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SPECIAL REPORT

How CU Revest Recovers Charge-Offs Along With Former Members

New CUSO Develops Niche Market In Recovering Funds And 'Prior Prime' Consumers

BY RAY BIRCH

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Mike Joplin, CU Revest President and Chairman of the Board of the Servatus Corp. holding company

SAN DIEGO — A new credit union service organization is helping credit unions collect on charged-off accounts and return "prior prime" members to their former CUs.CU Revest, owned by four credit unions and the Servatus Corp. holding company, began operating last year and has taken $200 million in accounts CUs have written off and recovered $1.2 million — with that revenue total expected to significantly rise in the next two years.

Perhaps more importantly, said CU Revest President Mike Joplin, is that the CUSO has helped bout 1,000 so called prior prime members return to their credit unions with improved credit scores.

"This is as much about bringing a member back who was once in very good standing as it is about getting money from write-offs," said Joplin.

CUs have failed to recover some $20 billion in charge-offs between 2008 - 2013, according to Joplin. "Of that $20 billion, there are $3 billion of cash recoveries sitting there from people who can and will repay," he said. "And in that $3 billion there are more than 400,000 members who want to pay their debt and come back to the credit union," Joplin added.

'Need A Way Back'

The Great Recession has landed many former prime borrowers on hard times, he noted. "A life event happened, they lost a job or had a big medical bill and suddenly they can't repay. That does not mean they are bad members, they just need a way back."

He said many of these "prior prime" members want to rebuild their credit but can't since they have been forced out of the mainstream financial services market.

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CU Revest identifies the best opportunities for recovery and then works with the former members, taking a very different approach than the average collections company, according to Joplin.

The company partners closely with consumers on the credit-rebuilding process, first telling them that their credit union is interested in having them come back.

The CUSO then explains members must repay the money they owe the credit union before they can rejoin, and that CU Revest will make a 0% loan through its financing arm — generally for about 60 months — to cover the money the individual can't produce.

Since the new debt the former member repays shows at credit bureaus as a loan through CU Revest, the borrower begins rebuilding credit.

"We have seen members in the last year improve their credit scores by 50 to 100 points," said Joplin, who explained that each credit union has its own policies for taking these members back. "Some want to see six months of steady repayment."

Kinecta Signs On

The $3.3 billion-asset Kinecta FCU in Manhattan Beach, Calif., signed on with CU Revest in June and expects that the money it's already taking in from recoveries exceeds what it would have gotten from selling the bad assets for pennies on the dollar to a typical collections firm.

Randy Dotemoto, Kinecta SVP and president of the CU's Kinecta Alternative Financial Solutions CUSO.

Credit unions don't pay for CU Revest services, as the CUSO takes its expenses from the credit union's recovery total and then gives 55% of the recoveries back to the CU. Joplin said the CUSO expects to distribute $36 million in revenue to credit unions during 2015.

"The CU Revest model shows that over three years we will far outstrip a cash-up-front sale," said Randy Dotemoto, Kinecta SVP and president of the CU's Kinecta Alternative Financial Solutions CUSO.

Kinecta is a CU Revest owner. Dotemoto explained that Kinecta's charged-off assets are deposited into CU Revest and separated from assets of other participating CUs.

What really interested Dotemoto in partnering with CU Revest is giving Kinecta the chance to bring back members who used to be profitable.

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"These members once were prime and we have the opportunity to get them back? That is what really intrigued me about CU Revest," said Dotemoto. "And we are getting a very loyal member without having to pay to attract one, which statistics show can average $400 to $500 per acquisition."

Credit unions may wonder why members who have not paid their debt in years would do so now, offered Dotemoto. "It would seem that the longer people get away from paying a debt the less likely they are to ever pay it back."

What's happening to many of these former CU members, said Dotemoto, is that they are struggling without mainstream financial services, going to payday lenders for loans, using grocery stores to cash paychecks and buying money orders to pay their bills.

"Now they are motivated to get back on their feet and they want a way back to the credit union," he said.

Question Of Profitability

Joplin said it is too soon to judge whether the members who are returning are profitable. "We need more time to pass to really answer that question."

Dotemoto said he does not need a great deal of time to make a call on whether the program is beneficial — for the CU and the member.

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"What we are doing with CU Revest is in line with Kinecta's vision. If a good member stumbles and then can't pay the credit union, but is then willing to settle up, why wouldn't we help them?"

In addition to Kinecta, CU Revest is owned by the $1.5 billion ORNL FCU in Oak Ridge, Tenn.; the $3.3 billion Desert Schools FCU in Phoenix; and $1.7 billion GTE FCU in Tampa, Fla.

The CUSO has 10 other CU clients. Ackelerant, Malvern, Pa, and CU* Answers, Grand Rapids, Mich., are partnering with CU Revest to extract charge-off data from participating institutions.

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