

SERVICING MANAGEMENT

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®

Better Service And Rapid Flow

The paperless mortgage. This elusive objective of technology providers, government regulatory agencies and many mortgage firms is primarily focused on the front-end origination process.

But each month, on the 15th and the 30th, your firm must deal with a mountain of envelopes, overnight packages, checks, coupons, staff overtime and calls to your customer service representatives. This activity translates into the work of ensuring timely deposit of funds, accurate update of borrowers' accounts and a final check of bank balances.



Portocalis

Using electronic payment processes is a simple way to reduce this burden that relies upon proven technologies and methods. Using automated systems also takes advantage of consumers' rapid adoption of online and telephone-based electronic payments to eliminate paper from their financial lives.

Electronic transactions can be received, remitted and reported with no human interaction, substantially reducing costs in the low-margin servicing business. With low-cost, faster settlement options such as ATM/electronic funds transfer networks, cash flow speeds up and insufficient funds (NSF) return items go down.

Reporting can be done in real time, as transactions are executed or bundled into daily reports. The results are delivered electronically directly to the customer database for account credit and backed up with human-readable, electronically delivered reports that make reconciliation a non-event.

ACH transactions

The recurring automated clearing

Using electronic payment processes can eliminate the burden of dealing with envelopes, overnight packages, checks, coupons and calls to your customer service representatives.

BY JERRY PORTOCALIS

house (ACH or "electronic check") transaction, where the borrower fills out a form and sends it in with a voided check, is a staple of the mortgage industry. This is a real convenience for many consumers and certainly a minimum-cost payment method for servicing companies, with the fees for ACH transactions quite low and fixed, even for large payment amounts.

Unfortunately, the adoption of this method is relatively low, as consumers truly value control of debits to their bank accounts. Case in point, as noted in Figure 1, one of our consumer finance clients offered a recurring ACH program where usage was a few thousand transactions per month.

When projecting the adoption rates for our telephone and Internet on-demand (no prior enrollment required) payment option, they assumed it would be about the same level, especially as a convenience fee was to be paid by the borrower.

In the first year, the on-demand transactions numbered over 15 times the level of their recurring ACH program, shocking the client. After two

years, the numbers are approximately 25 times the anticipated level and continuing to rise, proving that no company can overestimate the significance of control to the consumer.

Consumers have a lot of experience and trust in using plastic cards for both telephone and online transactions. However, with the percentage-basis structure of credit cards, the transaction fees can add up significantly for the typically high-payment amounts of a mortgage. Absorbing these fees is not practical for most servicing companies. Passing on the fees to the borrower is an option, but our experience shows there is an amount tolerance that may be surpassed by even the most affluent in your customer base.

A good way to avoid the higher-fee issue is to make electronic mortgage payments using ATM or electronic funds transfer networks, such as STAR, Pulse, NYCE and others. These networks have been opened to industries such as insurance, utilities and telecommunications for electronic payments over the telephone and the Internet over the last 10 years.

The addition of mortgage to the list of recognized industries is a natural extension that leverages the expanding consumer popularity of these cards for all types of transactions. With a low- and fixed-fee structure, servicing firms have the option of incrementing the convenience fee and creating a substantial revenue stream.

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Real time

There is also an added benefit in the transaction being authorized and settled in real time. The mortgage payment funds in the borrower's account are set aside for the servicer, eliminating the possibility of an NSF return for these payments.

The popularity of this method is demonstrated in Figure 2, which graphs data from one of our mortgage clients. The transaction volume is normalized, with the graph's month-one volume scaled to a value of 1.0 (the right vertical axis) and the following months scaled by that same volume.

This on-demand telephone and Internet payment option quickly became very popular with the servicer's customer base, with over six times the month-one volume by the end of month six. Additional promotion of the service is planned, and transaction volumes are expected to continue to increase.

This data demonstrates that consumers like the ATM option, with over 50% selecting this payment method over an ACH/electronic check in these months. The continued increase in ATM usage as more borrowers become familiar and comfortable with this method has been at the apparent expense of ACH transactions.

