PwC's CFPB Mortgage Servicing Standards Perspectives

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CFPB Mortgage Servicing Standards

New CFPB mortgage rules – Focusing on the customer

Introduction

This newsletter represents the seventh in a series of publications offering perspectives on the Consumer Financial Protection Bureau's (CFPB) Mortgage Servicing Standards. This edition discusses possible impacts on the customer experience as a result of the new rules and strategies that companies may wish to consider to mitigate them.

When implementing the new mortgage standards, don't forget the customer

Has your company considered how the new mortgage origination and servicing rules will impact your customers?

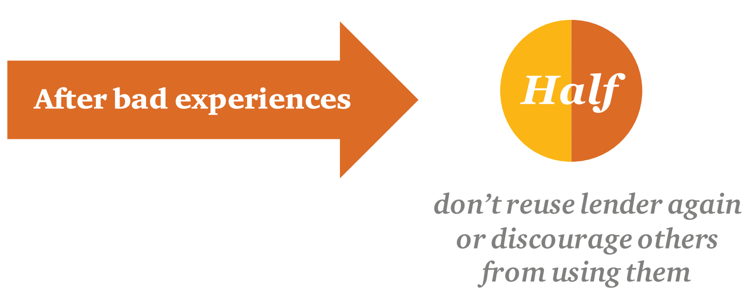
The mortgage industry has been hard at work preparing for the CFPB's January 2014 effective date for the new mortgage origination and servicing rules. These rules were developed to protect and benefit consumers, and mortgage lenders have invested significant time and money to comply with them. But one important question remains – has your company considered how these new rules will really impact your customers? From potentially making it more difficult to qualify for a mortgage to receiving complex new communications about loans, the changes and impacts will be sweeping. And they have the potential to shape your customers' experience with your organization — for better or worse.

***50%** of customers who had a negative experience with their mortgage company either didn't do business with that company again or discouraged others from using them.*

Customer experience is more than a buzzword; it makes good business sense. As a result, many financial institutions are focusing heavily on this area; some have even created a chief customer officer role. As the mortgage industry seeks to repair an image that has been tarnished in recent years, financial institutions recognize that the experience customers have with their lender and servicer significantly influences whether they'll do business with them in the future. The following statistic illustrates this point: Half of mortgage customers who had a negative experience with their mortgage company either didn't do business with that company again or discouraged others from using them (see Figure 1).[1]

Clearly, the risks associated with delivering a poor customer experience are higher than ever. However, taking a proactive approach can help mitigate many risks, even in light of the significant changes ahead. In this paper, we'll take a look at upcoming changes that we expect will have the biggest impacts on mortgage customers, and discuss some strategies for delivering a positive customer experience amid this industry shift.

Figure 1 : Many customers won't give mortgage companies repeat business after a bad experience



1 PwC, *Mortgage Lending Experience Radar*, 2013

An overview: how the new mortgage rules will impact customers

Customers are likely to experience the impact of the new rules across both mortgage originations and servicing. The table below highlights some of the more significant changes and how they could affect the customer experience.

What will change?	Originations/servicing	Customer impact
Ability to repay requirements	Originations	• Most customers are likely to experience added rigor and documentation requirements around the loan qualification process. • Some customer segments could be more impacted than others. – For example, the changes will have a greater impact on high-net-worth borrowers, entrepreneurs, and self-employed borrowers who are not be able to document sources of income as easily as "traditional" borrowers. Many high-net-worth borrowers have relied on stated-income loans in the past, but will now be subject to more documentation and verification. • Some customers may find it harder to qualify for mortgage loans.
Appraisal notices	Originations	• Originations departments will be required to send customers copies of appraisals and supporting documents. As currently written, these documents typically aren't customer friendly, making them difficult to understand. This could lead to flurries of calls regarding how appraised values were derived.
Monthly billing statements	Servicing	• Servicers will be required to provide additional loan information in customers' monthly billing statements. If these statements aren't clear and concise, customers can be confused and overwhelmed about the information they receive, which may have a direct impact on contact center volumes. • Despite the model statement forms that the CFPB provided, servicers should consider their customer base and tailor their forms to communicate effectively to that base while also maintaining compliance with regulatory requirements.
Adjusted rate mortgage (ARM) loan notices	Servicing	• The new rules will require servicers to adhere to new schedules for ARM payment and rate change notices to customers. • One of these notices is related to the first rate change, which must be sent to customers 210 days before the payment change is due. In some cases, the information provided to the customer will be only an estimate, as actual rate changes will not yet be available. Because the actual adjustment will likely differ, this could cause confusion and concern for customers if the notice does not state clearly that it is an estimate.
Error notice and information request	Servicing	• To comply with the rules, some servicers have amended the channel of receipt for formal written notices. This may confuse borrowers who have become accustomed to the previous process for submitting inquiries. Therefore, clear communication will be important. • There is also the potential of duplicative internal processes that could erode the customer experience. Specifically, there should be clear delineation of what constitutes an error notice and information request under the new rules versus the regular customer complaints that also need to follow separate guidance issued by the CFPB.
Loss mitigation procedures	Servicing	• The new rules enhance prescribed written communications regarding loss mitigation efforts for borrowers, such as acknowledgement letters, incomplete notices, and decision letters. However, the resulting written communication may be confusing. It will therefore be important to use the appropriate language and layout in these communications, and to have well-trained staff who can respond to customer inquiries.

