Collections Panel Discussion

Share One facilitated a panel discussion that allowed a candid discussion from three credit union industry collections experts. The panelist were:

Jaeme Leaton, Cascade Community CU

Jaeme has worked for Cascade Community CU for 9 years, most of that time in lending and collections. Cascade's return on investment is consistently among the nation's leaders for its asset size. The credit union's collection philosophy is: "Collections are about listening, not telling. Respecting our member is the key to building the effective communication needed to resolve the problem."

Joe Reed, Southern Security FCU

Joe has been in credit and collections for 40 years. His experience includes time in the consumer finance industry, the collection agency business, with General Electric Credit Corporation and Southern Security FCU.He has been with Southern Security for 23 years – most of those running both the lending and collection functions. Joe is on the Board of Directors of his local credit industry trade association – the International Credit Association of Memphis. Southern Security's delinquency is currently .26%. They have no repossessed cars and no foreclosed real estate at this time (although he says that is always subject to change).

Karin Brown, LSCI

Karin joined the LSCI team in February of 2006 with 29 years of collection and fraud management experience. Prior to joining LSCI Karin worked for three of the nation's larger credit unions, Baxter, Alliant (formerly known as United Airlines Credit Union) and most recently VyStar Credit Union (formerly known as Jax Navy FCU). Through her innovative and common sense approach to collections Karin was able to achieve world-class results in all three organizations; leading her peers in delinquency and charge off results. As vice president of collections for VyStar Credit Union in Florida, Karin lowered the organization's delinquency rate by 30% within the first eight months of her tenure. Under her leadership at Alliant Credit Union in Chicago, the nation's sixth largest credit union, the institution was ranked sixth nationally in December 2004 for the lowest delinquency rate among the top 25 credit unions. Additionally, Karin established the collection department for the $650 million Baxter Credit Union in Illinois, achieving delinquency results of .28 %. Karin joined the LSCI team in February 2006.

The following is a recap of the conversation that followed these questions.

1. Most everyone has been affected directly or indirectly by the economic downturn we have seen over the last year. What are you seeing or doing now that you weren't a few years ago?
   We believe resolution is the key and our old tactics won't work, new creative solutions are necessary. We try to have a conversation with the member and cater a repayment plan to the situation.

   Modifications have been made to our NewSolutions collections settings: queuing up past dues at 10-20 days instead of waiting until 18-25 days late. We have developed a NS Query that identifies members with checking account transactions with "credit counseling" firms as a payment description. We are looking at people that are 15 days late for signs they may be unemployed.
   (*note: this query is available on request*.)

   Collectability goes down 50% when an account goes from 30-60 days late, so the key is to get to know the member and their situation and work to get results.

2. How do you monitor ongoing credit worthiness on members with high open-end loans and credit cards?
   We are relying on good underwriting to make sure creditworthiness is on the front end.

   The credit bureaus can provide data services to carry out ongoing monitoring.

3. Are the traditional collection tools (notices, letters, phone calls) still the most effective?
   Phone calls are still the best way to reach our members. Younger members will respond to text messages and e-mails to text work well too.

   In case of a divorce, we have been successful at getting a family member or ex-family member to open up about the debtor.

   There's no substitute for communicating directly with the member.

4. How do you handle a member who is willing but currently unable to make payments in accordance with the original contract?
   If member is willing to make payments, set short-term goals and monitor frequently. Determine the real need or real ability to pay and make appropriate extensions, payment changes, and payment skips.

   Determine short and long-term goals on the front end and monitor closely.

5. What is your policy on repossession and has it changed over the course of the last year?

Repo is usually a last resort. The key to working with a member is if they communicate. If they will not talk, we will repo at 30 days past due.
We repo on high risk loans, if the member doesn't communicate, we will pick up vehicle immediately and then give it back with a repayment plan.

6. How do you respond to members who tell you they're considering filing bankruptcy?
   We work to determine their financial situation, what types of counseling they are aware or if they have already started talking to a Lawyer or credit counselor. We try to explain the options.

   It's important to discuss bankruptcy if the member may be considering it. If we talk to a member who is late with payments and we see that bankruptcy might be obvious we try to ask if they have considered it as an option. We really try to discover the variables of each situation and determine possible outcomes that make sense for the member and us. If we think a member does not understand bankruptcy options, for instance, that they might be able to keep their car if they reaffirm that debt, we will explain that. It is all case-by-case.

7. What is your opinion of credit counseling services? What is your policy on working with them?
   We work with all of the services without reservation, we pay fees, cooperate with their policies; give the benefit of the doubt to the member.

   We will only work with familiar counseling services. We do not modify loan terms or pay fair share to internet counseling services or unfamiliar ones.

8. What do you do with collectable charge-off accounts?
   Those under $7500, we take to small claims court and establish garnishments.

   We turn over to collection agency on contingent, legal action is rare for us we try to work to prevent problems.

   Most will send to collection agency usually there is a 13.8% normal recovery fee with 25-50% success rate. Local attorney will get judgments, but that is usually not too successful.

9. What limits do you observe on extending and/or renegotiating a loan?
   We can be as creative as necessary.

   Word of caution: collection policies should be clear and written to allow alternative solutions to be implemented.

10. What are auditors focusing on with collections? Do they seem to be adapting to the changing environment?
    Auditors are focusing elsewhere in the credit union.

    Auditors do not seem to be changing their criteria or adapting to the current environment.