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

PART III – 5 Revesting Strategies to Benefit Credit Unions and Members

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. Part II, “Take This Job and Shove It,” takes a deeper dive into consumer financial needs, exposes a paradigm shift in the post-pandemic job market, describes how capacity to repay delinquent or charge off financial obligations has been disrupted for millions of Credit Union member-borrowers and underscores the need for empathy and respect as a primary collection and recovery strategy.

“Millions of Credit Union member-borrowers’ lifestyles have been negatively altered by social disorder, continued health anxieties, rising inflation, increased debt, mental turmoil, uncertain employment, or an unstable work environment – all contributing to historic levels of financial stress. With the sunset of federal COVID stimulus payments, eviction moratoriums, and the expiration of unemployment benefits, many sources predict a rise in corporate and consumer bankruptcies.

And yet, Americans keep borrowing. “Household debt keeps on going up. It grew by a non-inflation amount of $305.1 billion in the third quarter of 2021. Those three months capped the 10th quarter in a row, during which household debt has grown. Debt stood at 98.8% of after-tax income by September 2021. This is especially remarkable since after-tax income shot up quickly throughout much of the pandemic due to stimulus checks and other government assistance. The pandemic did not put a stop to Americans’ borrowing, even amid faster income growth. Credit Unions should take an aggressive, proactive approach to delinquency mitigation and charge off recovery solutions to help vulnerable members avoid bankruptcy, satisfy their financial obligations and restore their creditworthiness.”[1]

It is time for every Credit Union to reassess its loss recovery strategy. Here we will focus on five strategies Credit Unions can take to maximize loss recoveries while better serving their members

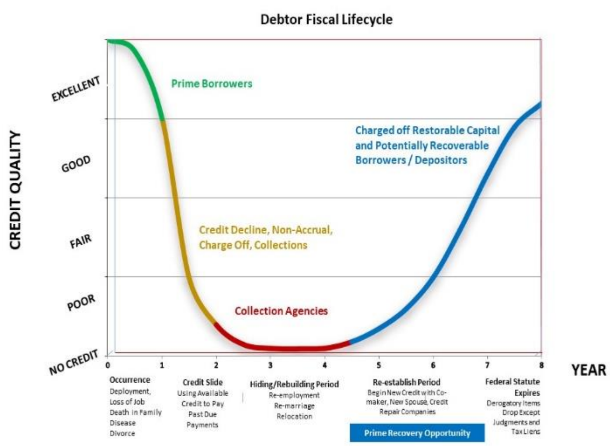
[1] “Debt is on the Rise, Increasing Risks for Many Households,” Forbes December 26, 2021

in the face of social and financial disruption and uncertainty. In the spirit of full transparency, these strategies are successfully in place at CU Revest and are presented not as a promotion, but as examples of time-proven strategies that Credit Unions can and should deploy. To be clear, Credit Unions need to embrace a proactive approach to loss recovery by adopting a member centric Revest doctrine that will simultaneously restore capital to the balance sheet and creditworthiness and dignity to your members.

revest*. transitive verb. re·vest·ed, re·vest·ing, re·vests. To invest (someone) again with power or ownership; reinstate. To vest (capital, for example) once again in a person or an agency.*

The following 5 strategies are the foundation of a successful Revest ecosystem:

Strategy #1: Know when – *and when not* - to contact a borrower. When a financial crisis occurs, monetary and credit resources become limited or non-existent. In most cases, along with the decline in credit and creditworthiness comes embarrassment and a decline in self-respect and self-confidence. After the event or series of events that trigger a credit default, borrowers suffering from financial distress will generally be unwilling or unable to commit to a repayment plan and a period of non-communication may follow for a considerable period of time. Collection efforts during this period are generally unsuccessful, may contribute to the borrower's financial stress and may significantly delay or diminish the opportunity for debt resolution. The borrower may cease communicating or even go "off the grid" for a period of months or even years.



In the majority of cases, this "underground" stage is followed by a rebuilding period where capacity to repay is restored and recovery options become viable. During the rebuilding stage, most member-borrowers are focused on restoring their creditworthiness and re-establishing a positive relationship with their Credit Union. If given the opportunity, most charged off member-borrowers would like to have their membership privileges reinstated by their credit union once their obligation has been repaid. The desire to regain financial credibility, self-respect, and the possibility of reinstated borrowing privileges creates a strong incentive for the repayment of a charged off loans, lines of credit and even negative share account balances.

As it may take several months or even years for a borrower to emerge from "underground," the challenge for the Credit Union is knowing when a borrower has entered the rebuilding stage whether the capacity to repay has been reestablished. This requires the use of data intelligence and predictive analytics.

