

# Mortgage Repayment Trauma - Benchmarking the Experience of Borrowers in Arrears

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Introducing our paper

Market context and definitions

The pathway to a syndicated / benchmarking study

Selected findings

What next for the industry?

What next for Northern Rock?

Q&As

In this joint paper, we aim to:

- describe the operating context for mortgage lenders

- outline the challenges of researching in this area

- highlight the benefits of benchmarking

- Illustrate how Northern Rock are using the findings to support operational performance

We will:

- share 'real' branded findings for Northern Rock

We can't:

- share branded competing subscriber data

CML data - 11.4 million mortgages in force in the UK

Worth over £1.2 trillion

186,300 mortgage loans in arrears at the end of Q1 2010

1.6% of all mortgages in force

Arrears (in this context) missed 3 or more repayments

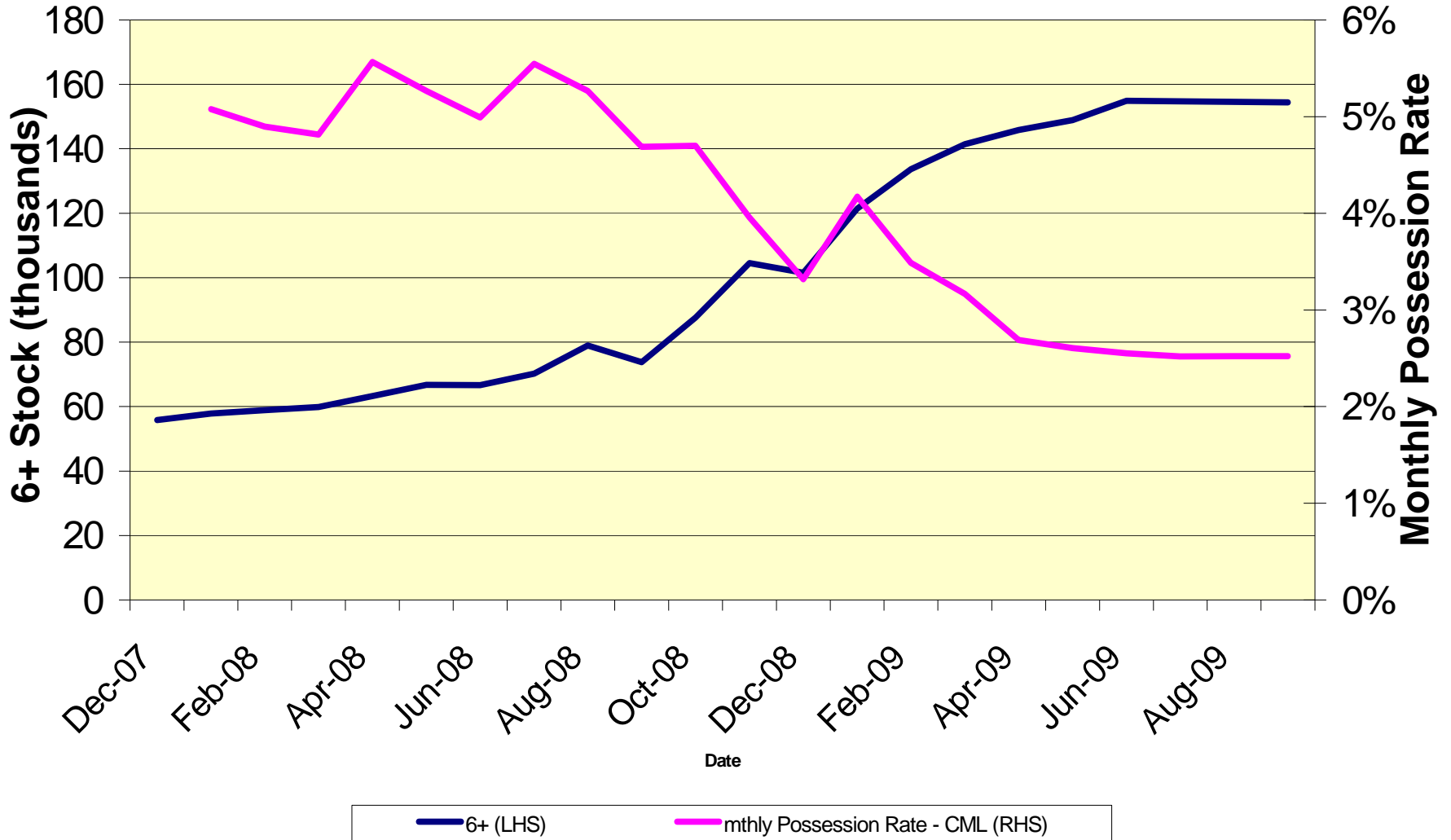
Mortgage lenders have different levels of exposure to mortgage arrears based on a range of factors

‘quality’ of borrowers, product ‘risk’ etc.

