Best Practices for Successful Debt Recovery:

A Collections Checklist for Credit Unions

Navigating the world of collections can be daunting for a credit union of any size. There's an exhausting list of laws, regulations and processes to be considered, not to mention the staffing and expertise required to be successful. Despite the obstacles, it's critical a credit union engaged in any type of lending activity have a solid collections strategy.

If you're reading this, there's likely some piece in the recovery process that you could supplement with either in-house expertise or external guidance in the areas of delinquencies, charge offs, bankruptcies, foreclosures, litigation and more. A healthy, viable collections strategy will create efficiencies and maximize recoveries – while keeping your lending program thriving in tandem. Reputable agencies like LCS Financial Services Corporation can help you devise a strategy, or supplement your existing collections program, at any stage of the recovery process.

The following are best practices established at LCS Financial Services Corporation over the past 30 years of recovering debt for financial institutions nationwide:

1. **Develop various strategies based on account tenor, balance breaks, accounts past due and credit score**
   Don't take a one-size-fits-all collections approach. Just like decisioning and underwriting, develop unique processes for the loan type, age of the file, and quality of the paper. Your ability to collect varies greatly between a Tier 3 auto loan and a Tier 1 second mortgage.

2. **Establish and measure key performance indicators (KPIs)**
   It's critical to measure and monitor any process you have in place. As the saying goes, "what gets monitored gets done." Set KPIs with an understanding of the data available to you. There's nothing worse than setting a performance indicator only to find out you have no easy way to measure it. This will likely require a quick inventory of your systems and data points available, and possibly making adjustments so that you can easily measure your success.

3. **Employ a robust call monitoring system that provides feedback to management and employees while protecting member service standards**
   Make certain you are monitoring calls for quality control and member fair treatment. If disputes arise, as a regulated institution, you need to be able to validate calls.

4. **Ensure compliance with all regulatory guidelines by product type and location**
   This topic is heavy on everyone's mind. It should go without saying, but we're going to say it any way, it is critical your credit union is fully aware of all collection and recovery laws in your state as well as any other states where your members reside.

5. **Implement a comprehensive incentive program for your collections staff**
   Offer a competitive incentive program for your collections staff to ensure you have them focused on maximizing your returns, as quickly and effectively as possible.

6. **Implement skip tracing**
   Whether you need skip tracing for mortgage delinquencies or auto recoveries, you need in-house experts or a trusted vendor. This is an absolutely critical element for effective recovery.

7. **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.

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8. **Understand the successful skillsets of a collector**
When your staff is required to not only to multitask, but also to multifunction, it's important to be very mindful of what you need from a competency skillset in a collector. For example, you would not want to delegate collections to a member service associate because they have the time to fit it into their schedule. Assess your staff to identify successful collection skillsets and then adjust workload appropriately; and, if no one has the time or skills, it's in your best interest to identify a vendor partner.

9. **Develop strong relationships with outside vendors in support areas like auto repossession, auto remarketing, attorneys, monitoring software like Banko®, etc.**
There are certain aspects of collections that you will either need to partner or outsource altogether, predominately auto repossession, remarketing, and outside legal counsel. Ensure you've done vendor due diligence to find a high level of expertise in the areas that you need.

10. **Enlist forecasting methodology that enhances Allowance for Loan Loss projections**
Along with KPIs, you'll need the ability to forecast delinquent and charge-off accounts as well as your collection and recovery efforts.

11. **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?

12. **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.

13. **Ensure you have the ability and flexibility to pull the data that you need from your current systems**
You will need to be able to segregate out your delinquent files by product lines, product types, credit tier, age and location, as well as other factors that may aide in your ability to collect.

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 receive more information on how to effectively handle collections,
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