking on their debtors' doors. A fact find at any stage in the arrears process is better than not at all, but why wait?

A swift response

We would like to see a policy of going in two weeks after the customer goes into arrears.

Building a rapport with borrowers serves two purposes. The borrower in debt sees 'Lender X' as 'Joe', this person sitting on their sofa – they develop a personal relationship with the collector and are consequently more likely to honour their payment plan. And it gives Joe the opportunity to get under the skin of the borrower's situation, update personal information and contact details.

When the relationship is established, do not let it go. The vast majority of lenders simply letter and call borrowers who struggle with their payments. This is not the age of letters or even telephones.

We believe traditional methods must be used alongside new technology. We have set up interactive text messaging systems and e-mailing, which has had a massive impact on the way our collections operate – 65% of calls in our call centre are now inbound.

That means counsellors are talking to borrowers who want to discuss their arrears situation now, rather than battling to get through to people who do not have the time or are not in the position to discuss their mortgage repayments at the precise moment collectors call them.

With growing pressure from the government on lenders (some now wholly or partly nationalised) to keep people in their homes at all costs, all lenders should be thinking seriously about their collections methods.

The pre-action protocol requires an auditable trail proving that lenders have done everything within their power to avoid taking possession of a property.

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MOVE SWIFTLY TO AVOID ARREARS

Whatever consequences lending policies of the past have left us with, it is time to look to the future and ensure that lenders can avoid repeating the same mistakes

By Mike Perry

TCF is beginning to look less principles-based, and increasingly set in regulatory stone.

Apart from satisfying the FSA that lenders are behaving responsibly towards borrowers, upping the face time with borrowers and providing easy-access means of payment actually improves the returns seen from collections departments.

Now is the time to act on arrears – be ahead of the game. **CCR-2**



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