

# Exploring Effective Methods for Reducing 30 and 60 Day Late Payments



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### Problem Statement

The mission of the South Carolina State Housing Finance & Development Authority (hereafter referred to as “SC Housing”) is to create quality affordable housing opportunities to the citizens of South Carolina through a vision that all South Carolinians have the opportunity to live in safe, decent and affordable housing. One of the ways that we achieve this mission is through the First-Time Home Buyer Mortgage Loan Program which assists low-to-moderate income SC families and individuals by offering a lower fixed interest rate mortgage loan to those that qualify. SC Housing also offers down payment assistance based on availability which can be used towards down payment and closing costs.

Once these loans qualify and are closed and purchased through our home buyer program, they are serviced by SC Housing’s Mortgage Servicing Department. The main purpose of the Mortgage Servicing Department is to collect monthly mortgage payments from our borrowers and have them credited to their loan account. If the payment is received past the 16<sup>th</sup> of the month, late penalties are assessed and a letter is forwarded to the mortgagor. Telephone calls are attempted twice weekly by an automated dialer system. In between the auto dialed calls, default counselors will attempt manual calls as well until contact is made with the mortgagor. If the mortgagor doesn’t make their payment by the last working day of the month, they are considered 30 days late. If their loan payment is not made by the first day of the following month, they are considered 60 days late because the loan is now due for 2 unpaid installments. At that time, a 60 day letter is sent to the mortgagor along with a brochure titled “How to Avoid Foreclosure”. Once the loan

falls to 90 days past due, a Notice of Default (NOD) is issued to the mortgagor. The NOD gives them 30 days to cure the default which means any payment due or coming due must be paid. However, based on the example below, SC Housing will currently accept less than the total amount due:

Loan Due for 8/1/17 (if not paid by 8/31/17 – Loan is 30 Days Late)

On 9/1/17 – Loan is 60 Days Late (due for 2 unpaid installments)

On 10/1/17 – Loan is 90 Days Late –NOD is sent to mortgagor by 10/3/17– expiring in 30 days

On 11/3/17 – NOD expires – Loan is due for 4 payments; however if mortgagor has 3 payments, we currently accept those 3 payments and continue to work with the mortgagor to make the current months' payment. If the mortgagor does not make the current months' payment by 11/30/17, they remain a 30 day delinquent account and their delinquency has not been cured. However, they have avoided being referred to management review as a possible foreclosure.

The goal of this project is to explore and determine if there are effective methods we are not currently utilizing that would reduce our 30 and 60 day late payments. Are there improvements we can make to our current collection process to decrease our delinquency numbers without increasing our foreclosure numbers? Can additional methods be used to assist homeowners in bringing their loans current? How can we develop a more focused debt collection strategy to help reduce costs, save time, and maximize resources?

## Data Collection

Research for this project included compiling SC Housing's delinquency numbers from the Agency's Board Reports and comparing them against the Mortgage Bankers Association numbers to determine where our numbers fall in regards to the mortgage industry as a whole. Numbers were reviewed going back to 2007 due to the financial crisis that happened in 2008 when some changes were made to SC Housing's delinquency procedures.

Delinquency procedures were obtained from the default manager and staff to determine what collection process is currently being utilized. Information was also collected from four other housing finance agencies as well as two banks to determine their default and foreclosure processes to see how SC Housing compares. A review of the Department of Housing and Urban Development's (HUD) policies regarding "Default Servicing" was also conducted to ensure SC Housing remains in compliance with HUD requirements.

In addition, a survey was sent to servicing staff members requesting their suggestions or ideas for reducing 30 and 60 day late payments (Appendix II). It also posed a question of whether accepting debit card payments from mortgagors would be beneficial or not. Responses were completed from 17 of the 18 staff members sent the survey and good feedback was received.