Key priority for all lenders is to minimise financial loss through arrears and avoid repossessions as a last resort

Increasing pressure from regulator to apply fair treatment principles

## Comparison of Council of Mortgage Lenders Trends

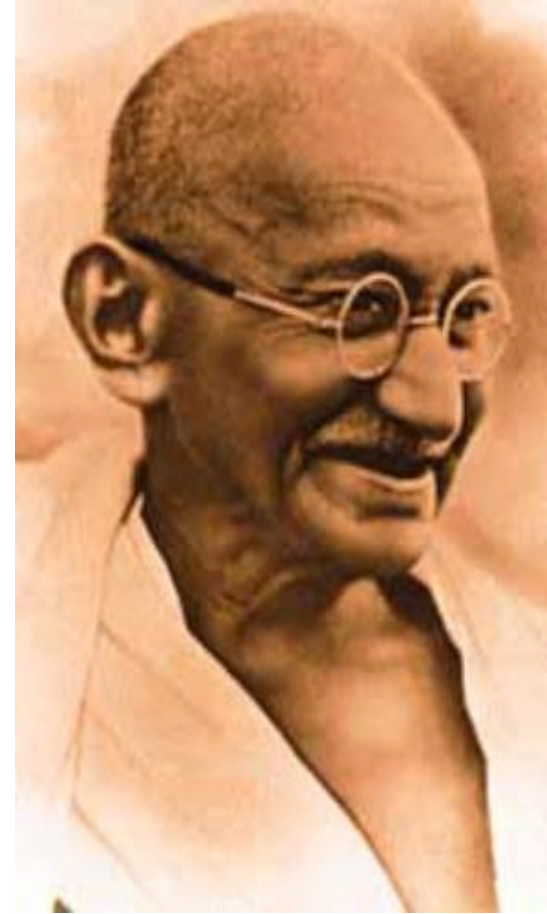


Two effective strategies at either end of a spectrum



Shock and Awe

However, a purity of approach is paramount



Hearts and Minds

# Pathway to benchmarking study

MARK

BDRC Continental research partner to retail operations area of 'big 4' bank

Examining the customer experience in sensitive areas of service delivery:

mortgage application journey, deceased customers, complaints

In Q1 2009 commissioned to examine the way in which customers with repayment difficulties are handled across a range of lending products and servicing centres:

unsecured loans, overdrafts, mortgages

Quantitative methodology : 500 interviews, pre-collections to advanced arrears

2 waves undertaken in 2009 – proof of concept, no respondent complaints

Client reaction and operating context suggested there may be a market appetite for syndicated study.

Opportunity to benchmark performance against high street peers

Endorsement of customer centric ethos and TCF adherence

Closure on Northern Rock's journey from 'aggressive reposessor' to 'keeping customers in their homes'

# The syndicated proposition

MARK

To establish lenders' handling of customers experiencing the mortgage collections process

An end-to-end review of recent contact experience together with wider lender perceptions:

- Brand perceptions
- Contact handling perceptions and emotions
- Contact handling performance
- Next steps

4 x lenders signed up to participate : Northern Rock, RBS, Barclays, NatWest

150 interviews per brand, fieldwork in late 2009 / early 2010

Customers sampled across collections cycles, mix of inbound and outbound contacts

# Survey considerations included

MARK

## Sampling comparability:

ensuring we had 'apples and apples' as far as possible

## Sampling release and confidentiality:

engaging with legal and insight departments on the client-side

## Survey positioning with respondents:

offering sufficient reassurance that participation would NOT impact case handling

re-contact permission – 92% Yes

seeking attribution – 82% Yes

'red flags' for urgent service complaints



# Selected Survey Findings



**The study revealed a number of encouraging findings; across all subscribing lenders, the majority of respondents:**

- Believe they have been treated fairly
- Are satisfied with the manner in which the recent contact was handled
- Are clear about what is expected of them
- Are comfortable with any repayment arrangements and/or understand any other agreed changes
- Emerge with fewer negative emotions such as anxiety and stress
- Claim they will be able to return their repayments to order in the next 3 months

