A Guideline for Auto Lenders:

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

As an auto lender, you probably know first-hand the very real downside to lending: R-I-S-K. Delinquencies, charge offs, and bankruptcies are risks that come with any competitive program. In 2013, auto finance outstandings hit a record $822.1 billion according to Auto Finance News data—and Experian data showed that 36% of these outstandings are subprime. Making it clear that 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 an auto finance company, allowing your money to flow into the dealerships 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. Once you curb your approvals at the dealer level, it's difficult to get that volume and business back.

So, how do you successfully mitigate the risks to keep the lending faucet wide open?

- The good news, advancements in loan origination software may aide auto lenders with the ability to make better loan decisions in the hopes of decreasing risk and managing the regulatory environment.
- The bad news, every possible risk in lending simply cannot be mitigated. Even with the best tools in place things happen in borrowers' lives that will create collection concerns for lenders—regardless of best efforts to mitigate the risks up front.

With this in mind, 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 borrower 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.

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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.

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 lender has a unique collections experience based on lending habits, markets, and products, 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 dealers—and turn on your lending faucet.

About LCS Financial Services Corporation

LCS™ Financial Services Corporation is an affiliate of LCS™ Receivables Management, LLC, and a leader in post charge-off recoveries for the financial services sector. With more than 30 years of receivables management experience, the company maximizes debt recovery for financial institutions nationwide. Together, LCS Financial and its affiliated companies span the recovery spectrum from nationwide collections and legal referrals to debt acquisition and sales. For more information, visit www.lcsfin.com.

Celebrating
30 YEARS
of recovery
excellence

To receive more information on how to effectively handle collections, click here to join our mailing list.

"Best Practices for Successful Debt Recovery: A Collections Checklist for Auto Finance"

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