SERVICING MANAGEMENT®

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What's Working Against Your Shop?

Your servicing operation might want to work with defaulting borrowers, but so do countless others whose interests don't align with yours.

BY MARY HUNTER

At the recent Mortgage Bankers Association's National Mortgage Servicing Conference & Expo, discussions surrounding the myths about foreclosures and defaulted loans were commonplace, and borrower misinformation regarding default servicing was a leading topic in many work groups and sessions at the conference.

The industry at large has recognized and acknowledged the issue - which is an important first step - but what resources and tools are available to enable servicers to dispel borrower misperceptions and continue to operate as profitably as possible?

All too often, when mortgagors find themselves in a default situation, their first instinct is usually not to contact their servicer to explore the workout options that are available to them. Rather, they may tend to ignore their servicers' attempts at contact or - worse yet - troll the Internet and late-night TV, looking for answers to their predicaments.

Surfing the Internet often leads these mortgagors to the plethora of consumer-centric Web sites, and TV commercials from bankruptcy or class action attorneys abound. All too often, a desperate mortgagor responds to this type of "advertising," which usually begins a prolonged series of events that tends to benefit bankruptcy and class action attorneys - not the borrower or the community.

From a loss mitigation standpoint, working with a borrower in default through options like short sales or individual workout plans often provides the best potential results for borrowers and servicers alike. However, in default situations, servicers are too often viewed as the "bad guys" by the public at large, thanks in part to the reinforcement of that image on consumer and class action attorney Web sites.

Unfortunately, the end result of this bad publicity is that many borrowers are convinced that servicers just want to take their homes and, therefore, never contact servicers directly to learn about the many options that may be available to them. A correlating effect of this is that, as the number of borrowers in default increases - along with the number of bankruptcy and class action filings and the negative public relations fallout that usually follows it - the likelihood of governmental interference through regulation increases.


Hunter

Misunderstanding the process

Borrower apprehension concerning working with servicers is attributable to a misunderstanding of the default process and the impacts of that process. Borrowers who find themselves in default often feel that a bankruptcy filing is their best option, because the bankruptcy attorneys are doing a very good job at targeting these borrowers and beating servicers to the punch with their messages.

Compounding this is that there is very little information out there from the servicer side for a borrower that finds himself in default. A look at most lenders' Web sites tells the story very clearly. Almost all lenders' Web sites focus the majority of their attention on the origination side and materials to drive first-mortgage and refinance applications.

Some sites provide servicing sections. But of these, very few provide any resources for borrowers in default. It seems that a simple and inexpensive way to counter the misinformation listed on the consumer and debtor attorney sites may be for servicers to put their existing technology to work for them by posting some default frequently-asked questions - with corresponding loss mitigation contact information - on their servicing page.

This low-tech approach could highlight servicers' sites when borrowers scour the Internet during late-night surfing sessions, sending a counter-message: "We want to work through this problem with you."

While workout plans and short sales are better financially for servicers, they are also better for borrowers. The servicing industry could benefit from being more proactive in marketing these options to their defaulting borrowers.

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When the first default notice goes out, the servicer should already be communicating with the borrower to try and commit him to a workout solution. This way, servicing companies can better dictate the terms of how the situation will be resolved. The longer servicers wait, the more likely the borrower is to be contacted by - and begin working with - a bankruptcy or class action attorney.

Aiding default management

However, effectively centralizing and managing proactive communications with default borrowers can appear a daunting task for servicers - especially since each state has unique regulations and specifications about how the default process works.

But there are technology tools available to servicers to help them easily manage their communications with borrowers, regardless of geography. Loss mitigation technologies exist that can guide customer service representatives in their financial discussions with borrowers.

The same can be applied to defaulting borrowers who elect to communicate with servicers electronically. Intelligent systems can home in on pertinent data, phrases or information within a borrower's inquiry and, based on that, forward it on to the appropriate level of loss mitigation within the servicing company's organization to follow up with the borrower.

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Once a borrower and servicer come to terms on the plan, additional technology is available to streamline electronic data exchange among title companies, appraisers, bankruptcy and foreclosure attorneys, investors and field service companies to facilitate an efficient and cost-effective process for servicers.

The Internet has evolved into a sophisticated and powerful communications channel that provides the perfect venue for servicers to communicate with - and serve as a trusted resource for - borrowers in default. The capability exists and is already in use heavily by lenders to promote their loan origination initiatives, so why not take advantage of it and exploit it to reach existing borrowers in default scenarios?

A servicer may wish to consider the inclusion of a special Web page within its site that is filled with default-specific information for borrowers, such as state-specific information regarding the default process, a detailed explanation of options available to the borrower and contact information for default specialists within the servicing organization. In doing so, servicers could better position themselves as wanting to work with the defaulting borrower to help resolve the situation.

In the national dialogue related to default, servicers are usually misconstrued as heartless corporate machines that want to displace consumers that are unfortunate enough to be having tough financial times.

While this is a gross misrepresentation, perception is reality for many consumers and politicians alike, and bankruptcy and class action attorneys are riding this wave all the way to the bank - at servicers' expense.

Encouraging hearty communication could better position servicers within the arena of public discourse and, in doing so, create opportunities for servicers to operate more profitably. SM