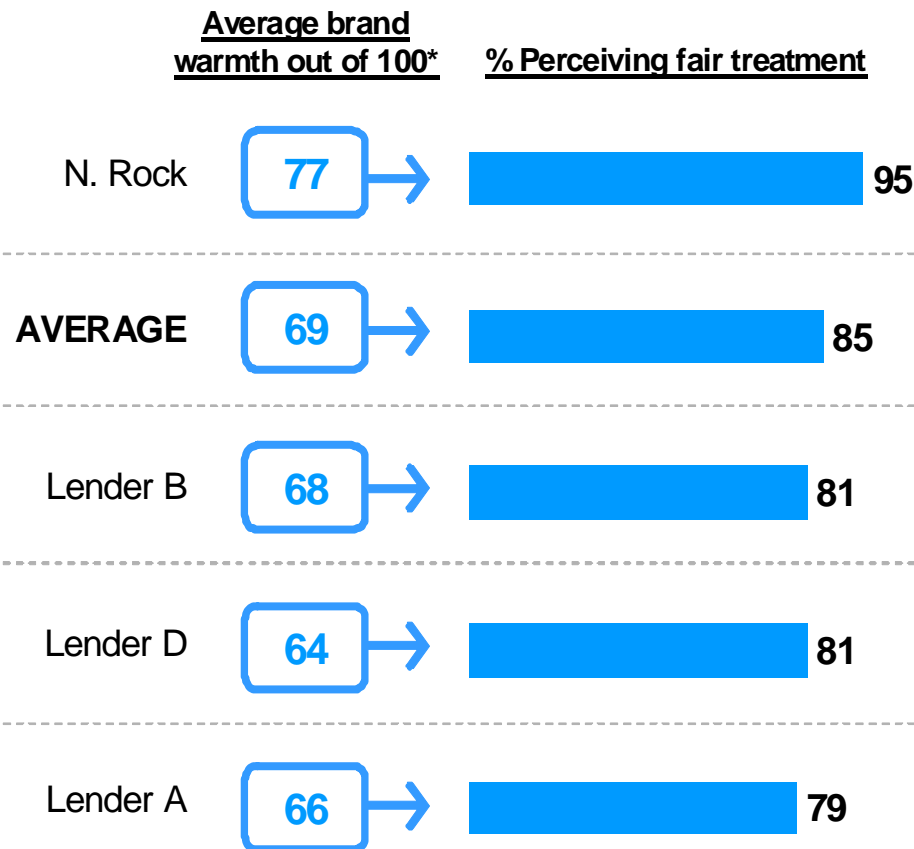
Lenders who most successfully drive satisfaction with contact, are also the lenders whose customers are the most confident about their repayments returning to order in the next 3 months

Key driver analysis demonstrates the importance of making customers feel supported and dealing with customer contact efficiently; all syndicate lenders have room for improvement in these areas

# Brand warmth and fair treatment perceptions

MARK

*How would you describe your feelings towards [lender]?  
Thinking about your dealings with [lender] do you feel that  
you have been treated in a consistently fair manner?*



\* 100 = totally satisfied and ext. warm towards lender, 1 = totally dissatisfied and ext. cold towards lender

