"Post-Pandemic Loss Recovery: What Every Credit Union Must Know – a 3 Part Series"

<u>PART II – Take This Job and Shove It!</u>

Part I of this series, "Managing Consumer Financial Vulnerability" focused on the vulnerability of past-due and charged off Credit Union member-borrowers. Delinquent credit obligations, whether they were charged off prior to or during the pandemic, have become increasingly subordinate to the immediate financial needs of individuals and families, and those needs have significantly changed.

Here we will focus more closely on a key driver of change: employment. Ironically, employment itself has been the subject of significant disruption. Many consumers are struggling to find a balance between remote and onsite work, driven in many cases by conflicting employer requirements and whether their children are in school or at home. Others are victims of prolonged unemployment, particularly in the restaurant, retail and service industries. Yet many others are simply quitting their jobs at a record pace.

A Counter-Intuitive Paradigm Shift

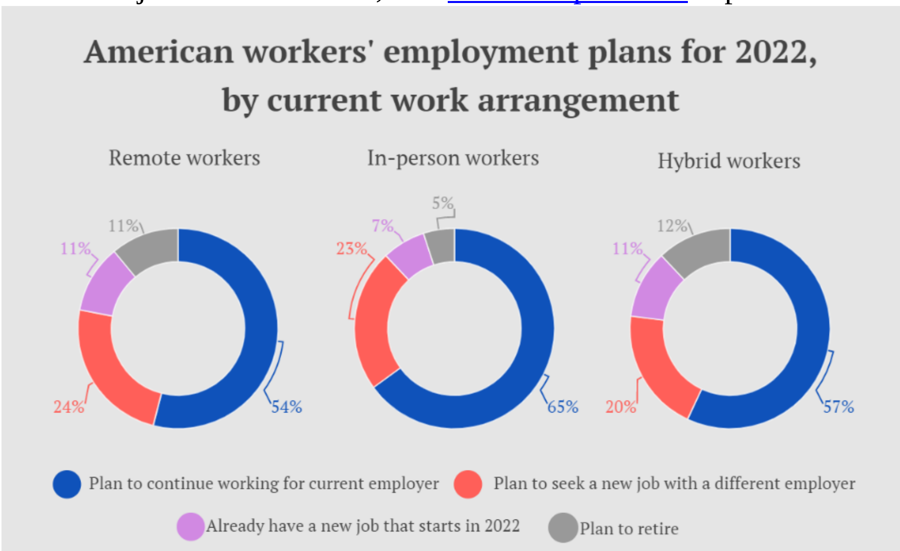
As if consumer financial worries and related mental health issues aren't enough to challenge traditional collection practices, there's this thing called "The Great Resignation." "We've all seen signs in front of shops, restaurants, and factories: 'we're hiring!' 'Help wanted!" And now, the Omicron variant is taking a toll on the already depleted workforce… well over 20 million people quit their jobs in the second half of 2021. Some are calling it the 'big quit,' others 'the great resignation'…In all, the highest 'quit rate' since the government started keeping track two decades ago. At the nationwide level, the number of Americans quitting their job is higher than ever. We can see what sectors people are quitting. Retail sectors and hospitality sectors. It may not just be worth it for some folks. And so in some cases people are quitting and they're not yet returning. They're taking a break. Americans are burnt out. I like to think of it as it's a 'Take this job and shove it,' measure. It's just a sign of people saying, 'you know, I don't need this.'" [1]

The surge in quitting in recent months — along with the continuing difficulty reported by employers in filling openings — underscores the strange, contradictory moment facing the U.S. economy after two years of pandemic-induced disruptions.

The reasons for quitting or dropping out of the labor force are quite varied. The top reasons cited by experts continue to be lack of adequate childcare and health concerns about Covid, now exacerbated by the Omicron variant. And while the framing of the Great Resignation places some emphasis on the idea that even knowledge workers are quitting from burnout or a sympathy with the budding anti-work movement, there are just as many reasons to suspect that many quit in search of better work opportunities, self-

[1] Karin Kimbrough, Chief Economist, LinkedIn. 60 Minutes, January 9 2022

employment, or simply, higher pay. Tellingly, some industries are seeing higher rates of quitting than others – leisure and hospitality, retail and healthcare being among the most affected."[2] The number of Americans quitting their jobs is the highest on record, as workers take advantage of strong employer demand to pursue better opportunities. More than 4.5 million people voluntarily left their jobs in November, the [Labor Department]() reported. That was up from 4.2 million in October and was the most in the two decades that the government has been keeping track.