Research was also conducted on other payment methods that could be offered which would assist borrowers in making their payment more easily. One option specifically

researched was debit card payments. A phone conference was held with a vendor, ACI, which could provide this service to SC Housing utilizing our current servicing system. Before this type of payment option could be offered, it would require approval from management as well as a completion of the RFP process as required by State Government.

Brief meetings were also held with the Director of Homeownership, Director of Servicing, Default Manager, and the Director of Investor Services to gain insight on their perspective of the goal of this project and their expectations.

## Data Analysis

Analysis of SC Housing Mortgage Servicing's delinquency numbers as compared to the Mortgage Bankers Association (herein referred to MBA) numbers reflect that in March 2007, SC Housing's 60 day delinquent number was .38% below the MBA's average. SC Housing's number consistently fell below the MBA's delinquency average until September of 2010. At that time, SC Housing's delinquency number was **.52% higher** than the national average and has maintained a higher average since that time (Appendix D). From March 2007 until September of 2017, SC Housing's 60 day delinquency average has increased from 1.45% to 2.67%. To break that down further, in March of 2007, the total number of first mortgages serviced by SC Housing was 8,685 with 128 of those loans falling into the 60 day delinquent category compared to September of 2017, with 6,952 first mortgages being serviced with 195 loans reporting 60 days delinquent. This comparison reflects a gradual increase in the number of delinquent loans since 2010 after the financial crisis hit in 2008. The economic downturn caused SC Housing to become more lenient in collecting on its delinquent accounts in order to assist struggling homeowners. The question is.... should SC Housing continue to follow these guidelines or should we amend some of our practices to see if this will decrease our delinquent numbers?

After comparing SC Housing's current default procedures to other housing finance agencies across the United States (Alabama, Georgia, Virginia and Wyoming) it appears we are not as aggressive in collecting on our delinquent loans. Typically, when a loan falls into default and a Notice of Default (NOD) is issued, the mortgagor has 30 days to

cure the default which means any payment due or coming due must be paid. However, SC Housing will currently accept less than the total amount due by allowing the mortgagor to pay the delinquent amount but not the required amount for the current month. Unfortunately, the mortgagor continues to remain in a default situation. Out of the four HFA's surveyed, Virginia Housing said they would accept less than the full reinstatement amount. The other three stated they would only accept a partial reinstatement if they had a payment arrangement with the mortgagor to collect the current month's payment. Based on the analysis of the data, a recommendation would include making the mortgagor pay the full reinstatement amount which would include the current month's payment. The only exception would be if we received a promise to pay or set up another payment arrangement to cure the current month's payment prior to month end. From speaking with management, there is a concern about an increase in the number of foreclosures if we institute this change in process which does not embrace the mission of SC Housing. The recommended proposal would be to implement the change in the collection process for a six month trial period beginning in January 2018. The process would be reviewed at 90 days and then again at 180 days to determine if there has been an increase in the number of loans going into foreclosure. This proposal would also meet HUD guidelines as stated in their Handbook in Section iii. Return of Partial Payments for Mortgage in Default, "when it is 14 days or more after the Mortgagee has mailed the Borrower a statement of the full amount due, including late charges, which advises that it intends to refuse to accept future Partial Payments, and either of the following conditions have occurred: four or more full monthly installments are due but unpaid or a

delinquency of any amount, including Late Charges, has continued for at least six months since the account first became delinquent.” (Appendix III)

In the survey sent to Mortgage Servicing staff members, there was a significant amount of staff that suggested one way to reduce delinquent accounts was to offer a bi-monthly payment option. This would help the mortgagor who gets paid twice a month but is unable to come up with a lump sum payment once a month. Research was conducted on a payment option called “flexible drafting” which is currently offered as part of our servicing system. The initial cost to implement this feature with our servicing software provider is \$15,000 based on SC Housing’s active loan count which falls between 0 and 50,000. Due to the cost of this enhancement, it is not currently being considered as a viable option.