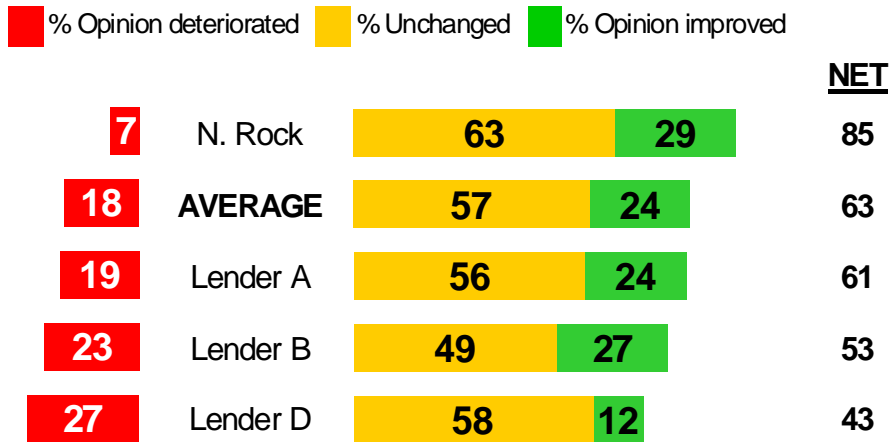
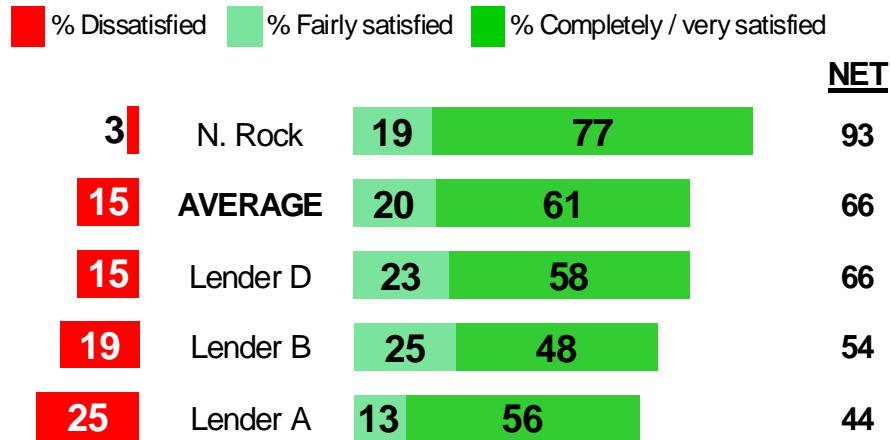
Two key measures within the study are brand 'warmth' and perceptions of consistently fair treatment by the lender concerned.

Findings indicate that the two measures tend to march together and correlate quite closely.

Northern Rock delivered the strongest performance on both measures with significant day-light between it and the benchmark brands.

**The fair treatment scores are high across the board, demonstrating that the vast majority of customers feel that they have been handled on a fair basis throughout their period in collections/arrears.**

*How satisfied are you with the way your recent contact was handled overall? Has your opinion of [lender] changed?*



**Customer satisfaction drives engagement and engaged customers will work with their lender to resolve their financial difficulties**

These results can be interpreted as a compelling endorsement of **Northern Rock** interactions with collections customers.

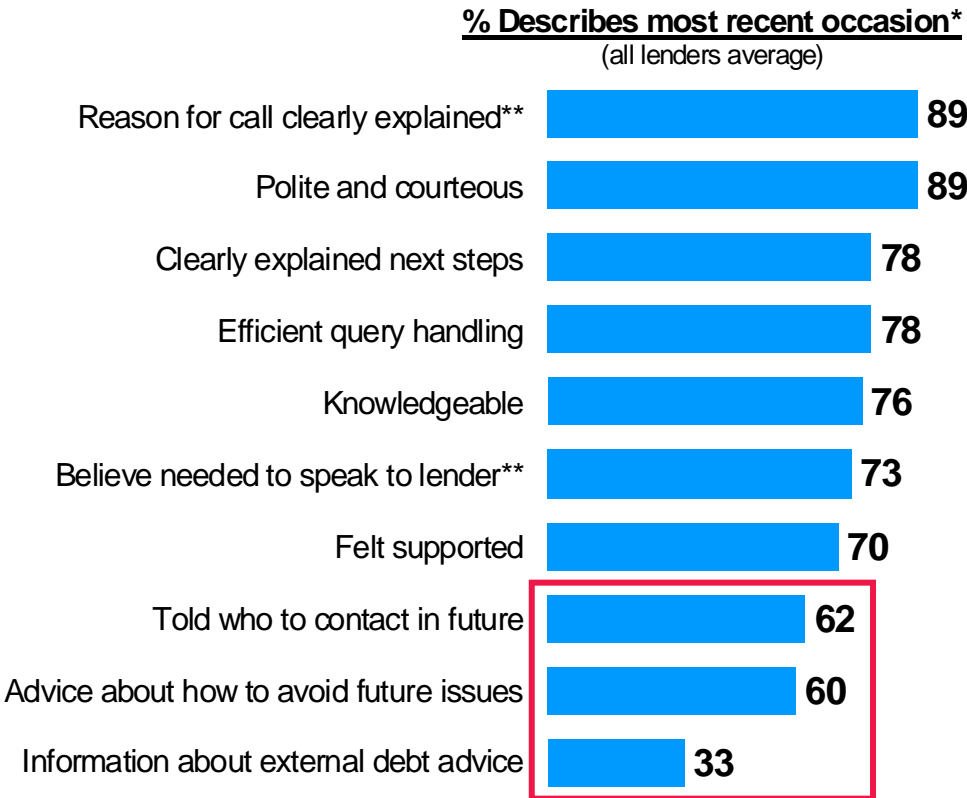
To ensure that a best in class customer experience is married with effective collections activity a group of colleagues have recently completed assertiveness training to help maximise value from each contact

