- Q&A Session - Collections by Rex Johnson -

Q: Where can I download the slides to the Collections Webinar?

A: you can download the presentation at http://www.rexcuadvice.com/webinar_slides.php and use the same password as you used to logon - **rexcollections**

Q: Where can I access the archived version of the Collections Webinar?

A: You can view the archive version of the Collections Webinar at this website - https://rexcuadvice.webex.com/rexcuadvice/onstage/tool/record/archives.php?Rnd=1912399548 and use the same password you used to logon - **rexcollections**

Q: Why is Rex yelling?

A: I apologize if you thought I was yelling – no one loves collections more than I do and because of that I tend to get a little excited when I see that collections is not getting the attention it should. As a side note I don't recommend yelling at the members! I hope you got something positive out of the webinar other than just the yelling.

Q: If you have A+ or A paper members, when should the first collection call be done?

A: We recommend you make the first call after 5 days. The only difference between A+ and D or E is that you will tend to give the A+ member more consideration and you are willing to send them two or three notices whereas the marginal member should only get one. Be careful that the A+ member is really an A+ member at the time you are trying to collect and has not slipped to E. If they do not respond to the first two or three notices it is probably time to pull a new credit report to see who you are really collecting from.

Q: I use your collections outsourcing solutions. We have been with you for a year now and although they do a good job contacting members I have not seen many of the skills, tools and techniques that you have described in your webinar.

A: I was intrigued by your observation – I have passed this along to Dave Brooke from LSI who is in charge or their collections department. Dave is going to make sure all of our collectors listen to webinar also and your feedback will be most helpful to pass along to our collectors. We welcome feedback and through this feedback we are continually trying to improve so thank you for your feedback.

Q: WOW great presentation. See you in Vegas

A: Thanks for the positive feedback – there is nothing like creating that WOW experience. Make sure you look me up in Vegas – we are going to have a blast!

Q: Does Rex have any suggestions for types of Incentives for collectors. How do you prevent collectors from sandbagging to earn the incentives?

A: We have attached another copy of the collections incentive tracking sheet that we shared with you during the presentation to the end of the Q&A document (click here to access that sheet). You will notice that it clearly states that you have to be on target in 2 out of 3 areas to keep people from sandbagging. As an example – if someone was sandbagging charge-offs by holding onto the account too long then their delinquencies in 2+ month and total delinquencies would rise and therefore they wouldn't qualify for an incentive as they have to be on target in 2 out of 3 areas. If you can see a way they could sandbag that I have not considered please personally let me know but I do not think they will be able to.

Q: What is your advice regarding cars that fall under Rees Levering that we have to let the members reinstate.

A: We in no way would suggest that you break the law regardless of how tempting it is. Make sure that you are only doing what is required under Rees Levering and do not do anything beyond that. It shouldn't be a big drawback in the long run to your picking up cars.

Q: Currently our policy on re-aging bankruptcies is as follows: after a minimum of 3 consecutive payments from the court....how do you feel or do you suggest re-aging at first notice to when we feel we will begin receiving payments?

A: You should only re-age the account when it is apparent that the chapter 13 plan is working and the member is consistently paying into the plan and you have in fact gotten 3 payments in a row. Before re-aging make sure that the overall plan suggests 100% payback. If the payback is only going to be a small percentage you are far better off to charge the account off and take the payments you received in the future and put them in your allowance for loan loss. Don't kid yourself by re-aging where it is obvious you are not going to get all your money back.

Q: In terms of staffing, how many accounts per collector are reasonable?

A: You want to insure that you are staffed so that you can call members a minimum of every other day until you have a solid arrangement for payment. If you have rising delinquencies and charge-offs we recommend a collector should average no more than 125-150 accounts that they are working. If you have very steady delinquencies and charge-offs, you have had no increases to speak of over the last 12 months, and the majority of your overdue accounts respond when they get a notice then a collector can work up to 225-250 accounts. Make sure you have collection clerks to do the clerical work so the collector can stay on the phone and not be interrupted. Most collection departments are understaffed and credit unions end up paying substantially more because of increased charge-offs.

Q: What are the metrics to measure collector productivity?

