

January / February 2008 • www.westernbanking.net

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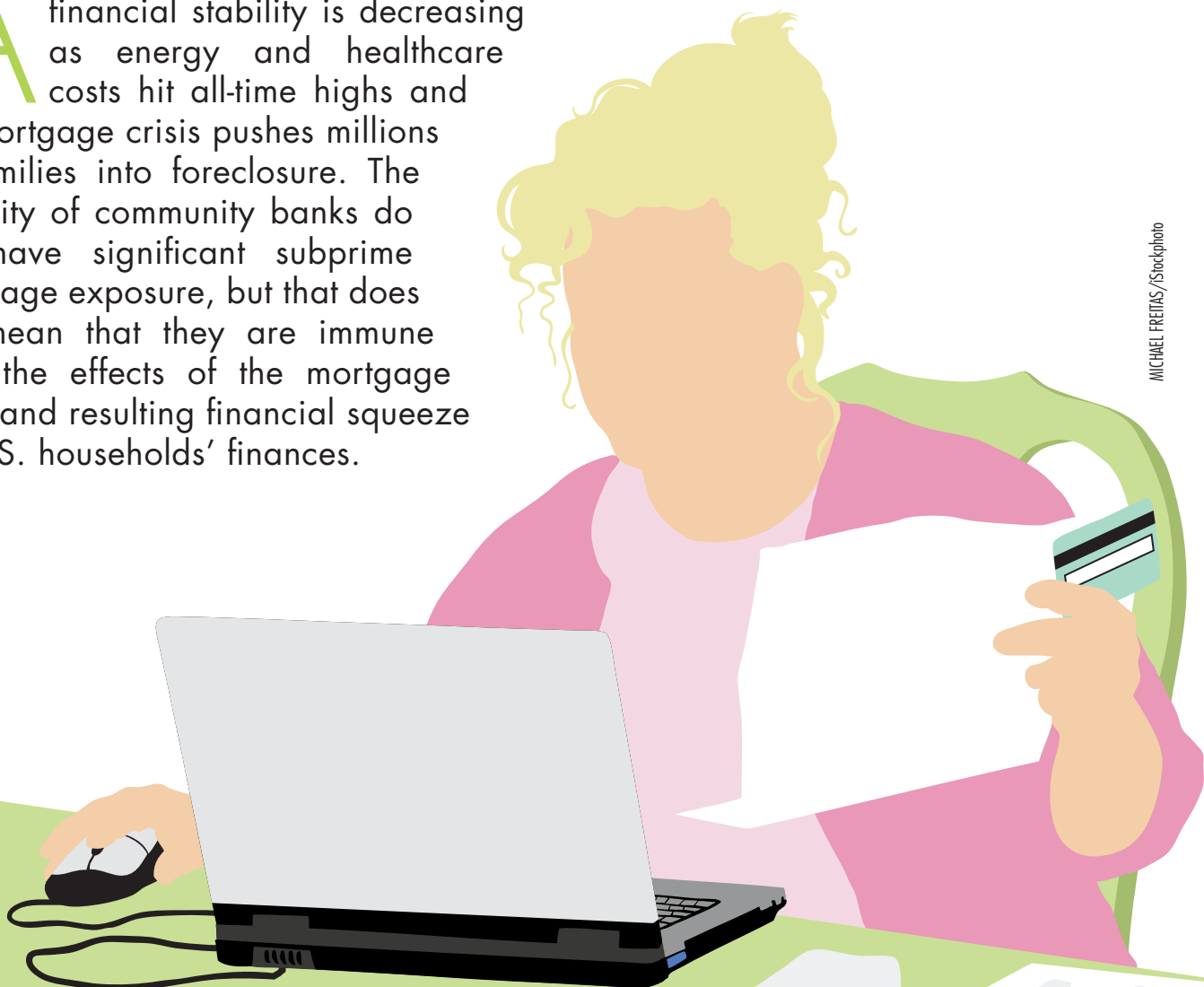
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# Internet Usage Can Help Increase Banks' Share of Delinquent Payments

By William T. Kinnelly

**A**cross the United States, personal financial stability is decreasing as energy and healthcare costs hit all-time highs and the mortgage crisis pushes millions of families into foreclosure. The majority of community banks do not have significant subprime mortgage exposure, but that does not mean that they are immune from the effects of the mortgage crisis and resulting financial squeeze on U.S. households' finances.



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In October 2007, Online Resources Corp. surveyed 38 community banks and credit unions and found that the majority expect the economy will make it harder for them to collect payments in 2008 than in 2007, as households are forced to prioritize among their bills.

