

How To Expand Options In An Uncertain Economy

As borrowers' pay habits evolve, servicers are empowering their customers by offering more flexible payment strategies.

by Missy Zackett

The most critical and universal challenge facing mortgage servicers today is getting paid. Despite U.S. governmental bailouts meant to extend a lifeline, borrowers and mortgage servicers alike are feeling the impact of the economy's downward spiral. Borrowers are facing the reality of living paycheck to paycheck, while mortgage servicers are trying to stay competitive.

On top of this challenging economic environment, recent trends in the industry reflect a decline in customer satisfaction. With the added difficulties in the current mortgage climate, it is essential to reestablish trust with consumers.

As economic hardships intensify, now more than ever, mortgage servicers must look to adapt billing and payment options to meet shifting consumer needs and increase the likelihood of getting paid on time.

Understanding bill payment behavior is a crucial first step in meeting customer billing needs. In August 2008, California-based Javelin Strategy & Research surveyed 3,367 people online about their current behaviors and emotional mind-set regarding debt and personal finance issues.

According to the survey, consumers are adjusting the way they pay their bills. The findings reveal that 20% of consumers are paying bills late, and 31% are waiting longer to submit payments. Consumers

are delaying payment of their bills as long as possible, before incurring late fees. In fact, 15% of respondents say they are making more same-day payments. Furthermore, consumers paid an average of 2.02 monthly mortgage bills late in the last six months, compared to 1.8 primary, store-branded or other major credit card bills.

The survey results also reveal that consumers are seeking more options and are approaching bill payment and prioritization in new ways. In the last six months, consumers report making the following changes in bill payment behavior:

- 47% of respondents are paying more bills online,
- 40% of respondents prioritize which bills get paid first differently than they used to, and
- 31% of respondents are more often only making the minimum payment.

These emerging trends demonstrate that mortgage servicers are dealing with new consumers who are looking for convenient ways to stay on top of monthly bills and flexibility to customize monthly payments according to their individual needs.

According to the 2007 Federal Reserve Payments Study, customers are increasingly using electronic payments, whereas in the past, checks and cash were the preferred method. The study reveals that only 33% of customers report making payments by check, representing a significant shift from 2003, when 46% of customers made payments by check.

Some consumers will continue to rely on traditional channels of paying their bills (i.e., by check through the mail or by phone). However, as the financial crisis creates additional economic challenges, traditional payment methods - such as checks by mail - are becoming increasingly inefficient for consumers, because they remove customer control to expedite payments. For servicers, traditional payment methods mean increased processing times and costs and the decreased likelihood of getting paid.

Flexible payment channels

Leading mortgage servicers are adopting a range of payment channels to enable consumers to customize their monthly payments to fit their needs.

Electronic bill payment is becoming the preferred method for customers to pay their monthly bills. According to the Federal Reserve's 2007 study, electronic payments have increased at an annual rate of 12.4% since 2003, and for the first time, they exceed bill payments made by paper checks. Electronic bill payment offers convenience and flexibility for customers to manage their monthly payments whenever and wherever they want, with same-day and next-day payment options.

For servicers, electronic bill payment can reduce costs and improve the customer experience. There is increasing demand for servicers to provide interactive, user-friendly Web sites for customers to manage their payments. There are a variety of online features that can be included for convenience and to encourage bill payment, such as prominently featuring "pay online" options.

Interactive Voice Response (IVR) enables billers to send customers auto-

mated messages related to account activity and overdue bills, allowing the option to make an electronic payment if the customer chooses. This service is designed to provide reminders to borrowers who may have simply forgotten to make their monthly payment or are in an early stage of delinquency. Therefore, it allows convenience for customers to make a payment by phone without having to talk to a customer service representative.

For mortgage servicers, the automated service reduces the human resources required to engage with customers by improving call center efficiency, while providing an immediate channel for customers to make a payment. These resources can then be directed to contact consumers who require additional support. IVR solutions enable servicers to reduce their overall response time and increase customer options for self-service, leading to an improved customer experience.

Recurring payment options offer borrowers the convenience to set up monthly mortgage payments to be paid automatically. Customized recurring payment options reduce the chance of transaction errors, improving the customer experience. Mortgage servicers can also offer an equity accelerator, enabling customers to set up a biweekly, weekly, bimonthly or monthly mortgage payment withdrawal schedule according to their pay cycle,

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and by increasing the number of payments per year, it accelerates payment of the principal of their mortgage.

For servicers, customized payment options offer predictability and help manage delinquent borrowers. This approach also offers a budgeting tool to borrowers that have difficulty matching the date they are paid with their monthly mortgage due date.

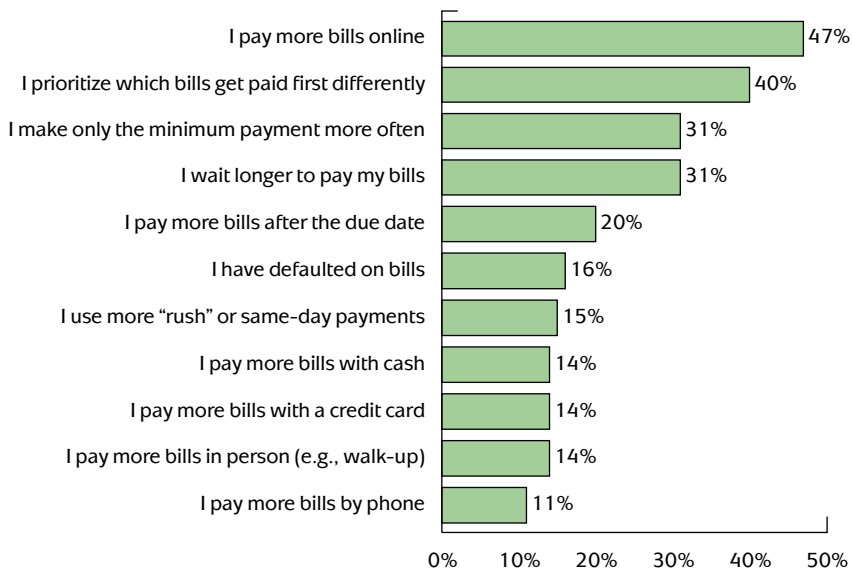
E-mail bill presentment and payment (EBPP) enables mortgage servicers to e-mail customized billing information - including delinquency notices - to

customers. Customers receive a personalized bill with a secure link to make a one-click payment. The most immediate convenience for customers is that they can access their account day or night and schedule payments instantly. They can also opt out of paper statements, which lowers costs for the servicer.

Best-in-class servicers understand that innovative payment strategies will strengthen relationships with customers, build loyalty and, most importantly, increase the likelihood of getting paid in an uncertain economy. **SM**

Consumer Pay Habits

Javelin Strategy & Research surveyed 3,367 consumers about how their bill payment practices have changed in the last six months.



Source: The 2008 Western Union Money Mindset Survey conducted by Javelin Strategy & Research