*“They were very understanding. Didn't pressure us to anything even though it was our fault for a non payment.”*

# Contact handling performance

MARK

*To what extent do the following statements describe your personal experience on this most recent occasion?  
(10 = completely describes experience, 1 = not at all)*



\* % providing scores 7-10, where 10 = completely describes experience

\*\* Outbound contact only

Respondents were asked to rate their recent contact experience on a range of service dimensions.

**The aggregate scores for all lenders shown opposite clearly demonstrate that most customers feel well treated on the majority of attributes.**

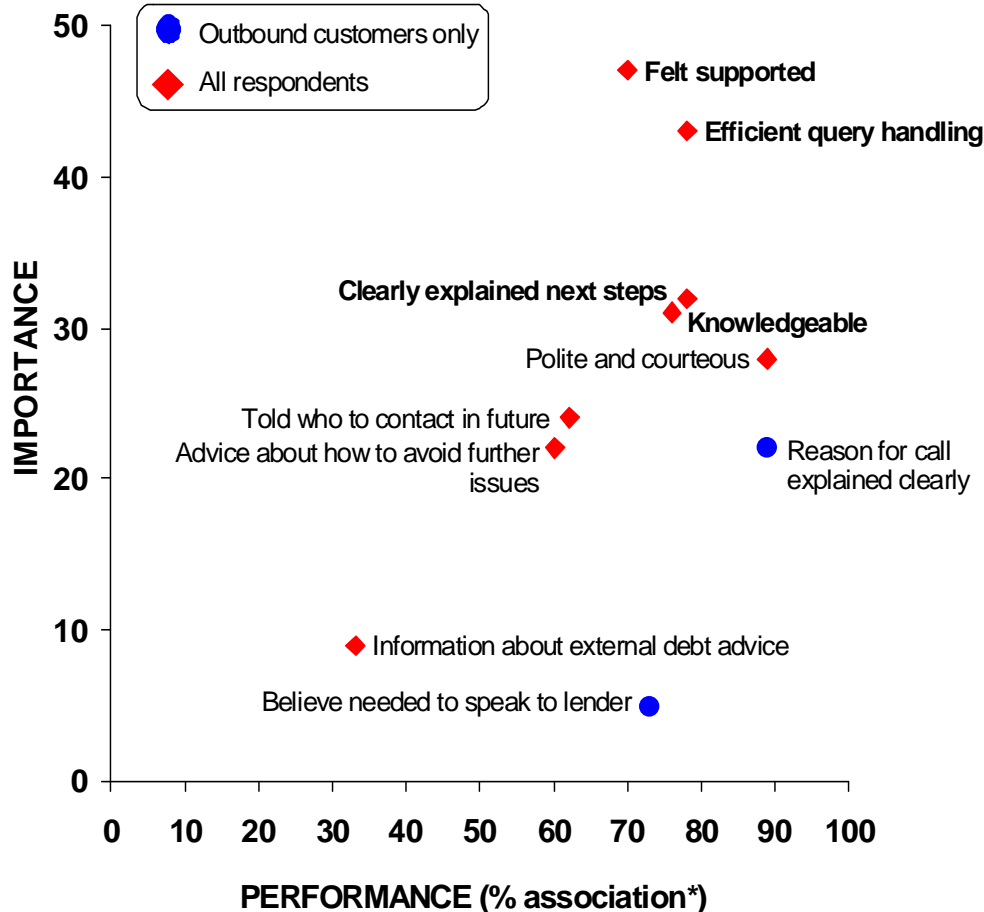
Notably strong scores (at overall level) around the purpose of contact being clearly stated (outbound calls) and polite and courteous agents.

Towards the bottom of the list, lenders are much weaker when it came to providing guidance for the future or information to customers about sources of external debt advice.

# Which aspects of contact handling are most important in driving satisfaction?

MARK

## Statistical analysis: importance of call handling attributes by performance



\* % providing scores 7-10, where 10 = completely describes experience

This simple stats analysis presents the relationship between each service attribute and the importance of each element as a driver of overall satisfaction.

Key analysis outcomes:

A feeling of support and efficient query handling stand well apart as the key drivers of customer satisfaction in this study.

