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

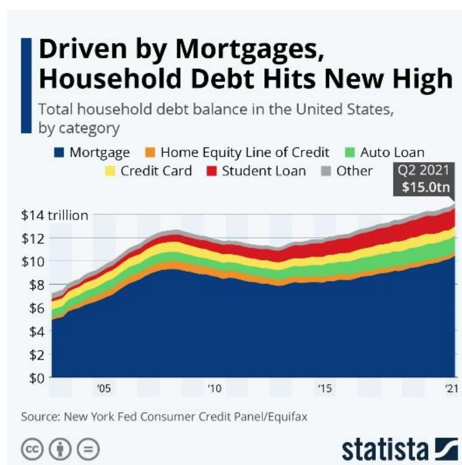
PART I – Managing Consumer Financial Vulnerability

The debt recovery ecosystem has been altered by unforeseeable changes in consumer behavior exacerbated by COVID-19 and its variants. Credit Unions must be prepared to evolve from traditional debt collection practices to create compassionate, collaborative, and creative partnerships with charged off member-borrowers, many of whom have defaulted through no fault of their own. To accomplish this, collectors must embrace a "solution provider" attitude, abandon oppressive "call-center" tactics, and concurrently revest member-borrower control and self-esteem in order to revest Credit Union capital.

As reported by Forbes in December, 2021, households are sinking deeper into debt. Some of this debt creates especially large financial risks for households. They still need to repay that debt, even if they lose a job or encounter a health emergency, among other unforeseen events. As the pandemic rages on and gains speed again, the chances of such emergencies go up, too. They can also face sharply higher interest rates on their outstanding debt and the Federal Reserve is poised to gradually increase interest rates. The combination of multiple financial risks rising at the same time could be toxic for many households.

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.

Many households do not have the necessary savings or the possibility to borrow against their house to finance a car purchase or their education. People of color, for example, are more likely than White households to owe such debt as a result. Yet, these loans carry higher interest rates than mortgages. Car loans for a new car, financed over four years, for example, amounted to 5.1% in the third quarter of 2021, while mortgage interest rates stood at 3.0% at the end of September. Debt is particularly burdensome for households that already lack wealth from prior generations and face greater obstacles to building more wealth.



Household indebtedness does not stop with these formal forms of debt. The pandemic has shone a spotlight on the financial interdependence between households with low debt and few options to access affordable debt in an emergency. They often borrow from each other. Data from the U.S. Census Bureau's Household Pulse Survey show that 17.5% of African-Americans, 14.2% of people of multiple or Other races and 14.0% of Latinx people borrowed from friends or family members to pay for current expenses in September

2021. In comparison, only 6.7% of White people and 6.7% of Asian-Americans relied on informal financial support then. Again, debt is more widespread, where wealth is less prevalent, and that debt is often costly and risky.

Debt is a ubiquitous and frequently necessary form of financing for many households. It comes with unique financial risks, such as the risk of losing a major source of income due to unemployment while still needing to repay that debt or of sharply higher interest rates. These risks and costs of debt are unevenly distributed. And debt has increased in all forms during the pandemic, leaving many households, especially households of color and lower-income ones in a financially precarious situation.[1]

Consumer Financial Vulnerability

After suffering through unprecedented medical events, a restructuring of family and social interaction, the uncertainties and instabilities of employment, inconsistent child education policies, and other disruptive assaults on a previously complacent way of life, millions of American consumers are left financially and emotionally insecure. More than ever before, financial distress has been linked to events that have been entirely outside the control of the consumer.

Although Forbes magazine found that America's billionaires added about $1.2 trillion to their collective net worth during the pandemic, more typical households saved money by pausing payments on their mortgages and student loans or dialing back discretionary spending. But other Americans faced a pandemic-driven recession. Unemployment soared with the onset of stay-at-home orders, hitting workers in industries like restaurants, hotels, and live events the hardest. Families lost breadwinners to the virus.

Individual borrowers say they face a choice between paying debt or paying for such basic necessities as food and rent. When the companies that own their debt sue, many of these borrowers don't know how to navigate the court system and can't afford legal representation. On the other side of the lawsuits are original lenders, debt buyers and debt collectors, who see themselves as safeguarding access to credit tomorrow by making sure borrowers repay their loans today. They say court action is a last resort, used rarely and only after other methods fail.

"While we see a lot of publicity and a lot of public discussion about the hardships that consumers have faced, we don't see nearly as much of that related to creditors," said Mark Neeb, the CEO of ACA International, the debt collection industry's trade association. "It's really natural

[1] "Debt is on the Rise, Increasing Risks for Many Households," Forbes (December 26, 2021)

for the creditors who have old default and accounts receivable sitting out there to want to get back to normal as soon as they can.”

For many people, the pandemic made an already unstable financial picture even more tenuous. Elena, a single mother of two who recently moved her family to Stockton because she could no longer afford to live in the Bay Area, is among the people sued during the pandemic for debt that was delinquent before March 2020. She acquired the debt years earlier, she said, as she tried to get her financial bearings after separating from her husband. “When I left, I had no money to my name, I didn’t have a vehicle in my name, I didn’t have a roof over my head,” she said. “All I had was the credit cards.” When she realized debt collectors were suing to collect her old debts, Elena worried her family would become homeless. “I didn’t know what I was going to do. Honestly, the thought of living on the street with two little girls was terrifying,” she added. It was really, really bad.” Everything from daily expenses to high-interest loans drives other consumers into debt and default. [2]

A Silver Lining

Ironically, the pandemic has presented Credit Unions with the opportunity to re-ignite their unique relevance in the consumer financial services industry. Credit Unions can turn the “ugliness” of collections and charge off recovery into a positive opportunity to live the mantra “People Helping People.”

As eloquently stated by Thomas Olney, PSCU’s Vice President of Knowledge Management & Industry Engagement, “The phrase “People Helping People” perfectly embodies what the credit union movement is all about. But in the abstract, it can become a cliché. Those unfamiliar with the origin and mission of credit unions might not understand the significance of the phrase, and even those with long histories in the credit union movement can get jaded or lose sight of the difference credit unions offer compared with their many competitors… People Helping People” is far from a cliché. It is a call to action for each of us to look around and see how we can help one another and build the kind of community in which we all want to live. In order for credit unions to truly maximize their impact on communities, they should strive to put themselves in the shoes of the members they serve.” [3]

Post-pandemic debt collection and charge off recovery will give forward-thinking Credit Unions the opportunity to turn compassion and empathy into the recovery of money and members. Understanding the new vulnerability of members is the first step. Part TWO of this series will address how the recent increase in consumer mental anxiety coupled with a counterintuitive workforce paradigm shift

[2] “Debt collection lawsuits compound COVID woes for some Bay Area residents” by Amy DiPierro, Bay City News Foundation August 20, 2021

[3] “The True Meaning of ‘People Helping People’”, CU Today (May 8, 2018)

creates the need for open and constructive dialog supported by specific recovery strategies. Part THREE will identify several key strategies that will produce a win-win result for Credit Unions and their members.

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