Another payment option that was researched based on data collected from the survey was debit card transactions. In the world of millennials, more than a fifth of them have never written a physical check to pay a bill. Offering debit card payments would assist those mortgagors that don’t utilize checks or checking accounts but have a debit card available. According to a presentation by ACI<sup>1</sup>, a vendor who offers debit card services through SC Housing’s servicing system, 21% of millennials pay their mortgage payment with a debit card. By offering this type of service, SC Housing could guarantee funds are available on payments being collected which would allow mortgagors, who need to reinstate their loan on the last business day of the month, an easy last minute payment option. This would

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<sup>1</sup> Winning with ACI’s Bill Payment Solution Presentation, p. 6  
Source: Pew Research, Aite Group’s How Americans Pay Bills survey sponsored by ACI Worldwide



alleviate the need for a certified check or money order to be overnighted from mortgagors to satisfy reinstatements. A proposal has been written for SC Housing by ACI on the benefits and costs of implementing this type of service.

According to management, the opinion of whether changes are needed to the current delinquent process varies. Some support the current method of accepting partial reinstatements in order to fulfill the mission of SC Housing while not causing an increase in the amount of foreclosures. SC Housing currently has a Tier 1 ranking by the Department of Housing and Urban Development (HUD). Maintaining a Tier 1 ranking means HUD will reimburse a larger percentage of expenses, allot an extended timeframe on pre-foreclosure sales and give increased incentives. If the number of loans going into foreclosure increases, this could potentially reduce our Tier ranking which would reduce the amount HUD pays on claims. The consequence for losing this ranking would come at a cost to SC Housing. Others in management support the idea of tightening up our process by requiring mortgagors to make a full reinstatement in order to cure the delinquency. This option could reduce our delinquency numbers instead of allowing mortgagors to continue to remain 30 days past due. However, it may also create dissatisfied customers especially those who were previously allowed to make a partial reinstatement.

### Implementation Plan

Implementation will begin by updating our current delinquency procedures to require a mortgagor who has been issued a Notice of Default letter to fully reinstate their loan which means paying the delinquency as well as the current month's payment. An exception to this requirement would be if we received a promise to pay or set up another payment arrangement to cure the current month's payment prior to month end. If there are extenuating circumstances for the mortgagor, exceptions would be reviewed on a case by case basis. The default manager and staff would be notified of the new process as well as updates made to written procedures. There would be no cost associated with implementing the update. Potential obstacles would be "push back" from delinquent mortgagors who are accustomed to SC Housing accepting less than a full reinstatement and getting them acclimated to our "new" way of doing business. A six month trial period for the new process would be instituted so that progress could be reviewed at 90 days and then again at 180 days.

In regards to offering mortgagors another option to pay thru the use of debit cards, implementation would begin by submitting a recommendation to management on the benefits of allowing this as an alternate payment option according to the presentation by ACI<sup>2</sup>:

- Preferred method of payment 3 to 1
- Accounts for 21% of millennial mortgage payments

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<sup>2</sup> Winning with ACI's Bill Payment Solution Presentation, p. 6-7  
Source: J.D. Power & Associates, 2014 Auto Loan Customer Service Satisfaction Survey

- Reduced return processing
- Increased collections
- Next day funding of transactions

The recommendation would also include a request for “sole sourcing” since ACI is the only vendor that provides this service through our servicing system, Black Knight Financial Services. This would alleviate the need for an RFP which can be timely and more complicated. There is a one-time implementation fee of \$5,000.00 for SC Housing and a service fee of \$4.95 per transaction which is charged to the mortgagor. Upon approval from management, our procurement department would then initiate sole sourcing. Once sole sourcing is completed, implementation would begin with ACI and Black Knight Financial Services. According to the proposal, this would take approximately 60 days to implement. Once the product is available, SC Housing’s customer service agents would be trained on the new feature. An email blast would be sent to mortgagors notifying them of the new payment option. This information would also be posted on the Agency’s website.

