

Collections: The Current State of the Economy and How to Improve or Deal with Collections

2009 Annual Convention and Exposition



1



Your Speaker

David A. Reed

Attorney at Law

culaw@cox.net

(703) 675-9578

CU Doctor, LLC

2



Take a Fresh Look at Collections

- It is never the right answer to say “This is always the way we have done it.”
- Conduct an inventory of the department.
- Now is the time to make your collections process as effective as possible.
- Unique growth opportunities for all credit unions.

3




The Big Squeeze of 2009

In prior years, members who had problems paying their loans could either refinance their home (based on the increasing home value) or sell the home (based on a robust home sale market).

Those days are gone and your member has a different set of alternatives and you have to help them make the right decision.

4



What is happening in Michigan?

- Foreclosure start rate at 1.5% compared to the national average of 1.37% (3.4% in Nevada) MBA report 5/28/09
- Unemployment rate
- Future of the automobile industry


5



What is happening in Michigan?

- The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to contract 4.0% in 2009 before growing a meager 0.3% in 2010
- The Michigan economy, as measured by inflation-adjusted personal income, is estimated to decline 3.4% in 2009 and 6.1% in 2010

6




Michigan Revenue Forecast

- In fiscal year (FY) 2008-09, the economic recession is proving to be much more severe than expected and this is having a significant negative impact on revenue. General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$18.3 billion in FY 2008-09, which is down 12.2% or \$2.5 billion from FY 2007-08. General Fund/General Purpose revenue will decline an estimated 20.7% to \$7.4 billion and SAF revenue will decrease 5.3% to \$10.9 billion.

Source: Michigan Senate Fiscal Agency


7



Group Exercise

- How effective is your collections department?
- How do you measure their performance?
- What is your biggest concern with collections?


8



5 Keys to Effective Collections

1. Quality Underwriting
2. Following an organized contact plan
3. Utilizing a effective communication model
4. Communication and Organizational skills of the collections staff
5. Leveraging quality third party relationships

9



Collections Efficiency

- Everyone (well, almost everyone) knows it is nearly impossible to collect on a bad loan
- So, how do we measure our efforts?
- Collections efficiency means collecting the maximum amount of DQ payments and returning as many members as possible to current status

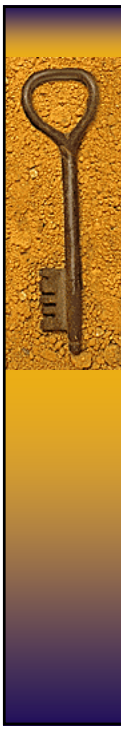
10



Collections Responsibilities

- Talk to the members
- Member Service
- Building Member Relationships
- Financial Counseling
- Cross Selling
- Reducing Delinquency
- Rehabilitating DQ Members

11



What Does Your Department Do?

- Correct loan setup errors
- Post payments
- Enter basic membership information
- Death or disability claims
- Credit reporting errors
- Act as a final resting place for questions
- Other administrative tasks

12



Key Collections Function

Find solutions to the members' financial problems.


13



Areas of Concern

- Department Management
- Department Work Flow & Productivity
- Department Policies
- Department Reports
- Department Organizational Design
- Department Personnel
- Collections Agency and Legal Outsourcing Management

14



Philosophy of Credit Union Collections

- ◆ Nature of a Credit Union
 - Financial Cooperative/Not for Profit
- ◆ Your Mission statement
- ◆ Rehabilitation vs. Business Decisions
- ◆ Membership Has Its Privileges


15



The **BIG** Picture

- ◆ The Financial Statement
- ◆ Delinquencies Impact on Rates and Returns
- ◆ NCUA Requirements
 - Safety and Soundness Issues


16



Collections As Member Service

- What is member service?
- Service to the one member is the goal most of the time and is often attainable
- When that fails, for whatever reason, we focus on service to the entire membership


17



What Makes People Pay?