A: Most credit unions tend to measure a collector's productivity by the volume of the calls they make. We are giving you Karin Brown's email (kbrown@rexcuadvice.com) and I would strongly encourage that you contact Karin to see how she measures it. I personally think the only true measure is how effective the collector is in resolving accounts. I would far rather have a collector who made fewer calls but resolved the majority of the accounts than a collector who simply dials for dollars and never gets a hold of anybody. In conclusion, if your collectors are competing against each other they should have collection goals in both 2+ month delinquency, total delinquency, and charge-offs. If they are consistently under their goals they are probably doing a terrific job in resolving accounts although they may not be making as many calls.

Q: We have been told that we have to go through the bidding process first on repos, and then can offer a buy option. Is this correct?

A: I highly recommend that you contact Commonwealth CU in Frankfort, KY and ask for Emmit who runs collections. They offer a bid/buy process. The bid offer needs to represent a fair market value of the vehicle given the mile and condition of the vehicle. The buy process is always going to be a higher price than the bid. I suspect the individual who gave you the advice that you have to accept bids of any kind is doing so that the member cannot come back and say that favoritism was used and the car was given to someone at a very low price which would suggest insider dealings. Then if you attempt to sue the member for the deficiency balance the courts are not going to look favorably at the fact that you gave the car away, especially if it is a friend of the credit union such as an employee or family member. Having said all of that, if you could clearly demonstrate that the value of the vehicle through the buy process was indeed a fair market value I don't think you will have any problems. Make sure when you contact Commonwealth and Emmitt who is in charge of collections that you ask him did their attorney approve the bid/buy process. This is the largest credit union in the state of Kentucky and I am sure they do due diligence.

Q: What is "BLASTING MESSAGING"

A: Blasting messaging is an automated dialing system but nothing more than a voicemail from a computer as a courtesy reminder that you need to send your payment in or contact the credit union. It has proven to be successful for your better members. For more detailed information I am asking that you email our collection expert – Karin Brown at kbrown@rexcuadvice.com – and she will be delighted to give you the name of the company she used, the cost, and the results they have gotten.

Q: What is difference in "DIRECT" and "INDIRECT" Lending?

A: Direct lending is where the member contacts you, has a relationship with you and wants to get a vehicle loan. Indirect lending is where the car dealer sends you as well as several other lenders an app on a customer trying to buy an automobile who may or may not know you and have a relationship with you. Delinquencies and charge-offs on direct lending tend to be lower as you know the member and you close the loan.

Q: You have used two terms that we are unfamiliar with - Doppler Radar and unmap - would you explain?

A: Doppler Radar is used by the weather people to show you if there is a big storm headed your way (i.e. predicting the weather) and if you don't do something it could be very costly. I use it to illustrate that rapid growth in loans where there is no decrease as a percentage in delinquencies and charge-offs that you have a problem – you just don't see it yet. The amazing thing about hurricanes is the day before they hit the sun is shining brightly and everybody is playing on the beach and has no idea what is coming their way. With rapid loan growth it looks like the sun is shining but if delinquencies and charge-offs are not going down as a percentage you are going to be in for a big surprise.

Unmapping is just a terminology used by some credit unions to bring an account current such as rewriting the loan, giving extensions or deferments, or using skip a pays and so forth. While there are times it can work, for the most part you are prolonging the inevitable and all you are really doing is just delaying charge-offs instead of dealing with it. It is a way that some credit unions can mask a serious delinquency problem in the short run but not the long run.

Q: What is "CPI" insurance?

A: CPI stands for collateral protection insurance. When a member gets a car loan through the credit union – the member has to agree to keep the car insured and in the event that there is damage their insurance company should repair the car that you are holding as collateral. Some members let their insurance lapse – and the credit union adds insurance which is allowed by their contract. This is single interest insurance and is extremely costly to the member. The credit unions usually allow the member to pay for the insurance by either increasing the monthly payment so that the insurance is paid over the life of the loan or increasing the payment so that the insurance is paid over the next 12 months. This can result in the member's monthly payment going up several hundred dollars. If a member cannot afford the cost of the regular insurance, what leads the credit union to believe they can afford the cost of the new insurance which is always substantially higher. That is why we highly recommend pulling a credit report when it is added and if it is obvious the member is struggling to make their payments and their score has dropped you need to consider picking up your car. You will get a refund from the insurance company based on the rule of 78 and you will lose little if any money if you move quickly. If you don't do this you will end up with the member owing you more money than they originally borrowed 12-18 months down the road when you pick up the car out of necessity. You will then have a very large deficiency balance.

Q: Are there any harassment laws or other regulations regarding calling every other day?

