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Collections Focus

Best Practices for Collections

Setting the right priorities, spotting delinquency early on, and solid training can help credit unions stay ahead of potential collections issues.

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PART 1: Best Practices Background

Introduction

The accumulation of consumer debt in the years leading up to the Great Recession reached levels that many economists believe bordered on the untenable. Household debt as a percentage of disposable income more than doubled between 1985 and 2008, according to the Federal Reserve Board and the U.S. Commerce Department's Bureau of Economic Analysis. Such high levels of debt raise numerous challenges for collection professionals regardless of broader economic conditions, but when personal income and spending levels suffered significant declines in 2009 for the first time in many years, the scope of the problem was brought into stark relief.

"In fact, most of the conditions contributing to the problem—high levels of unemployment, slumping net worth, price deflation and moribund sales in real estate, and alarmingly high levels of government debt—continue," says Donna Floyd, collection relationship manager at PSCU Financial Services. "While overall consumer debt levels have begun to inch downward recently, credit unions and other financial institutions continue to face challenges on the collections front." This paper looks at best practices, metrics, strategies, and procedures to help credit union debt collectors meet those challenges.

Cohesiveness and Prioritization are Important

Effective collection efforts start with a cohesive strategy, and it may help to formulate a collection department mission statement covering the fundamentals of a credit union's collection efforts, Floyd suggests. The mission statement should also reflect the values and qualities the credit union considers most important in areas such as customer service and member retention. "While debt collection is something most credit unions would prefer they never had to do, it is a necessary and important part of credit union operations—at all times, but especially during difficult economic conditions," she says. "It's important to formulate a clear strategy and to communicate it to everyone involved in its execution."

Prioritizing accounts should be a starting point for credit union collection teams, with clear parameters laid out regarding the types of accounts on which collection efforts will be focused. The criteria may vary from credit union to credit union, with one giving highest priority to accounts with the largest dollar amounts and another focusing on those that have been delinquent for the longest period of time. But whatever criteria are chosen, they should be clearly communicated to collection team members so they can focus their efforts on the accounts needing the most attention within the framework of the credit union's declared strategy.

Early Intervention Is Effective

The dollar value at risk is an important consideration in many credit union collection decisions, as it should be, Floyd acknowledges, but she stresses that the amount of time an account has been delinquent is also important. "Too many credit unions don't begin working their accounts soon enough, and that can be a mistake," she says, noting that early intervention is crucial to preventing future problems. It may also provide an early warning on potential criminal activity. If establishing contact with an account holder is difficult when the account is only five days delinquent, the likelihood of tracking that person down after 30 days is minimal. Credit unions should initiate their outreach efforts when accounts first become delinquent, ensuring contact within the first five days.

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Although credit card accounts are given the lowest priority by many credit union collection teams, their importance may be masked by the relatively small dollar amounts involved. The average balance on a credit card account is generally much lower than that on a real estate or auto loan, so a delinquency in the latter categories has a larger and more immediate impact on a credit union's balance sheet. However, credit card delinquencies can be leading indicators of trouble ahead for a member, since credit card debt is usually the first thing consumers stop paying.

Sensitivity Matters

Historically, delinquent loans were most often related to unusual circumstances such as job loss or serious illness, but in the current economy, large numbers of credit union members are enduring some type of financial difficulty. Once a delinquency is identified, Floyd says, it is important to approach members quickly and work with them in a sensitive manner to resolve the problem. A simple "pay me my money" approach cannot achieve that objective. Credit unions should work with members who are under financial stress to develop customized payment programs. Such an approach not only increases the likelihood of recovering the debt, it helps boost member loyalty.

One best practice that can help credit unions limit debt delinquencies proactively is establishing tighter controls on over-the-limit parameters for credit card accounts. While some credit unions continue to authorize transactions on cards that are over their limits by 4%-5%, lowering those criteria to 1%-2% may make more sense in many cases. Such a change generally has a very minor impact on the day-to-day transactions of the average member, and it helps deter credit criminals looking to charge large amounts they will never pay back, Floyd advises.

Training and Information Sharing Offer Benefits

Perhaps the most effective strategy credit unions can implement to improve their collection practices involves increased training for collection team members. While collectors typically receive minimal training, Floyd emphasizes that credit unions need to acknowledge that debt collection is a profession and, as such, providing up-to-date training is as important for collection team members as it is for members of any other department. "Collection team members need to be able to interact effectively with members across the entire social spectrum—doctors, lawyers, the recently unemployed—all with different strategies and messages," she says. The best way to acquire and maintain those skill sets is through appropriate training.

