

Top Ten Residential Lender's Loan Modification Program

Leading Residential Lender Proactively Restructures Home Equity Loans and Lines of Credit to Minimize Risk and Exposure

Background

Top Ten Residential Lender ("Top Ten") is one of the leading US second lien lenders. Like many US lenders, Top Ten acquired a substantial number of home equity loans through mortgage brokers, some of which were low-documentation, or stated income applications, often referred to as "Alt-A" programs. With falling property values and indications that these low-doc and stated income loans would have skyrocketing delinquency rates, Top Ten engaged ALI Solutions™ to create and execute a loan modification program that would accurately assess the risk of non-delinquent loans and determine which customers were at-risk for delinquency and the best targets for loan restructuring prior to reaching delinquency and getting on a path toward foreclosure.

Top Ten was looking for an immediate solution with two distinct components – 1) The analytics to predict both the best targets for a loan modification program and the best treatment for each loan, and 2) The capability to execute the program without impacting Top Ten's resources by using outsourced agents for the customer contact and fulfillment process.

Goal

Top Ten's goal for this initiative was to review home equity accounts and aggressively identify and address emerging affordability challenges that may be masked by the limited and/or inflated information associated with the low-doc and stated income loans. These loans would then be restructured to mitigate risk, lower exposure, maximize economic performance, and match borrowers with restructured loans that they can continue to afford. Top Ten also had a secondary objective to refinance eligible loans into a conforming status so that they could be packaged for sale on the secondary market.

Solution

The key to solving a preemptive risk management challenge such as this is to properly balance the loan modification offers required to gain customer consent, without sacrificing too much economic value for the bank. Top Ten and ALI Solutions joined together to tackle this challenge. ALI Solutions, Bridgeforce, CMC and Convergys then partnered together to develop a comprehensive loan modification program with five main elements:

1. Analytics to predict which loans are best suited for a loan modification program, and to determine the appropriate treatment for each loan. ALI Solutions developed an optimization routine to maximize the Net Present Value ("NPV") of the asset. The optimization objective incorporates a custom risk model used in conjunction with a traditional credit score.
2. Event-based analytic platform to support the fusion of consumer data available within the bank as well as publicly available income and employment data to support the complex automated loan restructuring.
3. Consulting to assist in the set-up, process, policies, offer definition and optimization of the program.
4. New external data sources to augment Top Ten's internal data and ensure optimal loan treatment.

"We chose to work with ALI Solutions and its partners on our loan modification program because they were the only company that we felt could meet all of our objectives for effective analytics, an automated execution platform, and the outsourcing of specialist agents to interact with our customers on a complex and sensitive discussion about their finances. We are happy with the results achieved to date, and look forward to continuing to leverage this program to mitigate risk, reduce exposure and proactively manage our customer relationships."

— Chief Consumer
Credit Officer,
Top Ten Residential
Lender



Dynamic Decisioning. Unleashed.™

5. Multi-channel communications, technology and trained staff to maximize contact rates and facilitate customer data capture and the interview process.

Top Ten chose to leverage all modules of the program, mentioned above, to proactively target eligible customers and affect the optimal treatment for each loan. Together, this best of breed consortium executed the five stage program for optimal results:

Stage One: Triage to determine eligible loans. This involves the initial segmentation process, where eligible accounts are identified.

Stage Two: Customer interviews to help Top Ten assess the non delinquent financial situation of the customer. An online survey was designed and used by specially trained call center agents to gather updated financial information and to conduct preliminary verification of initial origination data, such as income.

Stage Three: Treatment decisions to determine the optimal action to apply for each loan. These decisions are based on analytic models targeted to maximize the NPV of the asset, but can be customized to meet a lender's specific objectives. This stage involves close collaboration with the bank on offer definition and loan modification goals and options.

Stage Four: Acceptance by the customer and verification of documentation to establish final terms.

Stage Five: Fulfillment with the bank's system, which in many cases can be largely automated.

Results

Top Ten took a learning approach to this program through the execution of an initial pilot to confirm results and is happy with the quality of the targeting and the treatment decisions achieved to date. The program has met expectations in terms of the level of automation, the customer contact and acceptance rates and the number of current accounts that have been restructured and continue to remain non-delinquent. To-date, 43% of the customers contacted responded to the loan modification offer and completed an application for the program. Top Ten is also measuring the delinquency rate of the loans modified under this program and reviewing it against comparable loans that were not treated. Top Ten is very satisfied with the results achieved to date across these measurements.

Top Ten is also pleased with the modular, flexible program developed by ALI Solutions™ and its partners that helped Top Ten achieve its objective of getting the program into production within 60 days and outsourcing the vast majority of the project. The loan modification decisioning environment is highly dynamic, and can respond quickly to changes in objectives and qualification criteria due to market or policy shifts. Top Ten has decided to continue to leverage this program for all remaining segments of the home equity line of business, and is also pursuing deployment of a similar program for other portfolio types, such as primary mortgages.

About ALI Solutions™

ALI Solutions provides event-based analytic decisioning applications that empower consumer financial services organizations to preemptively manage risk and improve profitability. ALI's solutions automate the fusion of transaction data with third party data sources to dynamically execute credit, fraud and collections policies that solve immediate business problems while easily adapting to future industry challenges. For over 16 years many of the world's most successful companies throughout North America, the United Kingdom and the Asia Pacific region continue to choose ALI because its applications are proven to help businesses mitigate losses while delivering millions of dollars in bottom line benefit.

Contact Us

www.alisolutions.com

Headquarters

Phone: 512.328.8215

Email: info@alisolutions.com

Asia Pacific

Phone: 65 6327-5263

Email: AsiaPacific@alisolutions.com

UK

Phone: +44 (0) 20 7484 5066

Email: UK@alisolutions.com

