

# Making TCF work for both lender and customer



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With the housing market seemingly weakening by the month it's easy to forget how good credit quality was five years ago. By the first half of 2004 – at the 'top' of the cycle – mortgages over three months in arrears were 0.85% and possessions fell to a miniscule 0.03%. Just 3,900 borrowers lost their homes out of a total of more than 11.5 million mortgaged properties. That's a staggeringly small number, although perhaps not the stuff of newspaper headlines.

No wonder some lenders took their eyes off the ball in terms of arrears management – probably because, in truth, they didn't need to keep their eyes on it.

Borrowers could get out of jail free by rolling up their debts through remortgaging or selling to release liquidity in the knowledge their home had gone up in value and there was a ready market of buyers.

Oh, how times have changed. The housing market has all but dried up, borrowers who are financially stretched can no longer rely on selling to clear their debts and neither can lenders rely on selling possessed assets to recover their money.

Possessions have grown significantly and will continue to do so, but in many cases foreclosure may not be the solution in today's very different market.

Piling more repossessed homes onto a moribund housing market will only force values lower without achieving significant numbers of sales.

With lenders' duty to respect the Financial Services Authority's Treating Customers Fairly principles, mortgage lenders must think outside the box.

TCF is not a big stick for use against lenders but a sensible set of guidelines for lenders to work with customers to achieve the best outcome for both sides. A partnership approach between lender and borrower in order to keep people in their homes has seldom been more important.

When an eviction occurs it leads to further pressure on subsidised, public sector housing, exaggerates social problems and reduces people's capacity to spend – with the obvious economic impact which results.

Mortgage lenders can learn from what has been happening in the unsecured market for a number of years. Here firms have not hesitated to use the serv-

ices of credit management specialists to initiate early dialogue with customers experiencing payment difficulties and agree a solution that balances the economic situation of the borrower and the commercial interests of the lender.

Unsecured creditors act without delay, knowing that once the mortgage lender begins to push for repayment the chance of the credit card firm, personal loan provider or utility company getting paid diminishes rapidly.

Sending repeated letters or making regular phone calls doesn't necessarily hit the spot. How many of us receive so much junk mail that the legitimate letter gets lost among the flyers for the local pizza joint and the circulars saying we've won the Spanish lottery?

The good arrears management contact builds rapport with the borrower and 'sells' a solution to the problem, rather than chastising the customer.

In our view a variety of techniques must be adopted. As well as a good telephony system and first class call execution there is a growing willingness for borrowers to communicate through non-traditional channels such text, email and self-service web portals. They often appeal to borrowers as they seem less heavy-handed.

Making personal contact as soon as a payment is missed, building a rapport with the customer and working in a collaborative way to find a mutually acceptable solution is more effective than tightening the thumbscrews and threatening the customer with eviction.

The professional debt counsellor who takes this partnership-style approach can update the lender's records, discuss the customer's financial situation and provide advice and support.

This is not just a way of achieving a positive outcome – it also ticks all the TCF boxes.

As part of Clarity, Fieldcall provides a dedicated online field collection and reporting system, enabling the client to instruct a nationwide network of accred-

ited field credit counsellors to trace, interview and report on customers' individual circumstances with the entire process managed online.

Technology is helpful for the targeting of accounts showing the first signs of difficulty. Our litigation segmentation tool is able to identify those accounts with the greatest propensity to default, and enable us to put in place an effective pre-arrears process starting with a courtesy call to identify if there is a genuine problem and nip it in the bud.

Taking early action, opening lines of communications and providing specialist counselling support is not just TCF-compliant, it is also sound business practice for the lender.

With keeping people in their homes now a political hot potato we can be sure that judges will insist lenders prove they have taken all reasonable steps to avoid repossession before they grant a possession order. That includes extending the term, offering a payment holiday and switching to interest-only as well as other more imaginative types of loan modifications such as debt for equity swaps.

For a lender to be prevented by the court from taking further action as these areas have not been addressed – and, very importantly, evidenced to have been addressed – is inefficient and unsatisfactory for the lender.

A proactive approach provided by a specialist team – either inhouse or outsourced – that understands collections management, can make a big difference to the outcome achieved, for the benefit of both lender and customer.

In these difficult times TCF can and should be used as a way of helping ease the pain. With many lenders acknowledged to be lacking in-depth experience in arrears management, outsourced providers can offer them a highly professional and effective service that respects TCF obligations while helping to maximise cash flow from mortgage accounts.