Collection team members should always be kept abreast of changes in laws affecting debt collection activities. Besides applicable federal laws, most states have their own rules and regulations affecting collection activities; team members need to be familiar not only with their own state's laws, but also those in any other state where they might be contacting members.

Information sharing should be ongoing and extensive, both within the collections department and across other departments, with processes put in place to make this standard operating procedure. For example, if a teller updates a member's address or contact information in the course of conducting a transaction, that information needs to be transmitted to the collection team. Making sure collections has access to the most accurate information boosts efficiency and productivity by eliminating time wasted trying to track down members using out-of-date information.

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By providing regular feedback to collection team members, credit union management can help eliminate the perceived atmosphere of isolation in which many collection departments operate. Feedback should include regular discussion of the credit union's expectations, clear targets for the number of accounts being worked, conversion percentages, and any other metrics the credit union is using to monitor the collection team's progress, Floyd suggests.

Make Metrics Meaningful

Among the metrics credit unions use to measure the performance of their collection departments and collection team members are: operating cost per employee, departmental operating costs, cost of bad debt collection, number of accounts being worked, number of calls per collector, cost-to-benefit ratios, roll rates, and charge-offs. More important than the specific metrics a credit union uses, however, is that they be the right ones to measure the outcomes the credit union wants its collection department to achieve.

"Before you can determine which metrics best meet your credit union's needs, logic dictates you must first understand those needs," says Donna Floyd, collection relationship manager at PSCU Financial Services. If a metric does not measure a specific objective, accomplish a purpose, or fill a need, it should not be used. Using the right metrics can improve policies and procedures, increase member satisfaction and retention, focus employee training and support, improve morale, reduce costs, and increase productivity. She suggests asking the following questions about any metric considered for implementation:

- What does it measure?
- What do the results of that measurement indicate?
- Does it support your objectives?
- Is it the best available metric for what you want to measure?
- Does it comply with your credit union's goals and values?
- How should it be used in relation to other metrics and measurements?

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PART 2: The PSCU Financial Services Solution

The Benefits of Selective Outsourcing

Tap into the potential to reduce costs and free up capital

For many credit unions, outsourcing some of their collection activities is a strategy that should be considered. In collections, as in many other areas of business operations, outsourcing can be a cost-effective way to boost efficiency and productivity, potentially lowering labor costs and/or freeing up human resources to focus on other important activities. While it may not be appropriate for all credit unions, outsourcing some aspects of the collections process can return significant benefits, Floyd says. She likens outsourcing collections to what many credit unions already do with their call center operations, with the result that greater accessibility to services is provided to more members for longer periods of time. The most important factor for credit unions is finding a vendor "partner" that understands the credit union environment and how individual credit unions want their members to be treated during the collections process.

PSCU Financial Services, the nation's largest credit union service organization, recently launched TOTAL*Collections*, an innovative solution that can greatly increase the value of outsourced collections to credit unions. Building on the decade-long track record of superior results it has accumulated in credit card collections with its CU*Collect*℠ solution, PSCU Financial Services has designed TOTAL*Collections* to be an easy, consolidated way for credit unions to tackle all their collections challenges.

Eliminating the Need for Multiple Vendors

TOTAL*Collections* allows credit unions to consolidate collection outsourcing for credit card assignments, mortgages, auto loans, and other credit products with a single vendor. Integrating multiple collection needs with one proven partner provides economies of scale and cost savings, maximizes member contact, and reduces loss exposure. "TOTAL*Collections* provides our debt collection specialists with visibility into all the different credit products a member might have," Floyd explains. "That enables them to work with members on all their loans simultaneously, rather than focusing on a single loan. They can prioritize payment plans to bring collateralized loans back into conformity more quickly, and they don't have to juggle multiple platforms to deal with all of a member's delinquent relationships."

TOTAL*Collections* uses best-in-class technology to maximize member contact, reaching up to 500,000 members a month interactively. It employs an interactive digital contact system that is branded to the credit union on whose behalf the call is being placed. Automated messages give members the option of making an urgency payment at no cost to them or the credit union. Unlike other message drop systems, TOTAL*Collections* also allows members to convey that their payment has already been made or will be made within the next three days, without having the stigma of a "collections" call.