A: We want to clear up what we mean by every other day calling. If you have made contact with the member and you have an arrangement for payment then you are not going to call that member until that arrangement has been broken. If you are attempting to contact the member working the account every other day as long as you have not made contact cannot be considered harassment unless you are calling late in the evening, usually defined after 8PM or on Sundays – then you run some risk. My problem is when I review collection work I will see that the account has been 2, 3, 4 weeks with no attempts to contact the member. This type of follow-up simply will not get the job done. Never harass the member and once you have contacted and made an arrangement for payment do not contact that member again unless the arrangement has been broken – but that needs to be within a day or two.

Q: When you refer to a collector handling 150-250 accounts, is that 30-day delinquent accounts?

A: Those numbers represent any delinquent accounts and the only way a collector can do this is if they are assigned a collection clerk to handle all the clerical work. Remember, a large number of accounts that are delinquent the first of each month tend to fall off the delinquency report because their payment is in the mail and so your delinquency drops substantially in that first couple of weeks.

Q: Is the increase for credit card minimum payments from 2% to 4% a federal law? When does it go into effect?

A: It is our understand that it is a federal law for other financial institutions but credit unions are exempt and the law went into effect in January of 2006.

Q: When incentive plans are implemented are base wages reduced to offset what is an already an expectation of their job?

A: The answer is absolutely not. Incentives are a way of recognizing good performance. The word incentive comes from the word incent which means to drive to action. You know what kind of results you are getting without incentives – see what would happen with a good incentive program. Employees are smart enough to figure out that if you are going to pay them an incentive but reduce their base salary then while you may be giving them something you are also taking something away. This has been proven not to work very well at all.

Q: When reducing interest rates on future loans offered to members who file BK on the CU, do you recommend the member signing an agreement to raise the rate if payments stop? Does the member also have to acknowledge they are paying at their own free will?

A: I would absolutely have the member sign an acknowledgement that they voluntarily elected to pay this money back and that they understand that while the credit union will not legally enforce collection of the account that the credit union will give them a courtesy notice or phone call in the event they become delinquent. As far as the special rate that you are offering on the new loan, providing your attorney approves it, I would have an addendum that states that in the event the voluntary loan is not paid back that the rate on this loan will convert to the normal rate that the member would have been charged based on their score. In most cases the member is going to pay you and this will not be an issue.

Q: If a member has to increase their minimum payments on their credit cards from $200 to $400 per month that will impact the monthly funds available for their credit union loans. Are lending departments adjusting their debt ratio calculations?

A: That is an excellent question and my guess is no. I highly recommend that your loan department have this discussion with the members to see if the monthly payment has or is going to increase. The members should have gotten something in the mail by now that would have shown the amount of the new increase. Talk to your members and find out how much it was and if it will impact their payments. This also may represent a good lending opportunity for you as you should be able to reduce their payments by offering them your credit card or making them a signature loan.

Q: What is the name of the Western Union Service?

A: It is called Quick Collect.

Q: How do you do a partial charge off on a Chapter 13 Bankruptcy if you report to the Credit Bureau? When we have done this in the past it seems to benefit the member by showing that portion as being paid.

A: Most financial institutions will have language such as accounts settled for less than full balance, partial charge-off and so forth. I suggest you contact your credit bureau rep and ask them the proper way to report this so that it doesn't appear that the member has paid this off but in fact it was a partial charge-off.

Q: What is the national average (% of current loan balance) that CU's collect on repo's via auction? This is a difficult question to answer due to things such as CPI, Extended Warranty, GAP, etc... being added to the loan. From the research that I've done, I've found this to be 33%

A: I would really be interested in your research and anything that you could send us. We believe that number to be that a credit union collects 55% of its balance and charge-offs 45%. We have not updated that in awhile and given the fact that credit unions are taking on substantially more risk by financing 125%+++, extending terms, and adding force placed insurance then your 33% may be a lot closer than our 55%. In either case the credit union is taking quite a beating. If you have any surveys in writing that you have done of other credit unions to support your findings we would appreciate you sending them to us.

With this question we are asking all the attendees of the webinar to let us know when they sell a repo what percent of the balance they are recovering. If all the credit unions will respond we will make this information available to all of the attendees. We would also be interested in the average deficiency balance on a direct loan versus the average deficiency balance on an indirect loan. We will likewise make this available to all of the attendees.

Q: Isn't it a conflict of interest to have a lender working in the collection department?

