A Guideline for Credit Unions:

Building a Strong Collections Strategy, So You Can Turn On the Lending Faucet

As you know, lending has become the most critical element for any credit union's growth. And, as a lender, you probably know first-hand the very real downside to lending—risk. Delinquencies, charge offs, bankruptcies, foreclosures and more, are the risks that come with any competitive program. With charged-off debt surpassing $4 billion for credit unions in 2013, it's clear a successful lending program requires an equally strong collections program.

If we think of lending like a water faucet, ideally the nozzle is wide open letting the water flow freely, or in the case of a credit union, allowing your money to flow into the community via loans. More often than not however, in an effort to manage risk, decisioning criteria for any type of loan has become so complex that the faucet gets shut down to a mere trickle. So, how do you successfully mitigate the risks to keep the lending faucet wide open?

The good news, advancements in loan origination software may aid credit unions with the ability to make better loan decisions in the hopes of decreasing the risks. The bad news, every possible risk in lending simply cannot be mitigated. Even with the best tools in place things happen in members' lives that will create collection concerns for credit unions–regardless of best efforts to mitigate the risks up front. Once you have a strong origination and decisioning policy in place, you'll need an equally strong collections strategy so you can keep the lending faucet flowing.

Guidelines for a Strong Collections Program:

1. **Have a fundamental understanding of your underwriting guidelines**
   As you attempt to collect on loans, it makes the process more successful to understand how loans are underwritten by loan type and credit tier. Understanding the elements utilized to get the loan approved will be critical when it comes time to collect, since you can now determine the level of intensity that is needed by loan type and product.

2. **Understand the successful skillsets of a collector**
   When you have your staff not only multitask, but also multifunction in order to accomplish all of the required processes, be very mindful of what you need from a competency skillset in a collector. For example, it is less than optimal to have a member service associate handle collations because they have the time to fit it into their schedule. If they're not comfortable with the functions of successful collections, you increase your risk and decrease your collections. Assess your staff to identify who has successful collection skillsets and then adjust their workload appropriately. If you don't have anyone on staff with the qualifications or time to handle the tasks, it's in your best interest to identify a vendor partner.

3. **Consider volume vs. full-time employees vs. outcome**

   These are the metrics that are critical to the success of an in-house collections department:

   a. Understand your current lending volume; your delinquency and charge off rates; and, how that translates into number of files per day, week, and month

   b. Then, identify the number of full time employees (FTEs) available to handle that volume. Do you have dedicated staff or multi-function staff?

   c. Finally, does the volume and number of FTEs to work the volume create your desired outcome?

Thoughtful planning in these three areas will greatly increase your success.

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4. **Create equal balance between effectiveness, efficiency, and quality assurance**
   Just as you need to plan FTEs appropriately for your intended delinquency volume, effectiveness, efficiency, and quality assurance must also be in balance. Ensure you have the systems and expertise to monitor and measure results on an ongoing basis; for example, are you getting maximum return on recovered dollars versus your cost to collect those funds? It's critical to keep this in sync; otherwise you're putting good dollars after bad in your collection efforts and will end up losing more money in the process.

Every credit union has a unique collections experience based on lending habits and membership, but regardless of situation, don't let your collection efforts be an afterthought to your lending strategies. Putting the above four elements in place will go a long way in creating a viable collections program. And, the more successful you are in your debt recovery, the more you'll be able to support your community—and turn on your lending faucet.

About the Author

Lee Damiano is Director of Default Operations at LCS Financial Services Corporation and an authority in the recovery arena boasting nearly 40 years of experience, eight of these in the credit union industry itself. LCS Financial Services Corporation is backed by more than 30 years of receivables management experience. The company maximizes debt recovery for financial institutions nationwide, specializing in the recovery of mortgage, auto, and student loans.

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To find out more about LCS Financial, visit **www.lcsfin.com.**

To receive more information on how to effectively handle collections,
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"Best Practices for Successful Debt Recovery:
A Collections Checklist for Credit Unions"

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