- Basic Needs
- Pride
- Honor
- Security
- Fear

18



Your Value Proposition

- When your members find themselves in tough times, why should they pay you?
 - Maintain relationship
 - Good credit
 - Keep collateral
 - Piece of mind
- You need to make them understand and believe that improving the delinquent status of their loan is in their best interest
- Who else will help them in this financial crises? Remember only YOU exist for the sole reason to ensure their success!


19



Collections and the Credit Union

- ◆ Everybody Loves a Parade!
- ◆ True Member Service


20



Basic Premise for Collections

- Most members intend to pay back the Credit Union at the time they get the loan
- Let's create a timeline


21



Classic Causes of Delinquency

- Job Loss or Interruption
- Marital Dissolution or Break Up
- Medical Issues
- Poor Financial Planning

22



In the Mind of a DQ Member

- They know how a loan works
- They know they are delinquent
- They know you want money
- They think you want all of the past due amounts right now
- Most do not have all the required money
- They ignore the call because they feel they can't deliver what you really want

23



What Is Your Message?

- Are you part of the solution?
- Do you exist for their financial benefit?
- When is the best time to get that message out?
- What programs do you have to help troubled members?

24



Someone Is Sending Them a Message!

The Advertisements – This Is Real Text:


By filing bankruptcy papers, we may be able to help you:

- Stop Garnishments
- Stop Repossession of Property
- Stop Foreclosure
- Stop Wage Attachments
- Stop Collection Actions
- End Lawsuits
- Get Your Utilities Turned Back On

We will petition the Bankruptcy Court to discharge some, or all, of your debts, or protect you so that you can consolidate debts and get a reasonable plan to pay them off. [Call us immediately](#) . You will find our fees very competitive and reasonable.

Call Today!

25



Group Exercise

What are you doing to get a positive message out to your troubled members?

26



Prioritizing Your Efforts

- Date of Delinquency
- Account Payment History
- Loan Type (secured vs. unsecured)
- Loan Balance
- Delinquency Amount
- Risk Based Lending Factors
- Probability of Collections Based on Scoring Models


27



Prioritizing Your Efforts (cont.)

- Scoring Your Delinquent Accounts
- Potential Loss Profiling
- Internal Data Review
 - Payment History
 - Branch Contacts/Loan Applications
 - Collection Notes
 - Financial Counseling Participation
 - In House Data Scrub
- External Data Review
 - Third Party Service (CRA's)


28



Don't leave your member to their own devices

- ◆ The phone is the primary collections tool!
- ◆ The 3 W's of collections
 1. What's the problem?
 2. What's the solution?
 3. What's the future?

29



Financial Rehabilitation

- Sales and Service Culture in Collections?
- Member Service
- What business is the Credit Union in?


30



Qualities of a Good Collector

- Good Communication Skills
- Well Organized
- Resourceful
- Persistence
- Honest
- Positive Attitude
- Flexibility
- Creativity
- Accurate
- Goal Oriented

31



Collections Cycle

- The concept of self-cure rates
- Where should you spend your time, 1 to 30 days or 31 to 60 days?
- The REAL BATTLEGROUND!


32



Maximizing Member Contact

- Flexible call times
- Flex Schedules
- Weekends
- Defeating Caller ID
 - Cell Phones
 - Number Blocking
 - Pay Phones
- Are you calling home AND work?

33



Breaking Down the Phone Call

- Initial Talk Off – Introduction and call set up. Frame the issues.
- Update Member's Profile
- Use Open Ended Questions, give the Member an opportunity to talk and explain their situation. What's behind their curtain?
- Review options: Balance in Full or Partial Payment Arrangement or Other Follow Up
- Close


34



Member Profile

- Current Address
- Home and Work Phone Numbers
- Cell Phone Number
- E-mail address
- Employment
- Preferred contact location and time
- Emergency Contact


35



Open Ended Questions

- How can I help you with this account?
- Why haven't you paid this account?
- When do you intend to make another payment?
- How do you feel about your current situation with the credit union?