A: I do not believe this is a conflict of interest. Too often, lenders working in the loan department are reluctant to signoff on any loan sold by the collections department because the members risk score is not going to be all that good. It is important that the loans that the lenders signoff on are certainly reviewed by management, we call this inspect and validate. This is almost a specialized position where employees are trained on how to put a loan together and have an appetite for taking risk and increasing loan yield. We do not want lenders to be afraid of the collections department, but in fact support the collection department. So therefore by having a lender assigned to the collections department would seem to tend to get that lender more focused on helping the collectors look for these opportunities.

Q: A member declares bankruptcy. I talk to them and send them a reaffirmation agreement for their vehicle loan. They never send it back but continue to make payments. Is this OK or do I force them to complete the agreement?

A: Due to the backlog of BK's in many states, the courts no longer require a signed reaffirmation. You need to check with you state to see if a member continues to make their payments, even though they did not sign a reaffirmation, can you legally pick up the car in the event they default. I believe you will find the answer to be yes. If that is the case I would simply write the member and let the member know how much we appreciate the fact that they are honoring their original contract and that if you could be of future service to them for a credit card or any other needs to please contact the credit union.

Q: What is your opinion in offering discounts or add on to rates for auto pay. If so, how much do you feel is appropriate? As a follow up to that question, do you feel that an incentive should be paid to collectors in converting an account to auto-pay?

A: I believe auto pay, also known as payroll deduction, direct deposit and so forth are invaluable. The financial institution that gets really good at this can absolutely take more risk as long as the employees are trained to make sure they have it up front and they close the loan in a way the member understands they are not to stop it. Most credit unions discount the loan by a quarter of 1 percent; however I would offer up to a half percent discount because it is invaluable. Yours is a good question and I hope you are doing it.

The answer to your second question is absolutely! It is invaluable and I would certainly reward my collectors with an incentive and I would pay a minimum $25 as this should help cut your collection efforts way back.

Q: Your comment about repossessing a car within the first 30-45 days- does that apply to just E borrowers or all borrowers; apply the same question to no extensions or deferments?

A: At the time that you are closing the loan, if the member has had past problems and there is every indication to believe that this could happen with your loan (note that is usually your D and E paper members) then the member must clearly understand that your loan is a fresh start and every payment has to be made on time (we highly recommend payroll deduction). If the member defaults, they should understand they will be given a notice and perhaps one or two phone calls but the car will be picked up within the first 30 to 45 days. Members who are A+ and A paper, providing they are still A+ and A paper you are not going to pick the car up as quickly. But if an A+ member is now a D or E paper member and they are getting an A+ rate yet you are having to follow them up like a D or E paper member you cannot play around with it since you are not getting compensated for the risk you have taken and the collection work you are now having to do. So once again pick up the car quickly.

To answer the second part of your question extensions and deferments are simply not a good idea for D and E paper members. Again the loan you are giving them is basically a fresh start and to allow them to start missing payments which you correct by an extension or a deferment is just inviting problems and prolonging the inevitable. They should be used very, very sparingly.

Q: You mentioned that training is a key factor for a successful collection department. How much training and what kind of training would you recommend to someone new in collections?

A: My answer is going to be somewhat self serving. We believe that all new collectors should attend the university of Lending so they can really understand credit reports, scoring models, decision making, sales skills, how to avoid BK and so forth. I would immediately follow that up with our collection school happening in Las Vegas from March 14-16 (click here for more information or to register). Then their confidence level should go way up. If you don't invest in your employees, they are going to make mistakes and will end up costing the credit union a lot more money than what you will spend on training. You can obviously do this training yourself but it has been our finding they learn a lot better in a class room environment with employees from other credit unions then they do at their own credit union where it is often hit or miss because you have to pull them out of training to help out with the workload. Anyone that come to our schools, if you are not delighted it is free. I think you can prove it has value if you have two new employees and send one to both of our schools and hold off on sending the others and then compare their results once they get back. I think you will see a big, big difference.

Q: We have an indirect lending program and from analysis it appears we have significant more losses in this program than on in-house loans. Do you recommend different rates on indirect versus in-house in order to offset losses and dealer payments?

