I’m as Mad as Hell, and I’m Not Going to Take This Anymore!

Here we take off the rose-colored glasses, peel back the onion and take a candid look at the threats to Credit Union auto loan, mortgage loan, HELOC, credit card, student loan and other consumer lending portfolios.

This paper examines the PROBLEMS and introduces SOLUTIONS to the negative credit effects of the pandemic, historically high inflation, and an uncertain economy on Credit Unions and their Members.

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“I’m as Mad as Hell, and I’m Not Going to Take This Anymore!”

Michael G. Hales, Executive Vice President, CU Revest

“I don't have to tell you things are bad. Everybody knows things are bad. It's a depression. Everybody's out of work or scared of losing their job. The dollar buys a nickel's worth, banks are going bust, shopkeepers keep a gun under the counter. Punks are running wild in the street and there's nobody anywhere who seems to know what to do, and there's no end to it. We know the air is unfit to breathe and our food is unfit to eat, and we sit watching our TVs while some local newscaster tells us that today we had fifteen homicides and sixty-three violent crimes, as if that's the way it's supposed to be! We know things are bad - worse than bad, They're crazy! It's like everything everywhere is going crazy, so we don't go out anymore. We sit in the house, and slowly the world we are living in is getting smaller, and all we say is, 'Please, at least leave us alone in our living rooms. Let me have my toaster and my TV and my steel-belted radials and I won't say anything. Just leave us alone!' Well, I'm not gonna leave you alone! I want you to get MAD! I don't want you to protest. I don't want you to riot - I don't want you to write to your congressman because I wouldn't know what to tell you to write. I don't know what to do about the depression and the inflation and the Russians and the crime in the street. All I know is that first you've got to get mad! You've got to say, "I'm a HUMAN BEING, GODDAMNIT! My LIFE has VALUE!!" So, I want you to get up now. I want all of you to get up out of your chairs. I want you to get up right now, and go to the window, open it, and stick your head out and yell: "I'm as mad as hell, and I'm not going to take this anymore!!" I want you to get up right now, sit up, go to your windows, open them and stick your head out and yell - 'I'm as mad as hell and I'm not going to take this anymore!' Things have got to change. But first, you've gotta get mad!... You've got to say, 'I'm as mad as hell, and I'm not going to take this anymore!' Then we'll figure out what to do about the depression and the inflation and the oil crisis. But first get up out of your chairs, open the window, stick your head out, and yell, and say it: I'M AS MAD AS HELL, AND I'M NOT GOING TO TAKE THIS ANYMORE!!!”[1]

Sound Familiar?

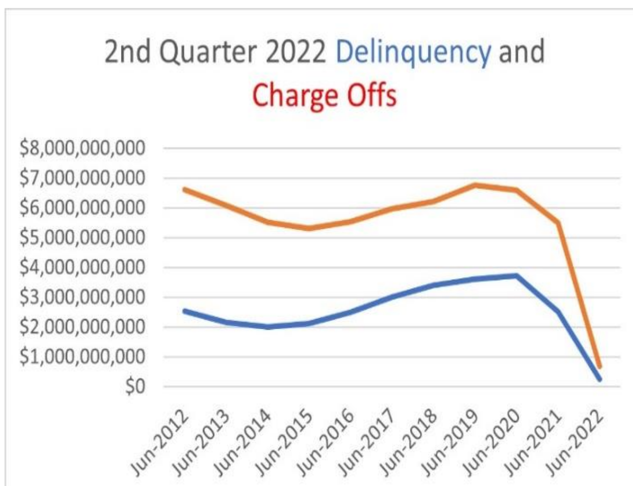
We’ve come a long way in the 46 years since Peter Finch earned the Best Actor Oscar as the crazed news anchor Howard Beale in the 1976 film *Network*. So, what was 1976 like? For starters, in 1976 Apple Computer was founded by Steve Jobs and Steve Wozniak. The Eagles recorded “Hotel California.” A Big Mac cost 75 cents. The average price for a gallon of gas was 59 cents. The US average family income was $16,000 and a new house could be purchased for around $43.000, or about 2.6 times annual income. The MSRP of a new Ford Pinto was $2,895 and a Chrysler Cordoba went out the door at $4,895.

[1] “Network” (1976) United Artists

What has changed? Some call it "economic growth." Others call it a recession. Some blame the pandemic, others blame the Russians. One thing is certain: Inflation is at a 42-year high and Credit Union members are suffering. First, depending on your location, the price of a Big Mac is now $5.94[2]. The average US household income is now $63,214 and the average home price in the US is nearly $500,000 or roughly 8 times annual income. Inflated real estate prices and corporate investors are locking many first-time home buyers out of the housing market. Neither the Ford Pinto nor the Chrysler Cordoba are still in production. But if they were, at the US average of $4.25 per gallon of regular gas, today it could cost $59.50 to fill the tank of a Pinto and $86.70 to fill up a Cordoba. In other words, nothing has changed for the better. In fact, things are getting worse and American consumers, including your Credit Union members, are as mad as hell.

The Lull Before the Storm .What does this mean for Credit Unions? Potential credit losses have been masked by the effects of the pandemic which simply delayed the inevitable by a couple of years. Industry wide, total reported loan charge offs for the year 2021 were $1.75 billion lower than 2020 and $2.56 billion lower than 2019. As illustrated below, year to date loan losses as of the second quarter of 2022 were $2.26 billion lower than the prior year. Second quarter 2022 reportable delinquency was $4.82 billion lower than the same period last year[3]. Does this mean that the industry has miraculously solved all of its credit problems? Just the opposite. We are headed into a perfect storm of pandemic-related delayed delinquency and loss resolution fueled by record inflation and a looming recession.

