



Servicing for Beginners

intelligent financial software

SERVICING FOR BEGINNERS

The last twelve months have seen increasing numbers of residential mortgage portfolios changing hands, as the market has sought to rebalance itself.

These sales have seen both distressed and performing portfolios on offer, and the 'bargains' felt to have been present among both 'varieties' attracted a number of organisations that had not necessarily had experience in mortgage servicing before. Indeed, some were completely new entrants, while others had current business models that either they hoped, or knew, could be adapted to servicing.

Without doubt, all these organisations have seen servicing of mortgages as a way to maximise the potential of their existing businesses; to earn more from their existing premises, technical infrastructures and people. The potential synergies having been clearly identified, it was abundantly clear that the commercial drive was also there to exploit them.

However, and there's always a 'however' isn't there, life is never quite as straightforward as any of us would like. Taking a perceived opportunity to use potential in an existing business, and transforming it into a profitable mortgage servicing capability, requires four very distinct things to happen.

First, and rather obviously we grant you, the portfolios have to be available for purchase or contracting into servicing in the first place – and by that I mean the 'right' portfolios.

Then, and far more difficult to manage, a servicing operation has to be designed, built and FSA qualified. This requires that servicing operation to be defined very closely indeed in terms both of processes and command / control systems.

For a start, the operation must encompass all obligations brought by a portfolio. This is rarely just simple servicing – payments, statementing and redemptions – but a whole range of lifetime events; all of which will require some form of origination capability to deal with porting, transfers of equity and even additional lending or pre-approved draw downs. Once this is all in place, only then can you the would-be servicer go for the all-important FSA qualification. This is applied for on the basis of this operational ability, and the qualification process has to be managed extremely carefully to ensure the satisfaction of the regulator.

The third step along the path is to find the right systems: systems which can be sourced in good time, and then effectively implemented for the operation to function 'right first time'. This will require very careful specification and configuration of such features as workflow and product management as a starting point.

Finally, our new entrant may see servicing of mortgages to be merely a medium or short term opportunity. In this scenario they will want not only to build their capability quickly and economically, but also be able to exit with the minimum cost burden - and 'therein lies the rub', with too many system ownership costs coming with penally long tails attached!



Not surprisingly, this has required systems providers at least to try and supply solutions that use ownership frameworks and pricing structures which deliver genuine benefits and realistic incentives to all parties. One or two have excelled, and generally the aim has been to avoid large up-front delivery costs for their customers and focus on portfolio size pricing in year-on-year ownership contracts.

So the bottom line then is that they will need to look to deliver far more partnership-based system acquisition platforms. Customers with a grasp of what is happening in the systems sectors are increasingly going to want pricing models based on a range of features such as up-front implementation charges designed to cover costs only, alongside a movement away from heavy up-front licensing costs and a corresponding switch to all-inclusive rental contracts based on portfolio size and value.

It sounds simple, but the danger is that along the way there will be many suppliers which, in their rush to try and get on this so-far-limited supply trend, may make judgements that prove costly not only to themselves, but potentially to their customers. It sounds like a quick fix for any supplier in the field, but experience has shown that this apparently simple approach really does benefit from a decent history of such practices and a proven hands-on track record.

To meet all these growing challenges then, and add more value for customers, systems providers may also be able to differentiate themselves by delivering business know-how; consultancy services that guide the customer through their whole business activity to the 'best' operational model. Those not able to supply consultancy in specialised areas, such as securing FSA qualification for example, may have to look increasingly to acquire partnerships to fill the gap, though these gaps are becoming harder to identify, and even harder in some cases to bring to fruition.

It can still be a jungle out there, so it's worth spending the time to seek out those systems suppliers that genuinely tick as many of the preceding 'boxes' as possible.