

# around the world

## loan servicing in the United States, Mexico & beyond

by Evan Green



**A**re you an American developer wishing to target not only Americans but also foreign customers? Are you a foreign developer struggling with the servicing and collection intricacies of a U.S. portfolio or the even more complex requirements of a blended U.S. and foreign portfolio? Your concerns may run the gamut from currency exchange nuances, collection laws, portfolio interest exemption trusts, and Mexico value-added taxes to language barriers, consumer payment methods, and technology differences.

It's true that what works on one side of

coupon books, a telephone payment reminder campaign will still be an important tool to encourage prompt payments and enhance customer goodwill.

In Mexico, personal familiarity and the establishment of relationships are paramount. It is particularly valuable in Mexico for a customer's account to be assigned to an individual service representative, who is given an incentive to develop a rapport with the customer. This will reap rewards down the line by strengthening the loyalty of consumers and commitment to honoring the obligation. Using an automated queuing mechanism within

As a result, the most common way for a Mexican consumer to make monthly payments is through in-person deposits at a local bank. The Mexican consumer goes to the bank to pay his mortgage, phone bill, electrical bill, etc. It is imperative, then, to implement a simple, efficient branch payment mechanism to make the payment process effortless for the customer. Mexican consumers are slowly adopting electronic payment means, and the customer service and collections staff should be sensitive to this—take extra telephone time to patiently walk customers through the on-line process. Customers in Mexico are comfortable paying by credit card, so a reliable recurring credit card mechanism and a payment by phone capability are beneficial as well.

In the States, maintaining a single bank relationship for payment processing is sufficient for efficiently accepting all payments from all consumers. In Mexico, however, maintaining only one bank relationship for all payment acceptances is insufficient. Considering the expanse of the country and the manual payment method prevalent in Mexico, more deposit options offered to the customers increase the likelihood of consistent and timely payments. To offer a simple and efficient branch payment mechanism, it is advisable to establish depository accounts at multiple banks.

A single uniform remittance slip outlining the multiple deposit account options will allow the majority of your consumers to make their payment at their home bank, where they are already going to pay their other bills. Optimally, your servicing system should be able to effortlessly customize your consumer correspondence to reflect the various bank account options you make available to the customer.

Foreign currency issues should not cause concern either. To the Mexican consumer, this is not a "foreign" concept.

### *In Mexico, personal familiarity and the establishment of relationships are paramount.*

the border doesn't necessarily work on the other. However, through an appreciation of the differences between cultures, technologies, and services, plus a focused effort, an optimal solution can be found for servicing loans across borders. The following article brings to light some of these differences between servicing in the United States and servicing in Mexico. It's time to expand your horizons!

#### **THE PERSONAL TOUCH**

In the United States, a payment due date and a looming late charge are reasons enough for most consumers to make their payments on time. However, for Mexican consumers, especially during the early new owner period, courtesy reminder phone calls in advance of each monthly due date are common. Even if the servicing plan uses monthly statements rather than

your servicing platform will ensure that your courtesy calls are queued up appropriately, and that they're being worked by the correct representative. This will alleviate what would otherwise be a very tedious process to manage manually.

#### **MONEY TALKS—BUT KNOW ITS LANGUAGE**

Within the United States, you can expect a customer to be comfortable making payments by mail, automated clearing house (ACH), credit card, phone, and Internet. In Mexico, ACH has only recently gained some consumer acceptance; therefore, this payment process remains uncommon. Computer ownership is less prevalent, and confidence in on-line payment mechanisms is low. Furthermore, Mexican consumers are not inclined to trust the mail system.

## KEY TERMS TO KNOW

### Portfolio Interest Exemption

**Trusts (PIET)**—PIET is a structure that is beneficial to developers outside of the United States. A U.S. consumer paying interest to certain foreign entities is technically obligated to withhold a certain percentage of the interest and remit it to the Internal Revenue Service.

A properly documented PIET provides an exemption from this withholding requirement, eliminating any legal exposure that could exist for the consumer. More importantly, the developer will receive, on a timely basis, 100 percent of the interest portion of the loan payments. The PIET requires some initial setup and coordination but once it is established, it's largely a behind-the-scenes formality.

