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Hello

Welcome to the second edition Euristix Insight, where we continue to provide insight, information and assistance in the changing world of credit and portfolio management. Following on from last edition's 'Question's Corner', our lead article details how to tap into the latent value residing in your collections processes. Focussing on a single area of debt, the 'Achieving Best Practice' workshop discusses the topical subject of mortgage shortfall. We welcome any feedback you may have and please contact us with any questions.

Kind regards,
Chris Kemp



In this edition...

Driving Value from Collections can bring huge benefit for a business. Our lead article reveals how to approach this often under-exploited area to generate real value.

Questions Corner - In this edition we raise some key questions regarding mortgage portfolio management.

Achieving Best Practice - With the economic climate making mortgage shortfall much more likely, is your business in a position to respond to, value and recover such debt?

Driving Value from Collections through Analytics



Deteriorating economic conditions and growing consumer indebtedness are forcing a change in the perception of collections and recovery operations. As focus shifts from growth to consolidation and the full customer life-cycle comes under scrutiny, organisations are finally realising the tangible value opportunities embedded in their collections activities.

Having received little of the investment lavished on front end processed in recent years, collections areas have become an untapped mine of potential benefit. Lenders need to join debt specialists in viewing their collections books not as a cost centre, but as a genuine value generating part of their business.

For an in-depth view of the steps required to maximise collections value, please see the [full article here...](#)

Questions Corner - Mortgage Portfolio Valuation

Recent changes in economic conditions have been felt particularly strongly in the mortgage sector. As food for thought concerning your current management paradigm, consider the following quick questions :

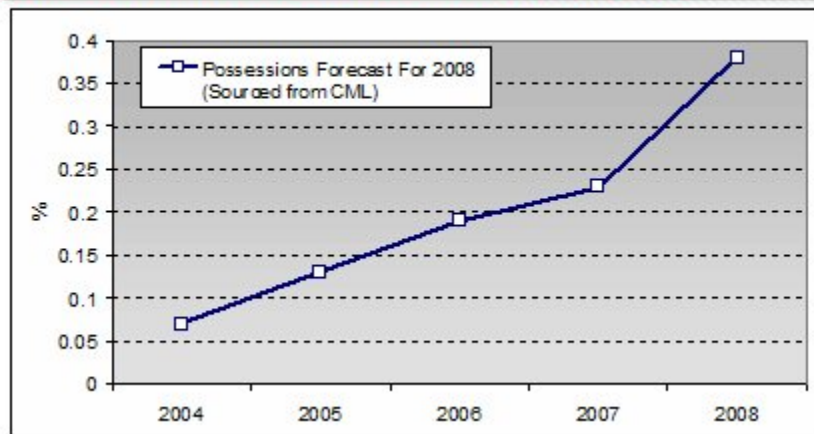
- Given the change in market conditions & economic climate, do you still believe your risk and pre-payment forecast are sufficiently robust?
- Can you quickly produce stressed forecasts under a number of different scenarios?
- Are you using these stressed forecasts to directly inform underwriting decisions?
- Are your product & pricing decisions driving maximum value from your available funding whilst maintaining your risk appetite and sales capacity constraints?
- Are you fully exploiting your Basel 2 infrastructure and investment to make the best business decisions?

A future edition of Euristix Insight will provide a more detailed discussion on mortgage valuation and portfolio management support, but in the meantime, please direct any questions to vincent.bordes@euristix.com

Achieving Best Practice - Mortgage Shortfall Debt

Problem - Recent reports from the CML and Ministry of Justice indicate that repossessions in the UK in 2008 could reach levels not seen since the early 1990s. Combined with the falling house prices across all regions, this means that lenders are facing a rapidly increasing level of mortgage shortfall debt. The problem is that many lenders underestimate the value of shortfall debt and are not equipped to deal with this increase.

CML - Actual & Forecast Possessions 2004-2008



Approaches - The boom economy and rising house prices of recent years have enabled many lenders to simply write-off mortgage shortfall losses, or outsource the debt. Very few processes exist within banking institutions to treat this type of debt; systems are outdated or nonexistent, and contact information and correspondence are not retained consistently. As shortfalls increase in both volume and value, the impact on the balance sheet, and so the corresponding benefit of

improvements, will grow.

Best of Breed - Creating an optimal process for treating mortgage shortfall begins with data, systems and MI. It is imperative to create a robust and flexible infrastructure to support shortfall debt collection. Key components within this framework include the careful storage of contact and trace information, clear correspondence paths (including the acquiring of confirmation of debt from the debtor) and automated action triggers to ensure timely follow-up with customers as circumstances evolve.

With the infrastructure in place, the focus moves to selecting those actions which will deliver the most value to the business. Shortfall recoveries may occur over a longer time horizon than normal unsecured debt, therefore treatment strategies need to reflect this. For certain account segments it may be appropriate to 'rest' these if initial actions are fruitless and use data driven triggers to restart collections action as customer circumstances change. In addition utilising value-based analytics will allow the lender to make optimal use of the collections tools and strategies available. Segmentation methods and propensity forecasts can inform the choice between short-term value realisation through debt sale and longer-term value maximisation strategies using an integrated approach which combines internal activities, outsourcing and debt sale.

Achieving best of breed for mortgage shortfall debt management requires the adoption of a true value-based approach. In a future edition of Euristix Insight, we will explore this topical area in more detail, but in the meantime please direct any queries to richard.pinch@euristix.com

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