### Evaluation Method

A review of the delinquency numbers would be completed at 90 days of implementation of the new delinquency process to determine if there has been an increase or decrease in the 30 and 60 day late payments. A review of the number of loans going to foreclosure would also be reviewed to ensure there has not been an uptick in this number. The increase/decrease in numbers will be measured against previous year figures to minimize seasonal cycles. A second review would be conducted at the 180 day mark to see if the change in process has proven to be beneficial; caused setbacks or has not made a significant impact. Obtaining feedback from default staff on customer reaction of the new process would also be helpful in gauging the success of this procedural change. A determination can be made at that time to continue with the new process or return to the old method.

Once the debit card payment option is implemented, reports can be obtained through ACI to determine the number of mortgagor's utilizing this option. An increased payment volume overall will imply whether adding this option has been advantageous for SC Housing customers.

### Summary and Recommendation

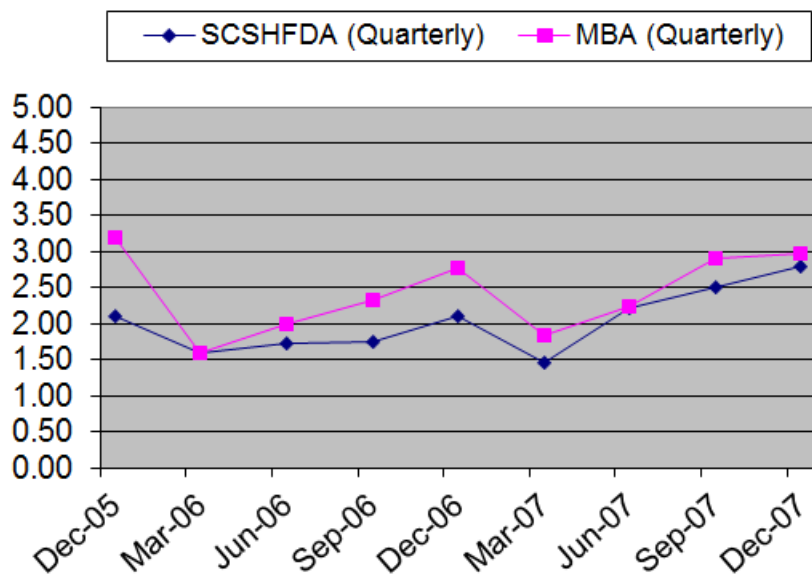
SC Housing Mortgage Servicing Department goal is to leverage technology and innovation to optimize the range of products we service while continually enhancing excellent customer focus and regulatory compliance to build successful homeowners. Is SC Housing leveraging technology and innovation while enhancing customer focus? If debit card payments are offered at a minimal cost to SC Housing and the mortgagor then the answer is yes. This allows for an additional payment method which will be more convenient for some customers especially those needing to quickly reinstate their loan in order to avoid foreclosure.

As SC Housing goes into the future, we will continually need to review processes and procedures to determine if we are operating cost effectively and efficiently while providing the most efficient customer service. As technology changes, so will the products and services we offer.