36



Review the Options

- Keep coming back to the need to make a payment
- Preference is the balance owing
- Fall back preference is a PPA
- Explain that the PPA is only a temporary solution
- Emphasize the fact that the credit union is part of the solution


37



What Types of Solutions Do You Offer?

- What are your workout options?
- Who keeps the list?
- How often is it updated?
- Do lending and collections meet regularly?
- How do members find out about workout options?


38



Make It Easy to Pay

- Payroll
- ACH
- Automatic Deductions
- Check by phone options
- Overnight mail or personal drop off
- Point out the benefits of timely payments.
- Are there rate advantages to payroll payment?

39



Closing the Call

- This is the most critical part of the call
- Summarize the deadline and the specific tasks
- Answer the “What happens if” question
- Give the member an opportunity to ask questions
- Thank them for their membership!


40



Objections vs. Conditions

- Objections – Won't pay because
 - Not mine
 - Already paid
 - You need to talk to ...
 - I don't owe all of it
 - Sue me!
- Always meet with the facts!
- Conditions – Can't pay now
 - Death
 - Divorce
 - Major repair expense
 - Call me later
 - Not working
- Always meet with creativity, flexibility and a plan!


41



Members Who Don't Return Calls

- For the most part, we can't make members pay us
- What are they telling you by not calling you back?
- They are telling you "NO!"


42



Understanding the Foreclosure and Workout Process

- Driven By Three Main Factors
 - State Law
 - Contract
 - Business Decisions
- Make sure you have a capable attorney!

43



Portfolio Risk Assessment

- Have you looked at your loan portfolio lately?
- Collections risk assessment
- Credit score movement
- Real estate issues
 - HELOC equity issues
 - TILA violations
 - Lien issues


44



Collections Factors

- Willingness and Ability to Repay
- Prior Payment History
- Employment History
- Reason for Default
- Desire to retain the Property
- Property Condition

45



Delinquency Reduction Tools

- Extension/Re-aging
- Forbearance Agreement
- Adding Missed Payments to Balance
- Changing Interest Rate
- Extending Mortgage
- ARM to Fixed rate
- Repayment Plan
- Assumption
- Short Sale
- Deed In Lieu of Foreclosure

46



Special Collection Queues

- First Time Delinquencies
- Early Stage Delinquencies
- Homeowners Requiring Financial Counseling
- Subprime Mortgages
- Recurring Delinquency Issues
- Work-out Accounts
- Foreclosure Sales

47



Communication Is Key

- They can't use relief options if they don't know about them.
- Make personal contact; messages don't work.
- Timing is everything
 - Easier to collect a 30 day account than a 90 day account, right?
- Make it easy for the member – it can always be a win-win scenario!
- Make sure they know your job is to ensure they keep their home.

48



Denial of Services

- ◆ Once a Member Always a Member?
- ◆ NCUA's position
- ◆ Timing
- ◆ Procedure
- ◆ Denial vs. Expulsion
 - ◆ Special Meeting
 - ◆ Notice
 - ◆ Right To Be Heard

49



Third Party Collections

- ◆ Timing Issues (Diminishing Returns)
- ◆ Collection Agency vs. Legal
- ◆ Tracking Recoveries
- ◆ How To Pick The Right Agency/Law Firm
- ◆ NM Collection Agency Regulatory Act
 - ◆ New Mexico Statutes 61-18A-1
- ◆ NCUA Due Diligence Requirement

50



Legal Action

- Attorney Demand Letters
- When to file a lawsuit
- Cost benefit analysis
- How to choose an attorney

51



The Loan Autopsy

- Synergy Between Lending and Collections
- Keep the Communication Lines Open
- Systematic Procedures
- Everyone Loves a Parade

52



Questions?

53