

The best collection tools and technologies are flexible.

Collection Protection

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IT MAY BE A CLICHÉ TO say that you're running harder to stay in place, but that doesn't make it any less true when it describes your actual situation.

The average credit union has to make 28% to 42% more contacts and efforts to collect the same amount of overdue payments as it did a year ago, according to Holly Caid, director of business development for Information Access Technology (IAT), Salt Lake City.

"Credit unions have to call more to keep delinquent members paying," she says. "They have to make calls so members keep them high on their repayment lists."

This is happening, says Caid, because there's more consumer debt than ever, coupled with less ability to pay. "Financial institutions, rather than let delinquent customers stay in default, will accept payback at smaller amounts even though it means it will take longer for debts to be remedied. Putting 'pending default' on a member's file looks better on paper even though what you're actually dealing with is a default."

To Caid, this sets a bad precedent. "Allowing more people to avoid default by having them repay at lower amounts leads to what we call 'lazy lending, lazy

recovery.'" It also stresses margins.

The alternative? Astute use of collections technology. Modern collections software and services allow credit unions to jump more quickly than ever to handle delinquent and potentially delinquent accounts.

At stake is a competition for wallet share: Can the credit union keep its name and its bills high on a member's repayment list?

Pursue solutions

Vendors offer several solutions, from Web-based services to in-house software, addressing various segments of the collections process.

Costa Mesa, Calif.-based Experian bundles a three-pronged approach to its collection services, explains Dan Buell, director of CIS Collections Products. The first, Collection Advantage, offers analytics, segmentation, and scoring. Users get credit attributes and scoring data, which they can use to determine what to do with a loan (i.e., keep, sell, or work the loan).

The second is location services and skip tracing provided by Experian's MetroNet product. "Skip tracing helps clients find debtors who have disappeared," Buell says. "We live in a very transient society now, and this kind

of capability is a necessity."

The third part of the bundle is "Collection Triggers," which allows credit unions to monitor members based on predetermined attributes. "Those are then compared with 'trigger events,'" says Buell, "such as looking for a new job or moving, that tell the credit union something may be going on."

On the other hand, says Buell, credit unions and vendors have to be careful about the data they apply to members despite its abundance. "There is more data available today than ever before, which is why we have to sort through it to make sure it's from ethical, reliable sources, and that it's accurate."

Seek flexibility

One quality credit unions look for in collections software is flexibility. Shaw Systems Associates Inc., Houston, offers two front-end solutions, Classic Collections and Spectrum

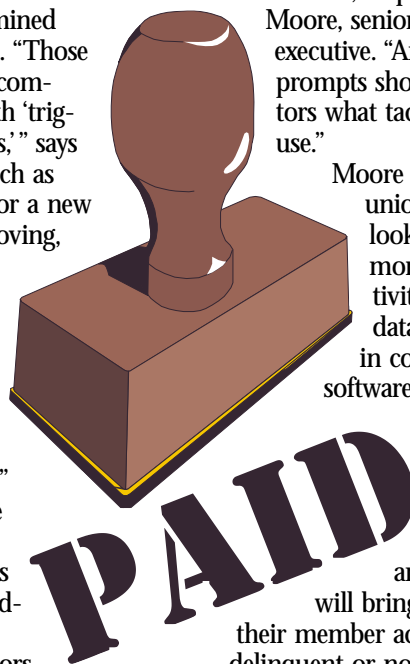
Collections, credit unions can tailor to their specific needs.

"Credit unions can write whatever rules they want to it," explains Mike Moore, senior account executive. "And built-in prompts show collectors what tactics to use."

Moore says credit unions are looking for more interactivity and data transfer in collections software. "Most credit unions are on a core system, and most

will bring all of their member accounts—delinquent or not—into our system to get an overall member profile. The software not only helps detect defaults or fraud, it also helps with cross-selling and assessing risk. By using the software, credit unions are better able to look at their members and determine how to approach collections."

Flexibility is even more important when software can profile member idiosyncrasies. "For example," says Moore, "a member who consistently is a few days late but always pays isn't one you'd automati-



cally begin dunning if he misses the payment due date. However, if the member begins not paying, that's a different matter."

Contacting or communications software also can get very specific. IAT's software, CT Center, interfaces with core processors and collection software such as Shaw Systems'. It uses predictive dialing and interactive voice response (IVR) to contact delinquent accounts.

"Predictive dialing is a way around busy tones, operator intercepts, and message machines," says Caid. "It screens those out and delivers only live calls. It generates a 250% to 300% improvement in overall productivity because collectors aren't wasting time on nonproductive calls."

The IVR solution sends out automated messaging calls, usually payment reminders with detailed information. It also can be used to announce new products and increase contacts with members.

Caid says the software's "interactive communication" feature has scripted, professionally recorded messages. "We can't replace human contact, but we certainly can help. Do you want your best staff mem-

bers making calls when in many situations a recorded message can do just as well?"

Maximize effectiveness

As good as collections technology is, Moore says credit unions' largest concern is that they're not getting full value out of the software even though they're using it every day. "The typical credit union collections manager may wear several hats and might not have the depth of experience to use it as well as possible or be totally comfortable with it," he says. "In cases like that, we'll send an expert collections consultant to help clients get better use out of it."

Buell says credit unions sometimes become too earnest about collecting data that will help them forestall losses, especially regarding skip tracing. "There's a tendency to create volumes of information on a consumer from Internet data that don't lead to a recovery."

Such data burden the system with irrelevant or inaccurate information when the real basis to successful skip tracing is phone numbers. "Credit unions should focus on essentials like that," he says.

Buell recommends shifting some back-end and back-office collections functions up front "where experienced staffers can be more proactive in detecting patterns. Give them the tools for segmenting and analyzing so they can catch a member early on and have a better opportunity to save the relationship."

Also, he says, develop alternative means of member contact—cell phones, text messaging, the Internet—especially as younger people join credit unions. "Create a stronger, broader array of touch points."

Be aware, however, of regulatory restrictions on calling cell phones for collection purposes.

An impending factor in collections is the effect of the recently toughened federal Bankruptcy Code. How much will they stanch bankruptcies as a means of avoiding repayment of consumer debt?

"We saw lots of activity until Oct. 17, when the new law took effect," says Buell. "The courts were quickly backlogged. After that, it has been very quiet. Now, a few months into this, will mandating credit counseling sessions work? We don't know. Creditors are watching it closely, and

we're keeping an eye on it."

On a more positive note, Caid says good partnerships are developing in the collections technology industry as vendors acquire other vendors or enter into close collaboration with vendors whose technology complements their own.

"The client benefit is twofold: Although there's lots of good software out there now, credit unions don't have to deal with so many vendors," she says. "At the same time, open architecture is allowing credit unions to embrace a hub-and-spoke approach to their collections technology. They can go to as few or as many vendors as they want, knowing that all the different offerings will function well together."

Buell says credit unions in general are quick to catch on to collections technology and should continue to learn about best practices. One easy way to do it: "Call a vendor, even if it's not one you use. Vendors increasingly see themselves as educators, too."

Learn about the collections approach of Wauna Federal Credit Union, Clatskanie, Ore., at CREDITUNIONmagazine.com