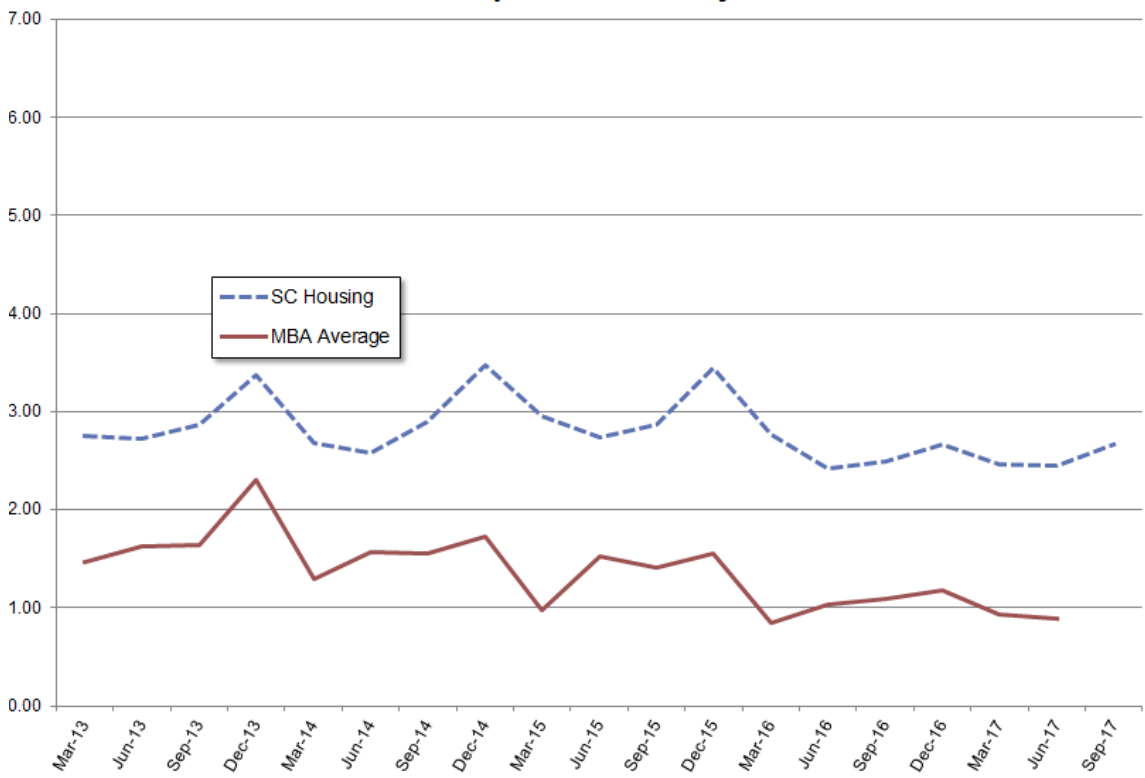
As we strive to reduce our 30 and 60 day delinquent numbers, we also have to keep in mind the service we are providing to the citizens of South Carolina and ensure we are fulfilling our mission.

Appendix I

**60 Day Delinquencies**



**60-Day Delinquency Rates Reported Quarterly**



## Appendix II

### Survey Questions

#### Ideas for Reducing 30 and 60 Day Delinquencies

- 1) What idea or suggestion would you like to propose to assist in reducing our 30 and 60 day late payments? This could be an update to our current procedures or something completely new. Please provide your answer in the box below.
- 2) Do you have any data or research behind your idea or suggestions? If so, please include below.
- 3) Do you think there would be a benefit in accepting debit card payments from mortgagors?

Yes or No

- 4) If you answered yes to Question 3, please explain.

## Appendix III

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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##### iii. Return of Partial Payments for Mortgage in Default

###### (A) Standard

If the Mortgage is in Default, the Mortgagee may return the Partial Payment to the Borrower with a letter of explanation only under the following circumstances:

- when the payment represents less than half of the full amount then due;
- when the payment is less than the amount agreed to in an oral or written Forbearance Plan;
- when the payment is less than the amount stated in an approved Trial Payment Plan (TPP) Agreement, whether or not an executed Agreement is received by the Mortgagee;
- when the Property is occupied by a rent-paying tenant and the rents are not being applied to the Mortgage Payments;
- when foreclosure has been started; or
- when it is 14 Days or more after the Mortgagee has mailed the Borrower a statement of the full amount due, including Late Charges, which advises that it intends to refuse to accept future Partial Payments (see [Application of Subsequent Payment to Unpaid Late Charges](#)), and either of the following conditions have occurred:
  - four or more full monthly installments are due but unpaid; or
  - a delinquency of any amount, including Late Charges, has continued for at least six months since the account first became Delinquent.