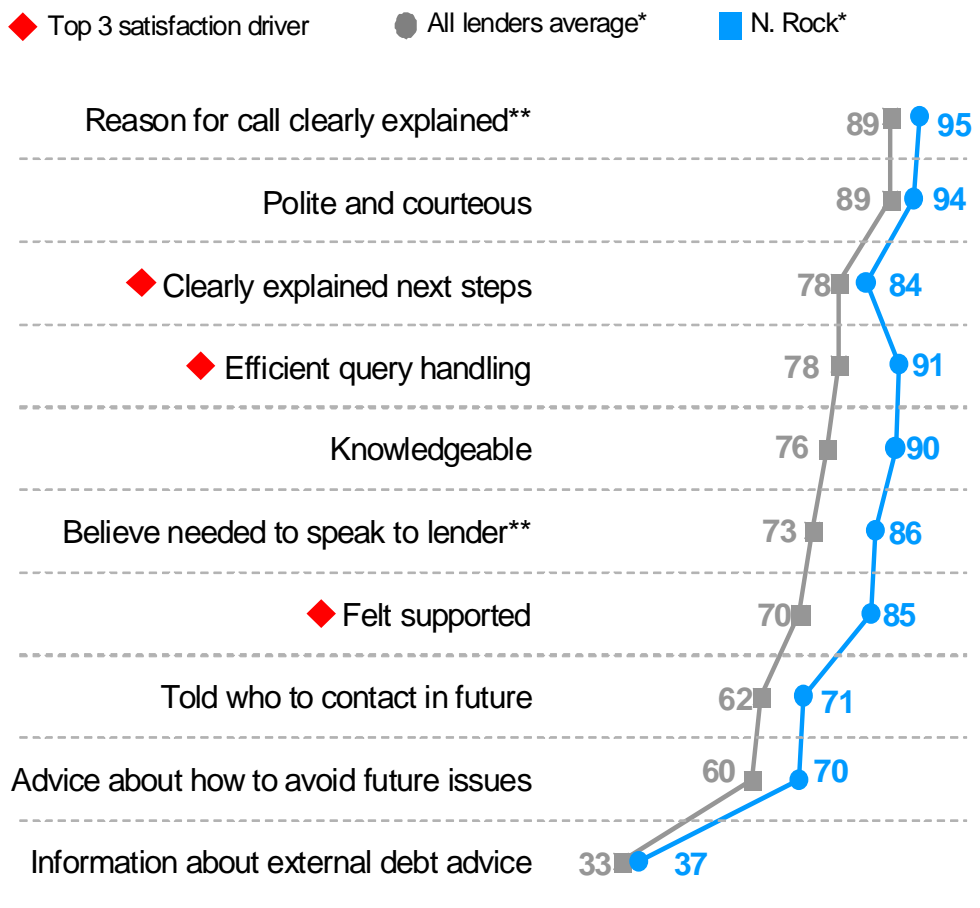
One level down, a clear explanation of next steps and knowledgeable staff emerge as the 3rd and 4th key drivers of a good customer experience.

External debt advice has the potential to be a greater driver, however, only a minority of customers are currently receiving this guidance.

# Contact handling performance – Northern Rock

MARK

To what extent do the following statements describe your personal experience on this most recent occasion?  
(10 = completely describes experience, 1 = not at all)



\* % providing scores 7-10, where 10 = completely describes experience  
\*\* Outbound contact only

This slide presents the performance of Northern Rock on each of the service dimensions measured. The relative strengths and weaknesses are as follows:

## Strengths

Northern Rock outperforms the syndicate average and individual co-subscribers on ALL of the service attributes measured.

In particular, delivery on the key satisfaction drivers is significantly above average