Much of the discussion about the increase in quitting has focused on white-collar workers re-evaluating their priorities in the pandemic. But job turnover has been concentrated in hospitality and other low-wage sectors, where intense competition for employees has given workers the leverage to seek better pay. While for some workers, the rush to reopen the economy has created a rare opportunity to demand better pay and working conditions, for those who can't change jobs as easily, or who are in sectors where demand isn't as strong, pay gains have been more modest, and have been overwhelmed by faster inflation.[3]

Now, as the average cost of commuting to work increased nationwide and exceeds $4 per gallon in several states, the Fed has announced plans to increase interest rates. The inflation rate hit 7.0% annually in December, the highest rate since 1981. New and used car and truck prices are still climbing, due to high demand and the shortage of computer chips that go in new vehicles. Food prices are still rising at a strong rate, with temporary shortages of various items. Rent has started rising with the expiration of moratoriums on rent increases and evictions. Clothing prices are still rising briskly, the result of the shipping crunch that has made imports in general more expensive. The price of personal services, such as haircuts and restaurant dining, continues to go up as the pandemic has increased costs… While the Fed believes that inflation will fall, it is concerned that today's rising costs may become a self-fulfilling prophecy, as businesses expect to be able to continue raising prices, and workers continue to expect rising wages.[4]

To make matters worse, employment uncertainty affects mental health and it is important to note that a dark cloud of depression hovers over an increasing number of employees. Depression among US adults persisted – and worsened – throughout the first year of the COVID-19 pandemic, according to a recent study by the Boston University School of Public Health which reported that

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[2] "Quitting is Just Half the Story: The Truth Behind the 'Great Resignation,'" Rashida Kamal, The Guardian, (January 4, 2022)

[3] "More Quit Jobs than Ever, But Most Turnover is in Low Wage Work" New York Times, January 4, 2022

[4] "Inflation Stays Hot for Now", Kiplinger (January 13, 2022)

32.8 percent of US adults experienced elevated depressive symptoms in 2021, compared to 27.8 percent of adults in the early months of the pandemic in 2020, and 8.5 percent before the pandemic. " 'The sustained and increasing prevalence of elevated depressive symptoms suggests that the burden of the pandemic on mental health has been ongoing – and that it has been unequal,' says lead author Catherine Ettman, doctoral candidate at Brown University School of Public Health. "Low-income populations have been disproportionately affected by the pandemic and efforts moving forward should keep this population in mind…Addressing stressors such as job loss, challenges accessing childcare, and difficulties paying rent, will help to improve population mental health and reduce inequities that have deepened during the pandemic."[5]

Why is this important? Because in order to help our delinquent and charge off members out of a negative situation, we have to understand how and why they got there. Millions of Credit Union member-borrowers' lifestyles have been altered by social disorder, continued health anxieties, rising inflation, increased debt, mental turmoil, uncertain employment or an unstable work environment… all contributing to new levels of financial stress. With the sunset of federal COVID stimulus payments, eviction moratoriums, and the ultimate expiration of unemployment benefits for millions of Americans, many sources predict a rise in corporate and consumer bankruptcies.

The credit ecosystem has changed, and traditional hard-core collection practices won't work. Credit Unions should take an aggressive, proactive approach to charge off recovery *solutions* in order to help vulnerable members avoid bankruptcy, satisfy their financial obligations and restore their creditworthiness.

Where do we go from here? A peek at the Revesting Strategy.

Regardless of the circumstances that created the delinquency or charge off, borrowers must be treated with Empathy and Respect. Yes, this sounds like "Credit Union 101," but it is often forgotten in fast pace collection, recovery and special asset environments.

"People Helping People" and "Member-Centric" are empty words without Empathy and Respect for members in good times and in bad. As professional, seasoned quarterbacks, Credit Union CEOs should demand that their team of collectors, collections managers, recovery managers, directors of loss mitigation, vice presidents of recovery … whatever the title – must consistently treat delinquent or charge off borrowers with Empathy and Respect.

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A recent example of Empathy and Respect took place just minutes after the Kansas City Chiefs defeated the Buffalo Bills in overtime to clinch the 2021 AFC Championship. Chiefs' quarterback Patrick Mahomes abruptly left his celebrating teammates to rush down the field to search for and hug Bills' quarterback Josh Allen. "Obviously, he played his tail off. He really did," Mahomes said. "Every single series he was battling, he was running, he was

[5] "Depression Rates Tripled and Symptoms Intensified during First Year of COVID," Boston University School of Public Health, October 4, 2021.

throwing and doing everything he needed to do in order to win. I've been on that side, I've lost that overtime game and not having the chance to get the ball, I know how it feels. "I wanted to just tell him how much respect I have for him in the way that he played and the way that he battles. It sucks that someone had to lose that game because of how good both teams played. Luckily enough we got the win and get to move on. But I definitely wanted to show him his respect and he deserved it." Equally as important off the football field, empathy and respect are key components of the revesting strategy that has enabled one CUSO to help more than 4,000 "prior-prime" charged off members requalify for borrowing privileges while revesting millions of "uncollectable" charge off balances back with their credit union clients.[6]

Part III of this series will provide 5 indispensable strategies that every credit union must adopt for successful post-pandemic delinquency control, loss mitigation and recovery. Built on a foundation of Empathy and Respect, these 5 strategies will overcome the negative effects of social challenge, financial uncertainty and a shifting employment paradigm involving millions of member-borrowers, to create a solution-based recovery ecosystem. Working together, these strategies will successfully revest the Credit Union's capital and membership while revesting members' dignity, self-esteem, and value to the Credit Union.

[6] "Want One Firm Found in Trying Something Unusual", CU Today (October 18, 2018)