This confirms the results of a companion survey of online U.S. households, which found that 25 percent have at least one bill 30 or more days overdue, and that 43 percent of households are finding it harder to meet their financial obligations than just 12 months ago. At a macroeconomic level, the ratio of Americans' debt-to-personal income is at a 30-year year high of more than 110 percent in 2006, up from less than 60 percent in 1980 (Federal Reserve Board, August 2007).

Americans are managing their delinquency by creating, in effect, a "delinquency budget." It comes as no surprise that the mortgage bill tends to be the one that 98 percent of households are most likely to pay. They are choosing which of their other bills they are likely to forego in order to pay the mortgage. The credit card bill is the most commonly overdue and faces the highest risk for non-payment; the survey found that 13 percent of households receiving a credit card bill are already 30 or more days delinquent. An additional 6 percent are delinquent on non-mortgage loans. This is be-

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cause of the perception that paying these bills late risks only their credit ratings, not foreclosure, utility shut-off or other more readily felt impact.

With many banks relying on income from consumer credit card and loan portfolios of many kinds (such as auto, unsecured personal, student and small business loans), the potential impact of the mortgage fallout could be great.

What can community and independent banks do to maximize their share of the delinquency budget?

Traditionally, an economy making it harder to collect payments has meant an increase in staff with the accompanying challenges related to hiring, training and compliance, or an increase in dollars spent outsourcing debt collection to first-party collection agencies. Both of these would be a significant burden for most banks. However, preferences being expressed by today's households suggest an additional option: use of the Internet.



The majority of American households use the Internet and the number of people who pay their bills online is ever-increasing. Consumers have also expressed a preference for resolving their delinquency online, at a time and place that is convenient for them and in a way that avoids conflict (FiSite Research, 2004).

Online payments for accounts that are current have been around since the late 1990s. Web technology specifically created for the collection of delinquent payments is a relatively new concept that only a few of the largest banks have deployed thus far. This technology provides a viable, full-function online collection solution amounting to a “virtual collection agent.”

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From January to May 2005, Online Resources set up a pilot study with a large bank to test whether people would pay their delinquent bills at a website offering them multiple ways to “self-cure” or resolve their debt online without assistance from a live agent. The bank was initially skeptical. First, it questioned whether delinquent customers would even come to a website. Second, management doubted that delinquent account holders, whom the bank had been unable to reach by phone, mail or an 800 number, could be convinced to pay their overdue payments because of a website.

The study was a “champion-challenger” test where the bank randomly selected 10 percent of its delinquent accounts and changed how they were treated. The only variable in how these accounts were treated was the promotion and notification of the financial advisory nature of the “virtual collector” website for those customers to make payments, learn about potential payment programs or perhaps settle out their accounts.

The bank realized a loss reduction of 310 basis points, which would translate to an annualized savings of \$3.1 million for an organization with \$50 million in delinquent balances.

Other Online Resources studies have shown that companies that implement specialized websites for resolving delinquent accounts have seen positive results.

- About 20 percent of the users who self-cure online do so during hours that companies’ collection operations, whether in-house or outsourced, are not traditionally open.
- Almost half the users have not been successfully contacted by the company in the prior six months, if ever, and two-thirds of them are late-stage delinquent accounts.
- Web users have higher rates and amounts of payment against higher average balances.
- Consumers’ choice of the web increases over time: the web has about twice the activity today that it did a year ago.
- Website visitors paid a dollar amount three times more than the portfolio average and paid four times more often than the portfolio average.

### Out of Sync with Consumers’ Preference

Only 8 percent of billers — including banks — offer a website that goes beyond accepting payments to allow consumers to cure their delinquency. This means that they are missing out on a significant opportunity to improve how they meet consumer preferences for making delinquent payments.

Of the 22 percent of today’s billers that do offer a website for delinquent consumers, making a payment and viewing the amount due are the most common options offered. Few billers enable their consumers to resolve delinquencies on their own in a convenient and non-confrontational manner. Having the ability to update contact information, make a promise to pay, set up a payment plan, inform the biller of a prior payment or negotiate the payment amount presents consumers with more options to cure their delinquency than being faced with a pay-all or pay-nothing situation.

Community and independent banks can’t afford write-offs, but they also can’t afford to lose valuable customers in today’s increasingly competitive market. Given the low percentage of all billers currently offering a specialized website to resolve delinquency, banks that are quick to offer this option and better meet consumers’ preferences will have an advantage in receiving their share of the delinquency budget. **WB**

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