SERVICING MANAGEMENT

Reprinted with permission from the January 2004 issue

Make Automation Work For You

Offering various payment channels can help servicers gain a competitive advantage by pleasing customers and reducing costs.

BY JERRY PORTOCALIS

You are under an avalanche of paper from new mortgages and refinances. You can't seem to get your head above this fray for even two minutes in a busy day.

You know there are other things that your firm should be doing to reduce servicing runoff in your portfolio, especially when consumers can find a new mortgage company by clicking a flashing box on a portal home page or responding to spam e-mail.

How do you create the automated convenience features that the increasingly automation- and Web-savvy consumers are looking for without derailing your current highest priority IT project? And it's not likely you could justify such a project on customer satisfaction alone. Is there a measurable benefit to support the financial analysis?

The answer to these dilemmas is a familiar one - look to outsourcing alternative payment methods such as debit cards or electronic checks over the phone or the Internet to a payment services provider.

The typical outsourcing benefits are there in reduced overhead costs and increased efficiency. You may already have experienced these benefits in other initiatives that were designed to enhance the mortgage cycle in your business. While the industry has not yet achieved the "paperless" process that was the promise of many of these efforts, it has certainly become common to outsource aspects of document management and delivery, appraisals, settlement, post-closing services for the secondary market and even parts of the foreclosure process, each with its own impact on the profitability of your organization.

Payment collections has yet to be a focus for outsourcing initiatives, perhaps because of the reluctance of servicers to be even minimally remote from funds collection. But the tangible and intangible benefits far outweigh these concerns, and new revenue sources can be tapped.

From using a toll tag, to checking out your own groceries, to getting cash from an ATM, most consumers have readily adapted to fully automated, no-human-interaction systems for their personal finances. This trend includes the spread of automated telephone systems (interactive voice response units or IVRs) for getting information from or performing transactions with banks and brokerage companies. The growing market for Internet commerce, including many types of financial transactions, further expands the consumer's expectation of convenient, on-demand computerization in conducting routine tasks.

Industry adapts

The mortgage industry has adapted portions of the business to these expectations, with many of the consumer-facing parts of the loan application and funding process conducted via e-mail and Internet applications. This sets a continuing expectation that the existing recurring monthly payment process would include technology-based telephone and Internet options, especially as a loan is moved into the secondary market, with servicing picked up by a company other than the originator.

Unfortunately, outside of applying or registering for ACH drafts on specific days of the month, many mortgage servicers have not met the automation convenience expectations of their borrowers. Whether this is due to not having addressed the technology issues or not having developed in-house systems to support these processes, there is an opportunity for differentiation.

Your firm can create a competitive advantage by leveraging this expectation into a branding differentiator, which will create consumer loyalty in a very competitive market. The key is to offer maximum flexibility in the timing and have all the benefits of automation.

Those benefits include access all day, every day, choices of multiple channels, and many different payment options, such as ATM/debit and electronic checks. Consumers will take

Jerry Portocalis is senior vice president with BillMatrix Corp., a Dallas-based provider of comprehensive electronic bill payment solutions and services. He can be reached at (214) 750-2700.

advantage of these offerings in various ways - one month mailing a check the week before the due date; another month on the phone using a check or debit card on the due date; another month accessing your Web site via the Internet to create an ACH transaction on the day before the due date.

Outsourcing firms that can eliminate the need for pre-registration facilitate this type of timing and payment method convenience. A wide menu of choices requires integration across these systems to ensure that the back-end remittance and reconciliation processes are not a burden to your collections team. This should be a key requirement in any vendor selection process.

Building such a system in-house using your current IVR and Web site is a possibility, but it requires adding another project on your already fully loaded IT group. In addition, the mortgage servicing firm will need to develop relationships across the payment methods and remain alert to changes in the rules imposed by the card associations and ATM networks.

Using an outsourced service provider that specializes in these types of payment channels and has established relationships can avoid these complications and delays, getting benefits to your consumers in a few weeks and initiating the development of customer loyalty much faster. The outsourcing firm should have experience in supporting rollout of the program internally, as well as delivering the message about these new options to your consumers in the most effective manner.