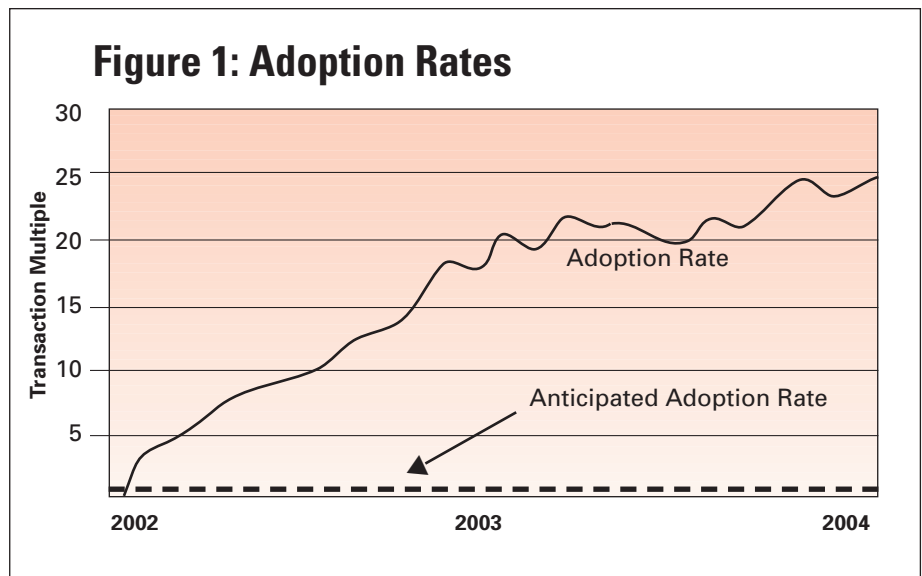
This is not a surprising result. Our market research confirms that, while most people carry their ATM card, not everyone carries a checkbook. Also, there is an inherent comfort in providing a 16-digit card number to an automated system in lieu of specific bank routing and transit numbers.

This client's data also reconfirms our experience with consumers' acceptance of and familiarity with the telephone payment channel, despite the hype and unfulfilled demand for the Internet to be the user interface of choice. Reliable and secure transactions take place every day on the Internet, and we - as well as others in the industry - are seeing increasing usage of this channel.

However, Figure 3 demonstrates that consumers are still strong users of the telephone, with approximately two-thirds of the borrowers making their payments via an IVR.

Recording

As important as providing a friendly user interface and payment options



that are both cost-effective and popular with borrowers, a payment isn't completed until it is recorded in the client's account, the money changes hands and the reports match your bank balance. Using electronic payments to automate these processes can make them more timely and trouble-free.

The ATM payment option, because of the real-time authorization and settlement, can get funds to the servicer's bank account the next business day. Compared to the time it takes from the borrower making a conscious decision to pay, writing a paper check and mailing it to the servicer's lockbox, this is a nearly immediate funds transfer.

Considering that a number of the checks delivered to the lockbox can be returned for NSF or other administrative reasons and that costs can be driven up with incremental fees for lack of a coupon or other consumer issues, electronic payments speed up cash and reduce banking costs.

On-demand payment systems cater to the savvy consumer who is leveraging the proliferation of consumer finance information and managing their funds more effectively. This group of people understands that float has been essentially eliminated in the financial world and is looking for the convenience of an on-demand system to manage the timing of their payments.

Other users include those who are required to carefully manage their cash flow and are likely well into the

grace period allowed by many mortgage firms.

Accurately recording payments is extremely important for both consumers and servicers. Electronic payments lend themselves to timely, highly accurate reporting, with limited room for human error, other than mistakes by the consumer. Proven user interfaces can keep borrowers accurate on input, and the data never has to be touched by human hands again.

Using automated methods also eases transferring this accurate payment information into the financial system of record. Many still rely on business-day-close batch reporting via flat files for posting payments to consumers' accounts, whether maintained in an internal system or using one of the outsourced servicing systems that are available. This process can be set up to execute automatically, consolidating payment information from both the telephone and Internet channels. If more timely information is needed, files can be transferred more often, perhaps two or three times per day, as required by the servicer.

And in the latest transformation of the financial industry, many companies are looking to Web services to transfer payment data on a transaction-by-transaction basis. Using extensible markup language (XML) standards, Web services allow simpler interoperability than complex, brittle and expensive one-off integrations.