Focusing on the customer experience: six strategies

In many ways, the changes ahead are likely to affect customers as much as mortgage originators and servicers. The question is, how are you managing the customer impact through this change curve? As you plan your strategy to roll out new processes to comply with the rules, be sure to put the customer front and center. This theme should underlie and complement your compliance strategy.

Below are six key areas of focus that can help your organization deliver on your customer-centric promise through the changes ahead.

1. Develop a proactive customer communication strategy

Most customers won't know new mortgage rules are in effect until they're impacted directly. Instead of letting these changes take them by surprise, prepare your customers by informing them in advance or in real time. This will minimize the risk of customers feeling blindsided by the changes or assuming that the new processes and practices are lender specific rather than part of a new set of industry-wide standards.

To mitigate this risk, implement a proactive communication strategy that explains what's changing and why. Put yourself in your customers' shoes by anticipating possible questions and addressing them before they arise. And make sure communications are specific, clear, and concise — and free of jargon.

Use a variety of communication avenues — such as print, Web, and mobile — so you can reach the most people. Prepare communications that cover the following areas:

- What is changing, what customers should expect, and what will no longer be available
- Shorter, more tailored pieces targeted to specific segments, including high-net-worth individuals, entrepreneurs, and small-business owners
- Verification procedures and the documentation that will be required from all customers

Finally, revise online calculators, rate comparison tools, applications, disclosure notices, and document uploading capabilities as needed. And give yourself time to test your communications with focus groups and make necessary revisions so they are as effective as possible.

2. Enhance your Voice of the Customer program

Many financial institutions already have a Voice of the Customer (VoC) program. Such a program allows you to better understand customer needs and wants, and to more effectively detect potential customer service issues. It captures direct and indirect customer feedback, and helps you:

- Identify specific issues customers are having
- Pinpoint the reasons for customer dissatisfaction early on, so you can enact solutions before the problems become widespread

However, don't assume that your existing VoC program will seamlessly or automatically capture feedback about the upcoming changes. You may need to implement enhancements, such as adding targeted questions related to changes from the new rules, in order to get valuable, timely, and actionable feedback. This insight could be used to revise borrower communication strategies as needed.

3. Plan for increased contact center volume

For the first few months of 2014, you'll likely see an uptick in customer inquiries. Although some questions can be headed off with a proactive communication strategy, an increase in calls and other correspondence related to the changes is inevitable.

Plan to staff your contact centers to achieve your desired service levels. Consider contingencies to increase staff coverage for call volume spikes. This doesn't necessarily mean you'll have to increase headcount; overflow options, for instance, could be an effective way to handle additional call volume. Also plan to update interactive voice response systems with new information so some customers can get their questions answered without talking to a representative. Whatever staffing plans you do make, what's most important is to create a strategy before the volume increases, so that customer frustrations are not compounded by long wait times.

Most customers won't know new mortgage rules are in effect until they're impacted directly. Don't let these changes take them by surprise.

