



arrears management

Credit crunch making your arrears look big? See how to maximise their management to minimise mortgage stress

The three sisters of financial burden – rising interest rates, petrol prices and food costs – pose an enormous threat to Australians already struggling to make their mortgage payments.

Fujitsu Consulting/Wizard Home Loans predicted that more than a million homes across the country will be feeling mortgage stress of some sort by the end of the year.

“Around 837,000 Australian households are experiencing some form of mortgage stress, up from 784,000 in May 2008,” says Fujitsu’s Martin North. “If it goes on, by December, 39% of young families will be hit.” So, for every .25% increase in interest rates, 150,000 additional households move into stress – of which 5% will ultimately default.

Wizard’s chairman Mark Bouris also predicted that a large number of these could potentially lose their property.

“People have to draw a line in the sand and get serious about their finances,” Bouris says.

Growing arrears

It seems mortgage managers must also get serious about arrears management, as they are already reporting an increase in them to varying degrees.

Rocco Reitano, head of arrears management for Austral Mortgage Corporation, admits he has fielded more calls from customers about rising interest rates and petrol prices, but says he has yet to see their grievances manifest as greater arrears.

Iden Group’s general manager Graham Ingleton says he hasn’t noticed a rise in the number of accounts needing some form of debt collection, but that the actual complexity of action required for accounts that fall into arrears by more than one payment has increased.

“We have noticed a trend whereby accounts more than one payment behind usually have considerable credit-card/unsecured-loan exposures which have ‘materialised’ since our loan was originally taken out,” he says.



mortgage assistance schemes

State governments provide mortgage assistance schemes for borrowers who have run out of options. For instance, NSW announced a multi-million rescue package in April for families struggling to meet their mortgage payments and broadened the eligibility criteria.

Mortgage managers should know how their customers can access these assistance schemes.

Mortgage Ezy's Garry Driscoll was frank about his expectations for the rest of the year, however.

"We are aware the number of borrowers seeking hardship assistance has spiked in the last six months, and also the total of arrears overall is higher than the same period last year. But this is to be expected with so many interest-rate rises this year both from the official RBA ones and separate increases from lenders due to their higher funding costs. But we do not expect to see any significant decreases in arrears levels this calendar year."

Responsibility

A mortgage manager's responsibility for arrears management depends on the funder. In most cases, they handle the entire process from one day in arrears through to mortgagee sale, but in some cases, they manage up to 60 days or to possession.

"With our main funder/lender, we are responsible up to and including judgment for possession and debt. Once that is obtained,

More information can be found at the following sites

For NSW

www.housing.nsw.gov.au

www.cclcnsw.org.au

For QLD

www.fairtrading.qld.gov.au

www.housing.qld.gov.au/loans/home/index.htm

For VIC

www.housing.vic.gov.au

For NT

<http://nt.gov.au>

For ACT

www.dhcs.act.gov.au/

For TAS

<http://tas.gov.au>

For WA

<http://wa.gov.au>

For SA

www.sa.gov.au

arrears management overseas

The UK's Financial Services Authority recently completed a review of 13 specialist lenders and their arrears practices.

In August, Mortgage Strategy reported that FSA regulators accused lenders of using a 'one-size fits all approach, focused too strongly on recovering arrears according to a strict mandate, without reference to the borrower's circumstances and were too ready to take court action'.

The FSA also found specialist lenders did not have sufficient systems and controls in place to control mortgage arrears and had poor training and levels of competency.

Regulators concluded lenders could have done more to address customers' financial hardships and suggest alternative options for repayment.

"As our data shows, in these current market conditions, more people are struggling to meet their mortgage payments and it is vital that firms treat them fairly," Lesley Titcomb, FSA director told media.

The review also found that the number of borrowers in the UK facing arrears and possessions is rising.

"lenders could have done more



the funder/lender takes responsibility for the possession of the property and subsequent disposal via auction," Reitano says.