Strategy #2: Use data intelligence to monitor charge-off borrowers' efforts to rebuild. Consumer lifestyle and financial situations may change at a very rapid pace and before delinquent or charge off member-borrowers are contacted, it is important know as much current information about them as possible. Lenders need data intelligence. Behind the scenes information capture from borrower applications for new credit, employment, residential rental, mortgage refinancing, credit cards, auto pawn, cell phone carrier, business loans and lines of credit, student loan restructuring, payday loans, equipment lease, export applications and other data from multiple sources including credit reporting agencies, social networks, and other agencies and databases can provide real-time information about a borrower's activity and financial condition.

For example, TAMI, a behind the scenes Tracking and Monitoring Intelligence technology developed by CU Revest, monitors borrower activity on a 24/7 basis and captures current data from reporting agencies, multiple databases and social media in real time that can identify member-borrowers who may have changed are in the process of rebuilding and re-establishing their financial foundation. TAMI is also highly effective for skip tracing, information on bankruptcy filing, SCRA status, dispute reporting, etc.

Strategy #3: Identify recovery options with predictive analytics.

A borrower's repayment predictability is based on more than a simple debt to worth ratio. Changes in credit score, home equity, debt levels, geographic location, and many other factors affecting current and potential repayment capabilities can be ascertained and measured through predictive analytics. Which borrowers have the highest probability of repayment? Which have the lowest? How does this change over time? If collection queues are automatically restacked every 24 hours so that the accounts with the highest resolution probability rise to the top, would not your recovery team's efforts be more successful? As an example, CU Revest's proprietary predictive analytics predicts a member's probability of repayment using 33 unique attributes built on more than 1 million borrowers and over $4 billion in charge off assets under management. This tool is used to predict the recovery of a Credit Union's entire charge off portfolio. The resulting probability of repayment and amount of potential recovery in a Credit Union's charge off portfolio has proven to be accurate to within one standard deviation. CU Revest offers this service at no charge to Credit Unions.

“It is worth repeating that collections departments are now tasked with dealing with thousands of customers who are not in arrears due to the usual reasons and are without the usual market data to help identify and segment them. As an industry we have always been proactive about predelinquency. But now we need to dig deep across our organizations to capture data and find the vital information needed to clearly separate the economic victims from the steady state of collections customers.”[2]

Strategy #4: Build member satisfaction into employee compensation. That’s right – reward your employees for going out of their way to be respectful, empathetic, and creative. Debt collection and loss recovery does not need to be antagonistic. As the old saying goes, “You can catch more flies with honey then with vinegar.” Using data intelligence and predictive analytics to understand a delinquent or charge-off borrower’s current financial situation and capacity, as well as understanding where that member-borrower resides in the debtor fiscal lifecycle, will allow your recovery team to provide individually tailored repayment solutions that are meaningful, measurable, and successful. Member-borrowers with charge off balances are still member-owners of the Credit Union. Offering your internal collections team financial incentives for each verified, unsolicited written testimonial received from a delinquent or charge off borrower is a proven way to reduce reputational risk, increase recoveries and help “prior-prime” members to restore their positive standing with the Credit Union.[3]

Strategy #5: A new promissory note. Charge offs are a natural extension of the credit process and, as lending professionals, our job is to manage risk. Even though a loan, line of credit or credit card balance has been charged off, it remains part of the lending function and in some cases, loss recovery can be successful through the origination of a new credit obligation. For example, when data intelligence and predictive analytics indicate that a member-borrower has regained his or her capacity to repay a charge off balance, and the member is attempting to restore his or her creditworthiness, simply paying off a charged off balance will have no effect on the borrower’s credit score. But making timely monthly payments on a new note will have a positive effect. A new debtor agreement to make timely monthly payments on a charged off balance can be executed with no additional cash advance for a fixed term with or without additional collateral. This strategy has been successfully used by CU Revest’ “Credit Rehabilitation Program” where qualified charged off borrowers (those with no judgments, tax liens or past-due child support) have re-gained their capacity to repay and want to restore their credit. A new note is issued at 0% APR and no fees and monthly payments are systematically reported to all reporting agencies. The average rise in credit score for participating borrowers has exceeded 80 points while the portfolio has suffered zero losses.

[2] “Why Customer-Centric Debt Collection is Critical,” Bruce Curry, Vice President, Collections and Recovery, FICO
[3] “What One Firm Found in Trying Something Unusual” CU Today (October 18, 2018

Summary. The social and financial disruption resulting from the pandemic has provided an opportunity for lenders to become more empathetic of the lifestyle changes and financial stress that Credit Union member-borrowers have experienced and are continuing to endure. Yes, we have regulators to please and balance sheets to optimize…but above all, we have members to serve – in good times and in bad.

Creating a Revest Strategy is an excellent win-win scenario. Retaining a good member is always less costly than onboarding a new one. Revesting charge off capital to the Credit Union's balance sheet while revesting self-respect and creditworthiness in its member-borrowers simultaneously enhances the Credit Union's financial condition and its member base while remaining true to the mantra of "people helping people." After all, isn't that why we're in business?