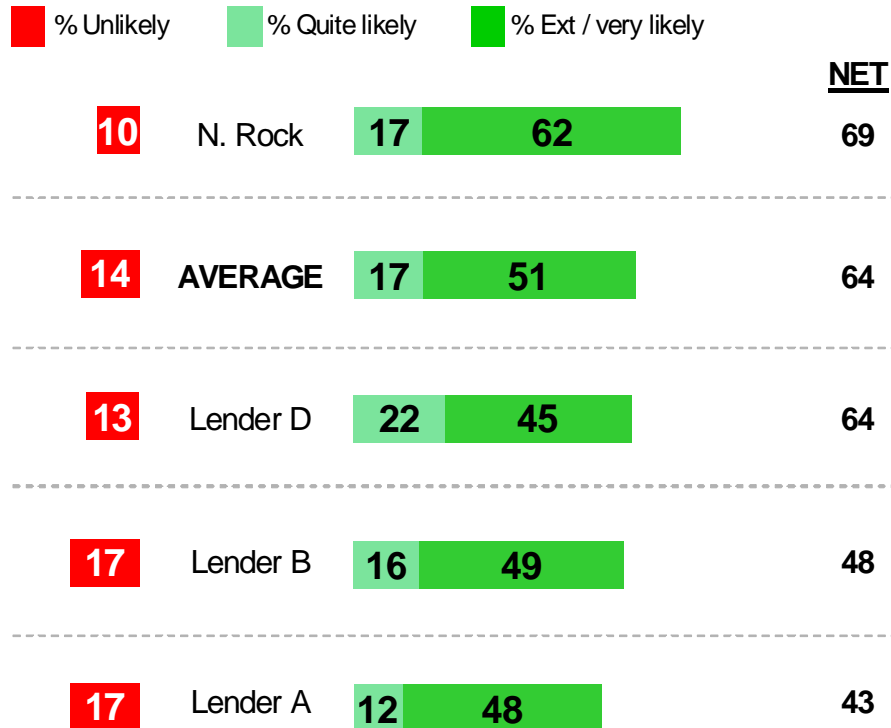
## Weaknesses

Future contact guidance (relatively weak).

Broader financial guidance and external agency signposting could be improved.

# Likelihood of returning mortgage payments to order MARK

*How likely do you think it is that you will be able to return your mortgage repayments to order in the next 3 months?*



**A critical outcome for lenders is the extent to which customers feel that they will be able to return their mortgage repayments to order in the short term.**

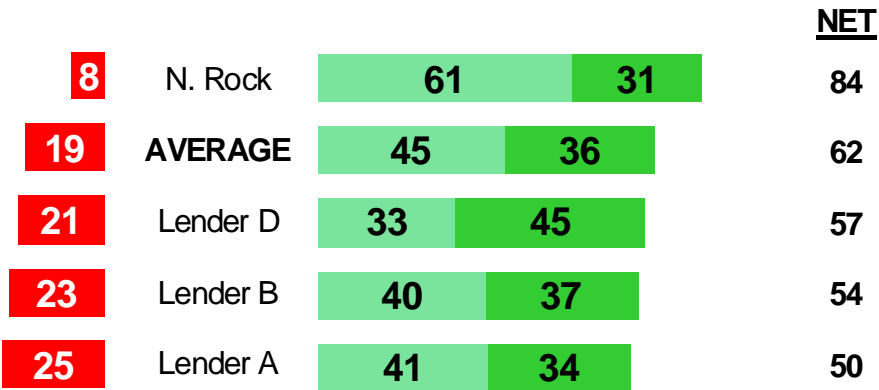
**Likelihood of returning payments to order correlates with recent contact satisfaction levels:**

- Northern Rock: highest satisfaction and stated probability
- Lender A : lowest satisfaction and stated probability

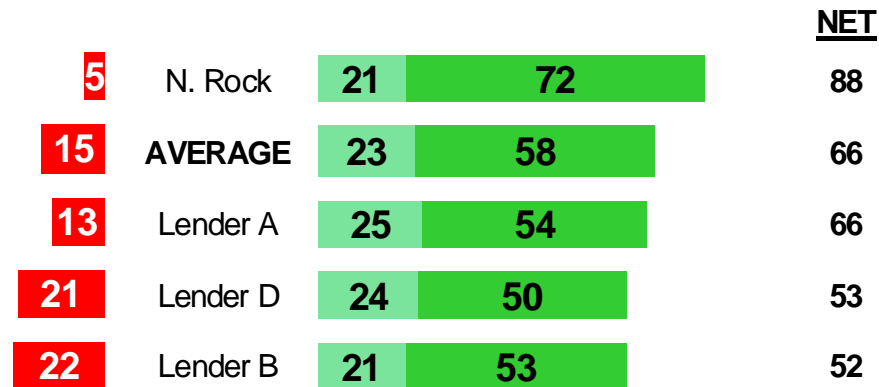
A significant minority of customers were unable to state their probability of bringing their mortgage account to order (10% 'neither/nor' and 8% 'don't know').

