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Future-proofing

The lessons learned from the credit crunch have meant that many lenders need to tighten up their internal processes and systems. While cash-strapped providers appear to be cutting down on many expenses, technology providers are finding opportunities for growth

The recent announcement that the Chelsea Building Society has seen a huge increase in fraud shows that lenders are still concerned about the types of debts on their books. And while the current credit crunch has hit all lenders hard, investment in non-core products has fallen as a result. But at a time when the downside of the mortgage market appears to be showing its face, they are well aware that leading edge technology can help them mitigate risks and cut costs.

Most of the lenders spoken to for this article wanted to remain anonymous – even when they're doing well, talk of managing arrears books or worrying about fraud is not something they want in the public domain. As one major building society put it, "even though we're not seeing major problems, we don't want to publicise that – like everyone else – we are seeing a deterioration in our book. We don't want the only thing people to know about us is that we are going to have to take a small hit at some point."

In the words of another, when questioned about plans for the coming year: "We're keeping our heads down. Our loan book looks good compared to the rest of the market, we think, but if recession bites we could be bitten. We're not going out into the mar-

ket with a range of great new products any time soon; instead we're looking at what we've got and how best to get the most value from it.

Fraud prevention

While mortgage fraud makes up a relatively tiny amount of applications compared to other financial services, some lenders say they are seeing questionable applications on the rise.

"As we've become more conservative in our criteria, particularly over income multiples and affordability, and loans to value, we've seen people entering a bit of a grey area," says one high street lender. "It would be too much to say they are breaking the rules, but they are bending them as far as they will stretch."

One firm benefitting from this is Quest Associates, the software development company, with its product Q-Guard. Although it was only launched five months ago, the product is now being used by over 20 lenders to mitigate their risks.

Q-Guard offers a fraud analysis review at the point of valuation, using historical and real time mortgage valuation reports to highlight anomalies and flag up suspect transactions to the lender.

"There has been some organised fraud in the mortgage market over the

last few years," says Quest's managing director, Tom Parker. "When the market is strong and all the lenders feel happy with the amount of business they are doing, the fraud departments tend not to be as high up the list as they could be. But with a potential downturn, fraudulent valuations are no longer being hidden by rising house prices."

And although the Financial Services Authority has been clamping down hard on rogue mortgage brokers, some lenders have said they are looking to upgrade their systems to increase the checks on introduced business, particularly when it comes to buy-to-let and self-certification incomes.

"We all have checks and balances in place, but there's no doubt that quite a lot has, in the past, slipped through the net," says one. "Predicted rental incomes have been overstated – we knew that, but weren't too concerned when the borrower had a reasonable deposit and other sources of income, but now everything is tighter we have to be more careful. Landlords who used to get away with it because they could sell at a profit are now struggling, and the situation could get worse if rents start to fall."

The sentiment is similar in the self-certification arena – if wages were 'stretched', low interest rates and rocketing property values provided a cushion and borrowers could gener-

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ally afford to pay the bills. "But now we're hoping that wage inflation will continue so some of those borrowers who exaggerated what they brought home will survive," says one specialist lender. "And we can't get into that position again. We're undertaking a review with a number of providers that will help us carry out more checks on self-certification loans."

All lenders contacted for this article said they believe instances of outright fraud are miniscule, and those that do come up are more a case of exaggeration as a way to get the property, not an outright attempt to steal money. But, as one lender says, the reputational damage can be huge. "No matter what the reason is, nobody likes to hear about repossessions. We don't want to be reading newspaper stories, or having our customers tell their friends, about how many repossessions we're doing. And that's what will happen if we don't tighten up our practices."

Arrears management

While fraud prevention is on the agenda for many lenders, it's arrears management that is occupying almost everyone. The numbers of borrowers in arrears is rising by the day, and creating processes to identify borrowers who may get into problems, then manage those difficulties is a real priority.

"We have seen more emphasis being placed on the use of automated arrears management, which when linked with workflow, is of particular interest to lenders in the current climate," explains a director of one software company.

"The key for us is setting up the best early warning system possible," says one lender. "We know that the sooner we can reach the borrower when they start to have problems, the easier it is to sort out any difficulties." This is backed up by another: "We have to

find a systems solution that will help us detect more quickly borrowers who fall into arrears."

There appears to be an increased move towards outsourcing arrears customers. Those who have more than two payments late, for example, are passed on to a specialist company who will stay in contact with them, manage their repayment schedules and arrange further action should it be needed.

The likes of HML say they are seeing increasing interest from lenders, simply because the current market conditions are unlike anything they have seen before. With the specialisations and technical back-up of outsourcing companies, compliance can become easier.

Two solutions appear to be on lenders' radar, although compliance and data protection issues feature with both. The first is to link the mortgage borrower's accounts more closely within the lender's system – generally mortgage payments are the last to be missed, so if a customer has a credit card, for example, with the lender as well, and starts to miss payments on that, then the lender can step in and discuss mortgage repayments at the same time as resolving the issues around the other debt. For those lenders that outsource the provision of such products, there are moves underway in some cases to ask for the accounts to have a similar link.

The second option is to work more closely with credit reference agencies, who could flag up when a borrower starts to get into problems on one of its loans, alerting the lender to potential credit issues. "This is a very grey area for us," says one lender. "At the moment, we can't do it without the borrower's consent, and they understandably may balk at such an idea."

Says one lender: "Banks have the advantage of often having customers' current account information, so they can see where money is going in and

out," he says. "It makes sense that if you conduct a search on a customer before deciding whether to offer them a loan, that you monitor them through the life of that loan."

It's not all doom and gloom

Not all lenders are looking only on the dark side, with many saying that they are planning and preparing for upgrades to their online transactional capabilities. "Paperless accounts are becoming increasingly possible, and we want to make sure we are able to offer them across the board," says one. "This means mortgages, current accounts, savings, loans and credit cards. The technology is there, we just need to make sure we have it." **MFG**