**Value-Added Tax (VAT)**—The VAT is a Mexican tax, requiring that a certain percentage of all consumer proceeds received (from U.S. consumers as well as Mexican) be paid to the Mexican equivalent of the IRS, the Secretaría de Hacienda y Crédito Público (SHCP), by the developer. The percentage of the tax varies depending on the location of the corporate establishment. The means to pass along the full VAT to the consumer varies between developers, although it is common practice to pass the VAT on the interest portion along to the consumer as a monthly fee on top of their contractual payment amount.

Although the tax percentage stays constant, as a result of a loan's normal amortization and other variances in the payment stream, the total annual tax obligation for each loan will decrease over time. Therefore, an annual escrow analysis should be performed on the portfolio in order to adjust the add-on VAT amount each year. This process is best accomplished by a sophisticated servicing system that can not only segregate the VAT add-on fee, but automatically perform the extensive annual analysis on the portfolio.

They are well-acustomed to foreign exchange. When the loan is denominated in dollars, the applicable exchange rate must be communicated to the consumer, which can be accomplished through a telephone hot line, instructions to use the bank's prevailing exchange rate or through a developer-customized exchange rate table presented to the consumers within their monthly statements.

Additionally, it is possible to obtain U.S. dollar denominated bank accounts in Mexico. While the majority of the Mexican consumers will in fact pay in pesos, offering the option for the customers to pay in U.S. dollars provides them with more flexibility and convenience.

In any case, a loan servicing system should be able to customize exchange rate tables for all foreign exchange possibilities and automatically post the daily payments to the accounts accordingly. For effective customer service and accurate reporting, the servicing system should store the value of the original proceeds paid, the currency type, and the exchange rate used in the calculation.

For a developer with a blended portfolio, the loan servicing system should be able to categorize the portfolio by currency denomination. The system should be able to generate all reports by currency type as well as provide the flexibility to run certain reports in a specified consolidated currency.

### CULTURAL EFFECTIVENESS

It is also important to appreciate the vast differences in the collections environment and collection techniques between the United States and Mexico. In the States, there are many complex state and federal restrictions and many consumers who are ready to sue a collector who fails to adhere to them. As a result, it is important for any collection agency managing a U.S. consumer portfolio to be well versed in the applicable laws and have control mechanisms in place to ensure compliance.

In Mexico, however, collections are largely unregulated, so more aggressive and creative techniques may be employed. For instance, door-to-door collections is a popular and successful technique for more severely delinquent accounts. Additionally, individual bankruptcies are extremely rare in Mexico, so there is an extended opportunity for recovery. Lastly, don't forget the relationship factor. As mentioned earlier, the ability to maintain familiarity of contact and establish trust with the consumers will prove valuable in delinquency

collections.

The right loan servicing solution will provide a collections platform that can satisfy the intricacies of both types of consumer portfolios. The system should incorporate triggers and controls that minimize the legal exposure, while still providing a robust and efficient queuing mechanism.

### EXEMPTION TRUSTS AND MEXICO VAT

Lastly, an article describing the differences between the U.S. and Mexican timeshare servicing markets wouldn't be complete without mentioning portfolio interest exemption trusts (PIET) and Mexico value-added tax (VAT or IVA). See the sidebar (this page) for full details. The outline is just a brief explanation of these fairly technical issues, and a more thorough explanation should be obtained from a knowledgeable servicing company and/or a fiscal advisor.

### SAME DIFFERENCES

Whether it is timesharing in the U.S. or Mexico or elsewhere around the globe, taking the time to understand and appreciate the differences in culture, technology, and services will uncover many opportunities. Some challenges may present themselves, but through a due diligence process and a focused execution, these challenges can be overcome.

Working with a sophisticated servicing company that offers culturally-appropriate systems and procedures will allow you to leverage its experience in these markets and to take advantage of the opportunities that exist. You do not need to be limited to a consumer base from a single country. Go ahead and embrace the opportunities. **D**

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