Most mortgage managers have a dedicated team who handle arrears, or at least one full-time arrears manager and part-time staff who are called in on a casual basis. David White, director, Australian First Mortgage, says all mortgage managers should make staff aware of all aspects of collections, including the legal requirements, which differ from state to state.

"They should be trained to ask the right questions, to establish if an arrears client is a 'real case' – or if they require some financial/budgeting assistance and do not want to talk about their issues," he says. "It is important staff are aware of the wholesale lenders' and mortgage insurers' collection policies and assistance schemes."

He also advises managers to establish a relationship with external agents for service of notices and skip-tracing – and ensure they have a reliable solicitor. Driscoll acknowledges this takes time and resources, so it is costly, but he maintains "the long-term benefit far outweighs the cost".

"Treating your borrowers with care and compassion creates loyalty and trust – and this makes your chances of saving the loan far better than if you adopt a heavy-handed approach. In the current environment, everyone is examining the quality of the book and the first thing they look at is the spin ratio. So, if you are above the average, your capacity to access funding is severely limited.

"On the flip side, however, don't waste time on lost causes or borrowers who have no intention of honouring their commitments," Driscoll says. "The secret of being an excellent collections manager is knowing the genuine ones to assist from the ones to move quickly to possession and sale."

White agrees it is worth investing the time and effort in arrears management.

"If you are not diligent in contacting your customer early in the piece, it is very difficult to reduce your arrears portfolio – and any reduction will take a long time to return to acceptable levels. Arrears management is not just collecting arrears – it is managing your customer throughout the whole process and also educating them in handling their finances and cash flow, then establishing a strong relationship so they feel comfortable contacting you should the need arise," he says. "Without a thorough follow-up system all your good work can be undone."

In defence of non-banks

"There has been a perception that prime non-bank funders have poorer lending standards than the banks and that as a result, the arrears in that sector of the market have been significantly higher than the banks'. It is therefore interesting to note that the ratio of non-performing housing loans to total housing loans on the banks' balance sheets as at 30 June 2007 was identical to the 90-day arrears rate on securitised prime housing loans. The ratio was 0.41% for both sectors which would suggest that both have very similar credit standards," says Garry Driscoll, general manager of Mortgage Ezy.

Contact

Arrears are report-based – meaning that most mortgage managers rely on their funder/lender's website for an arrears report and work from that.

"All borrowers are contacted by phone within the first five days of when they first appear on the reports. Failing that, we send a letter out asking them to rectify the arrears situation or to contact us to discuss it and make an arrangement for payment," Reitano says.

White says he also makes contact with the customer quickly. "in around seven days – and I use the phone initially, to establish if the arrears are a short-term problem or a serious issue.

"Mortgage managers who do not make the effort to contact customers and establish a relationship," he adds, "will find debt collection and legal action are more appropriate activities."

Short-term problems could be a small cash-flow issue, like repairs to the customer's car – and they used funds from the loan repayment to cover it.

"In these cases an arrangement is easily made with the customer to clear the arrears, generally within two months. Short-term arrears are common and usually resolved quickly, then the loan continues to be paid without further issues," White says. Long-term problems though, brought about by sickness, unemployment or divorce, can be trickier.

"Once you have established the real reason, you have to decide if they can continue to service the debt long term or if they need some form of temporary repayment holiday. Or, do they qualify for financial hardship relief? You must show them that you understand their position and that everyone is on the same side – and has the same goals," Driscoll says.

When it comes to dealing with customers, Ingleton says it's important to remember that "the customer is one who met our approval criteria in the not-too-distant past", so he advises mortgage managers against issuing ultimatums that are unlikely to be effective and suggests not indicating a certain action is going to be taken unless there is every intention of carrying it out.

"Customers are people, not just statistics," he says, "so be professional, honest and respectful at all times in any communications, written or verbal. In 99% of cases this encourages the customer to be similarly open about their current situation and makes it easier to work together towards a resolution." **MPA**