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Specialists Complement Technology

This interactive outbound strategy is teamed with calls manned by PSCU Financial Services' experienced collection professionals, who delve into reasons for the delinquency, verify demographic information, and offer special arrangements to help stop the cycle of delinquency and eliminate the debt. The process incorporates a "top-down" collection strategy when interacting with credit union members, with collection scripting focused on obtaining full payment rather than cycling partial payments month after month.

"Our collection professionals take the time necessary to listen to the credit union's members so we can offer the best arrangements for them without compromising the credit union's interests," Floyd says. "If a member goes astray, we use our in-house skip-tracing team to locate them and return them to the collections table."

The process is hassle-free for credit unions, and they are kept in the loop throughout. Credit unions using the Akcelerant platform simply identify accounts they want worked by PSCU Financial Services, and they are transferred into PSCU's framework via secure FTP. Every day, an account disposition report covering comments, payments, promises, and field changes is generated and the results integrated into the credit union's framework. The process is much the same for credit unions not using the Akcelerant platform, except that accounts and account disposition reports are transferred and downloaded into their onsite core system. Monthly production reports provide the total number of unique accounts, right-party connects, and conversion rates, showing clients the total number of urgency payments obtained each month. Compiled at the aggregate level, these reports can be customized to illuminate individual credit union production.

Solution Supports Earlier Intervention

While CU*Collect*, PSCU Financial Services' credit card collection solution, would usually begin making calls when an account was 30 days delinquent, TOTAL*Collections* reflects the company's recognition that credit unions need to get in touch with members sooner when loans involving collateral are at stake. TOTAL*Collections* calls typically begin from the first to the fifth day of deliquency.

That's one aspect of TOTAL*Collections* that appealed to Anheuser-Busch Employees' Credit Union, which tested the service for more than six weeks prior to its official rollout in July 2010. The credit union has an internal collections staff in place, but it wanted to outsource early collection efforts.

"The coverage TOTAL*Collections* provides is very impressive, and it offers significant benefits," said Virgil Mueller, vice president of credit and collections at the credit union. "The automated system makes calls four times a day at different hours, and these calls begin very shortly after a delinquency to help improve results. We are definitely getting more contacts than our staff could get on their own."

An Impressive Track Record

TOTAL*Collections* builds on the proven track record for superior results delivered by PSCU Financial Services' CU*Collect* credit card collections solution during the past decade. Making more than 500,000 calls a month to credit union cardholders, the service has delivered a right-party-connect ratio of 80% and successfully converted more than 50% of every delinquent account contacted into a current account, a performance that has earned it much praise among credit unions.

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"I am very pleased with the results we have achieved since we started using PSCU Financial Services for help with our credit card collections," said Jeffrey Goff, vice president for administration at HEW Federal Credit Union. When HEW began using the service in July 2009, it had a monthly roll rate of 7.68%. As of July 2010, the roll rate had dropped to 0.95%. Overall, HEW achieved a significant net reduction during the course of one year.

Conclusion

As of late summer 2010, the U.S. economy remained mired in a precarious position. In the wake of another plunge in the housing market following the expiration of a tax credit program for first-time homebuyers and an unemployment rate stuck at stubbornly high levels, Federal Reserve Chairman Ben Bernanke in August indicated he was ready to take additional steps if necessary to keep the economy from falling into a "double-dip" recession.

"In light of current economic conditions, it seems clear that credit and collection issues are going to remain high on the radar at financial institutions for the foreseeable future," Floyd observes. "Credit unions, as a group, are faring better than some other financial institutions, but they still face, and will continue to face, challenges related to collections. TOTAL*Collections* reflects PSCU Financial Services' commitment to helping them meet those challenges with the best technology, services, and people to be found anywhere in the industry."

PSCU Financial Services TOTAL*Collections*: Support for All Your Collections Needs

Many credit unions face increased pressure to reduce loss rates and control the bottom line in their credit card operations. PSCU Financial Services TOTAL*Collections* solution can help them achieve those goals. TOTAL*Collections* uses the right tools and state-of-the-art technology to achieve higher levels of collections efficiency, minimize collector downtime, boost productivity, and ensure compliance with the Fair Debt Collection Practices Act. For more information, contact PSCU Financial Services at 1-800-443-7728, ext. 7877; or e-mail solutions@pscufs.com.