Immediate benefits

So consumer loyalty will pay off in the long run, and you want your firm to be perceived as being all about convenience, but how are you going to justify this project to management? What are the immediate financial benefits to your organization?

Outsourcing project justifications typically focus on reducing costs. They are rarely about improving the quality and quantity of funds that are received. Outsourcing alternative payment methods can deliver both.

Recently, the ATM networks have expanded the use of their systems, endorsing the use of ATM/debit cards for taking mortgage payments using automated channels, including IVR systems and the Internet. This decision follows many years of accepting utility payments and a successful rollout of insurance policy payments last year. The common denominator of these industries is that there is a recurring bill or invoice with an established customer.

This particular method is especially useful in getting good payments in a secure and timely manner, which is particularly important given the current economic conditions and substantial rise in defaults. This process validates that the exact amount of funds are available for the mortgage payment.

An immediate "hold" is placed on those funds in the bank account - eliminating non-sufficient funds - and they are routed directly to the servicer's account. Using a firm that has established relationships with multiple ATM networks across the nation will ensure that you can get paid across all of the regions your loan portfolio covers.

Good and bad payers

Outsourcing this functionality also allows servicers to benefit from an extensive scope of good and bad payer databases, particularly across industries and payment types, maximizing your leverage of the broad scope of payment methods and long-time horizon embedded in the outsource service firm's database.

The fees for automated transactions of all types are low enough that mortgage servicers could add a mark-up, creating a substantial revenue stream from a convenience fee that their consumers pay for the service. The tardy borrower, with a choice between mailing in a paper check and incurring a substantial late fee and the much smaller convenience fee for using the automated service, will rationally choose the latter, particularly if the option is on-demand, with no pre-registration required.

In addition, borrowers who are looking for convenience with check-like control will not find a fee that represents a small fraction of their payment amount to be objectionable. The minimal loss of late-fee revenue is marginal when balanced against eliminated NSFs and reduced processing costs. And the convenience fee can add up to substantial revenue, even if only a small percentage of your borrowers use the system.

Also, overhead cost reductions come from the traditional outsourcing driver of not having to build and maintain the IT infrastructure required to process payments through these channels. Getting all of the benefits that the latest technology has to offer without retaining the substantial staff also applies to outsourcing this process.

Leveraging the existing relationships the outsourced service provider has with the organizations that govern the various payment options can save your firm substantial time and money.

When selecting an outsourcing vendor, you need to ensure that you have a compatible viewpoint on the important issues and develop a level of trust - particularly when it comes to the financial transactions that comprise your core business.

Your due diligence process should cover a few basic points:

- Company history - years the solution provider has been in business, number of clients, markets served, industry associations or memberships;
- Full offering of payment options to consumers, including debit, ATM cards and electronic checks;
- User-friendly interfaces for

consumers, as they use both Internet and phone input methods;

- Solution provider support of your firm for all manner of card processors;
- Fees or service charges to you for implementation of debit card, ATM and electronic check payment services;
- Fraud detection, prevention and reporting capabilities available for check and debit card payments;
- The timing and process for updating your payment system and any requirements for modifications to their systems;
- The timing and flow of the cash payments into your bank account;
- Non-sufficient funds handling and communication protocols;
- Training provided for your customer service representatives and other staff members;
- Mutual implementation schedule and outline of responsibilities to meet start date;
- References from other clients that are both new and long-time customers of the solution provider.

Once you have selected an outsourced service provider, ensuring that all the affected internal parties are part of the team will have a tremendous impact on the timeliness of the rollout process. Your collections, treasury, IT, marketing and customer service personnel should all be involved in getting the integration complete and the message out to your borrowers.

Low-cost, simple projects that can provide both tangible and intangible benefits are few and far between, but outsourcing alternative payment methods provides opportunities for increasing customer satisfaction and engendering brand loyalty, while reducing costs and adding a new revenue stream. The impact on your organization should be investigated. SM