4. Train customer-facing staff

Staff will need to be fully trained to help customers understand the new mortgage origination and servicing rules. Because many of these rules are complex and nuanced, you must provide staff with supplemental job aids that they can access when communicating with customers after the training. These job aids could include:

- Updated scripts
- Updated desktop procedures
- A frequently asked questions (FAQ) guide

Although training is a time investment, it is well worth the cost. Agents who are unprepared to answer questions will only increase customer frustration and negatively impact their experience.

5. Provide financial education to customers

One of the root causes of high mortgage default rates was lack of customer understanding about the loan products. This led to some customers taking out loans that, in actuality, they couldn't afford. The new rules should help reduce the chances of this occurring; however, there remains an underlying issue of customer financial literacy. Investing in financial education seminars through branches, roadshows, or financial education material on websites can help improve customers' understanding and knowledge, which can translate into a better customer experience.

When a lender responds to a customer's issue, that customer is twice as likely to continue using the lender in the future.

6. Implement quick complaint resolution

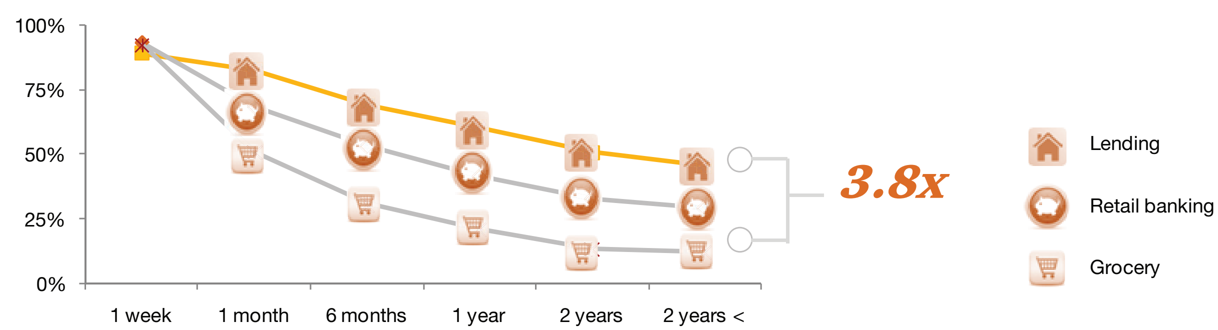
When customers have an issue, they want to be heard, and they expect their issues to be addressed quickly and effectively. In addition to having formalized processes to comply with written notices from borrowers as required under the new CFPB rules, it's equally important for servicers to resolve verbal complaints promptly since many customers are more likely to place a phone call to voice their concerns.

Focusing on the following three areas will enable your complaint-handling process to meets these expectations:

- Treatment – Train agents to be empathetic and transparent with customers, and to provide them with the knowledge and tools they need to resolve issues as quickly as possible.
- Communication – Maintain contact with customers and proactively provide them with updates on status while the complaint is being researched.
- Timeliness – Provide sufficient staffing resources to efficiently handle complaint volumes, making complaints top priority and providing easy access to agents. Consider implementing an online process to submit complaints and a chat functionality to address issues in real time.

Mortgage lenders and servicers should have a strong incentive to resolve customer complaints quickly, because customers recall their bad experiences in the lending industry more than most other industries (see Figure 2). This might be because the lending industry interacts with their customers less frequently than other industries, has fewer opportunities to recover and replace negative experiences with good ones, and is dealing with the biggest financial transaction most customers will experience. However, when a lender does respond to a customer's issue, that customer is twice as likely to continue using the lender in the future.[2]

Figure 2: Recall of bad experiences across industries



2 PwC, *Mortgage Lending Experience Radar*, 2013

Conclusion

The mortgage industry has been diligently preparing for compliance with the new lending and servicing standards. However, when implementing these standards, it can be easy to focus solely on the operational and technical components involved, and to overlook the impact on the customer experience, and consequently your overall business. Taking some relatively simple steps now can help you deliver the level of customer experience necessary to mitigate potential adverse impacts on your customer experience strategy.

How PwC can help

PwC has helped many consumer lending organizations develop and implement their customer experience strategies. We can help you identify how the new mortgage rules will impact your customers and help you create and execute a holistic customer experience strategy in the context of these rules and your key business strategies. For example, our solutions can help you:

- Develop a customer experience framework
- Develop social media strategies to listen to and respond to customer concerns and questions
- Integrate customer data
- Develop a roadmap for a customer service delivery strategy

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