*How would you describe the service you have received?  
Do you think [lender] has been flexible throughout your recent discussions about your mortgage repayments?*

% Not supportive % Supportive to some extent % Invaluable support



% Inflexible % Fairly flexible % Ext/very flexible



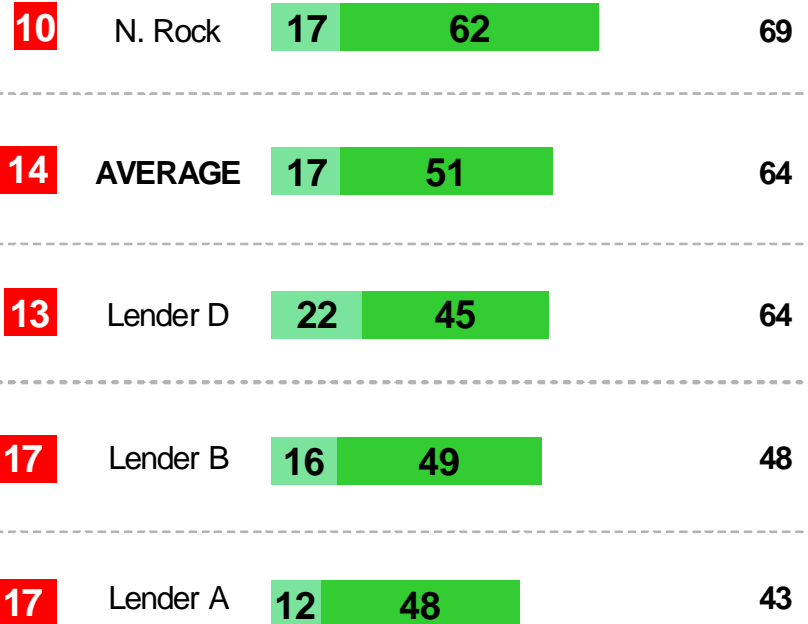
**‘Computer says no...’ a recurring theme of customer research is that lenders are too rigid in their assessment of customer proposals**

These results show that **Northern Rock** significantly outperform the syndicate in terms of flexibility and to a lesser extent, support. **72%** of customers perceived **Northern Rock** as extremely flexible while only **31%** felt they had received invaluable support

**As part of the drive to provide greater support to customers, priority debt training is being delivered to all collections colleagues – this will enable customers to optimise the benefit they obtain from the payments they make**

*How likely do you think it is that you will be able to return your mortgage repayments to order in the next 3 months?*

■ % Unlikely    
 ■ % Quite likely    
 ■ % Ext / very likely



**The prime aim of any collections function is to provide debt solutions and support to enable customers to return their accounts to order**

**Northern Rock** customers expressed the greatest degree of confidence that their mortgage payments would be up to date in the next three months

This survey finding broadly correlates to the current arrangements kept performance of **Northern Rock** customers

Specific analysis on the 150 customers interviewed for this research shows that **64%** are now fully up to date or have reduced their arrears since they took part in this exercise

Overall, feedback is encouraging for all four of the subscribing lenders in terms of the perceptions and levels of satisfaction expressed

Although Northern Rock emerge as the strongest performer and Lender D as the weakest, there are a number of key take-outs which all lenders should keep in mind to maintain or enhance collections servicing

The manner in which calls are handled is pivotal and impacts a number of other important areas, such as perceptions of fair treatment and the extent to which customers believe they are **supported**

Although the majority believe the service is supportive *to some extent*, the proportion actually feeling supported is much lower.

This is a key driver of customer satisfaction, and all lenders have scope for improvement in this area.

The results for Northern Rock are extremely positive and the overall take-out from a customer service perspective is 'more of the same'

However, the commercial agenda for collections activity should not be understated

Focus should be applied to leveraging this enviable relationship between customer and lender to maximise the financial gains from each contact while recognising the premium Northern Rock gain through extending forbearance and flexibility where it is appropriate

Legitimate challenge to customer non-payment through the application of assertiveness training, coupled with the use of priority debt expertise should deliver greater financial returns and help return more customers to order, reducing loan impairment

The findings of this research and resulting actions provide further impetus for the journey Debt Management is currently undertaking, a journey recently endorsed by the FSA

***“ At the time of the visit (Oct 2009) you believed the plan in place to develop the function would move the effectiveness and quality of Debt Management from industry standard 3<sup>rd</sup> quartile into 1<sup>st</sup> quartile during 2010. It is our view that the changes made to date and those currently planned have the potential for delivering against this objective (FSA, Feb 2010) ”***

End of presentation

ANY QUESTIONS?