A: No we do not recommend different rate structures. The only possible exception to this rule is for non members coming through indirect who will probably never use the credit union again, and then we think it makes sense to have a different rate structure. For your existing members that go through the dealer, if you attempt to charge them a higher rate, then they find out that they could have gotten a lower rate by going directly through you by going directly through you then they will be very upset and they will insist upon receiving the lower rate. What intrigued me about your question was that you are seeing what many other credit unions see. I cannot emphasize this strongly enough – get a portfolio analysis done immediately, we will discuss the results in a conference call once we send them back to you, and then we will come onsite if you would like with either our collection or lending experts. This will save you thousands and thousands of dollars and we are convinced of it because we have done it enough times to know. If we cannot prove it to you then we will not charge you a penny but your program definitely needs to be looked at. Don't continue to charge-off more money than you need to charge-off. It is a much larger expense than training. We will have Karin Brown take a look at your FPR ratios and your trends and I am asking her to contact you just to show you what it is telling us without even looking at the evidence. You should hear from her within the next few weeks.

Q: On BK chapter 13 loans, we were given instructions from NCUA that we now have to wait to have 6 months consecutive payments before we can re-age the loan. We now carry these loans on our delinquency list until....

A: Each examiner may have a different opinion on how long you must carry this on your books before you can re-age it. 3 months of payments will usually satisfy most examiners and you can have 3 years of payments and it will not satisfy some examiners. The 6 months they are requiring from you is a very conservative approach and depending on your overall results you may have to live with it. If you have low delinquency and low charge-offs and strong earnings plus strong capital you can probably negotiate the 6 months down to 3. I will repeat one more time that I would not re-age any chapter 13 unless there is substantial subjective evidence that we are going to get all of our money back. Look closely at the plan before re-aging the account.

Q: We have a member who is in Bankruptcy Chapter 13, she is making payments for arrearages on the mortgage and will soon be making payments to secured creditors. The plan is 100%, however, the interest rate is lowered and therefore we will have a loss. My question is, if the title will have to be released to the member once the Bankruptcy is completed.

A: Your question is not clear as to what your collateral is. Do you in fact have a mortgage loan or do you have some other type of secured loan like an automobile. If you agreed to the plan and the plan stated that you would not get your full interest I would adjust the interest down to be consistent with the plan and therefore there should be no loss. I think it is unfair to penalize the member by showing a charge-off because of the interest where the member doesn't have to legally pay it because the plan was accepted by the creditors. I would even go so far as to let the member know that we will be there for future credit requests even though in a chapter 13 it will take the courts approval while they are still under the plan and generally the court will only approve it if it is a necessity. Again I would be very reluctant to show a charge off when you cannot legally collect it to start with.

Q: I would like to ask Rex a question on CPI and cure of default notices. We work with State National Company on CPI. They send out a series of notices and the final notice indicates to the member that CPI will be placed on the loan. Right now we don't send cure of default notices to members just because they don't have insurance on the collateral, even though the expectation is that the member would have adequate insurance. My question to Rex is does he think that even though a member is not delinquent that a cure of default notice should be sent to the member indicating that they don't have insurance on the collateral and that this cure of default should go out to the member prior to the last letter going out from State National Company and prior to when CPI would be added to the loan?

A: I would go ahead and add the CPI insurance. Immediately after you add the insurance, pull a credit report to see if the members' circumstances have changed, their score has dropped, and it appears that future payment is doubtful. If you see that future collections is very doubtful, immediately notify the member what their new payment will be and if they default immediately send a notice out to the member, if required by law in your state, to let the member know that you will be picking the car up and that they can voluntarily surrender it if they choose to do so.

Collection Incentive Program

	12/31	1/31	2/28	3/31	→	12/31
Total Delinquency	1.20%	1.18	1.16	1.14	→	.96%
	\$300 / 150					
2+ Months Delinquency	.60	.59	.58	.57	→	.48%
	\$300 / 150					
Charge Off	50T	100T	150T	200T	→	600T
	\$300 / 150					
	\$900 / 450					

\$300……..(this represents what the manager could earn)

150…(this represents what the collector could earn)

Must Be On Target In 2 out of 3 Areas

Other Collection Incentives

Charge Offs	=	10% of what is collected
Negative Shares	=	10% of what is collected
Voluntary Repo	=	$100
Selling Repo’s	=	$250 (Must get low book)
Reaffirm on Chapter 7 (Unsecured)	=	$100
Re-write Unsecured to Secured	=	1% of balance $10,000 x 1% = $100
Cross-Selling	=	$5 per thousand

$40,000 H.E. sold by collections = $200