Quarter	YTD Charge Offs	Reportable Delinquency
Jun-2012	$2,530,705,812	$6,603,957,342
Jun-2013	$2,148,366,469	$6,083,109,195
Jun-2014	$2,003,608,990	$5,519,289,892
Jun-2015	$2,119,472,944	$5,311,302,013
Jun-2016	$2,493,010,592	$5,530,324,049
Jun-2017	$2,999,424,998	$5,972,166,433
Jun-2018	$3,395,040,874	$6,208,590,809
Jun-2019	$3,609,296,274	$6,751,919,542
Jun-2020	$3,716,820,968	$6,587,569,811
Jun-2021	$2,510,756,488	$5,491,393,319
Jun-2022	$249,645,237	$673,522,025



In addition, the current economic instability is playing havoc with automobile, mortgage, and credit card lending. It is time to face reality.

[2] Data: The Economist, Bureau of Labor Statistics, Axios research; Chart: Simran Parwani/Axios
[3] Source: Callahan & Associates

Here's what has happened and what you can do about it.

Automobile Lending. "It's hard to read automotive news without hearing stories on rising car prices and gouging car dealers. That's one side of the story, and while it's important, there's a whole other thing happening on the financial side of the market that has experts worried. Vehicle repossessions are on the rise, *Barron's* reports, meaning many people who bought cars in the past two years are running out of ways to pay for them. According to *Kelley Blue Book*, the average price of a new vehicle rose 13.5% year over year to $47,148 in May. Combined with record-high monthly payments, it's easy to start piecing together the story. *Edmunds* data showed that a whopping 12.7% of new car buyers are on the hook for payments of $1,000 or more per month.

- **Average new car price is up 13.5% to $47,148**
- **3.76 cars are repossessed every minute in the U.S.**
- **65% of new autos sold will be repossessed**

Those are mortgage payment numbers for much of America, and they're being applied to a depreciating asset. We're not talking about luxury makes and models here, either. People are paying over sticker on several new models, and even non-luxury vehicles are becoming more expensive as demand remains strong and supply remains constrained.

Prices are part of the problem, but as *Barron's* points out, many buyers are defaulting on loans purchased those vehicles in 2020 or 2021, when they received stimulus money or temporary bumps in pay due to the pandemic. As those benefits recede, some are left holding the bag with a monthly auto loan payment that eats up a significant portion of their monthly incomes. Some expect the scenario to play out like the subprime mortgage crisis in 2008 and 2009, but it's impossible to tell where inflation and global politics will lead the economy next. *Barron's* also interviewed car dealers who regularly purchase repossessed vehicles before they head to auction. One noted that the repossessed cars are coming out of situations where the buyer's loan-to-value ratio is trending well north of 100%. Loan-to-value, or LTV, refers to the loan amount versus vehicle value, so a car worth $10,000 with a $2,000 inventory markup yields an LTV of 120%.

It's tempting to believe the spike in repossession numbers is due to low-wage workers or people with bad credit dragging down the system, but that's not entirely the case. It's true that repos for subprime borrowers almost doubled to 11% since 2020, but repos on prime borrowers (people with solid credit) also doubled in the same period, to 4%. The market was also trending negatively before the pandemic began, so buyers who were already in a jam may have had a temporary respite from repos due to the early rollout of pandemic stimulus cash."[4] Just take a look at these current repo statistics:

- 2.2 million vehicles are repossessed every year (2022 updated data)
- 5,418 repossessions every day
- 226 car repossessions each hour
- 3.76 repossessions a minute

[4] https://www.autoblog.com/2022/07/11/car-repossessions-on-the-rise/

With yearly repossession rates at 65% compared to yearly new car sales, this means that for every 2.4 cars sold, one existing vehicle on the road will be repossessed each year.[5]

Mortgage Lending. The number of foreclosure starts — which is when the first public foreclosure notice happens — is up 219% since the start of the year, according to real estate data analytics firm ATTOM Data Solutions' midyear 2022 US Foreclosure Market report. What's more, the number of properties that had foreclosure filings (this number includes foreclosure starts) is up 153% from the same time period last year.

- **New foreclosure starts are up 219% since the start of 2022.**
- **New foreclosure filings are up 153% over the same time last year.**

What's more, 96% of major metro areas saw an annual increase in foreclosure filings, with foreclosure rates highest in Illinois, New Jersey, and Ohio. And when it comes to the number of foreclosure starts, California topped the list, followed by Florida, Tennessee, Illinois and Ohio.

"Foreclosures are shooting up as the various foreclosure moratoriums that kept people in their homes during the worst of the pandemic's economic disruptions have now ended," explains Danielle Hale, chief economist at Realtor.com. "That said, they are shooting up from extremely low levels, she adds — noting that even after the sharp increase in foreclosure activity observed in the first half of 2022, we're still not back to 2019's low pre-pandemic mid-year total."

"Much like the sharp turnaround in housing inventory that we've observed in the number of for-sale homes recently, when the market has tilted in one direction very extremely, we see huge percentage increases when the trends shift back in a different direction, even though in many aspects what we're witnessing is just a return to something resembling what was once normal," says Hale.

Indeed, "it's important to note that many of the foreclosure starts we're seeing today — in fact, much of the overall foreclosure activity we're seeing right now is on loans that were either already in foreclosure or were more than 120 days delinquent prior to the pandemic," says Rick Sharga, executive vice president of market intelligence at ATTOM. Indeed, many of these loans were protected by the foreclosure moratorium put in place by the government during the pandemic — therefore just halting the inevitable by a couple of years.[6] Kicking the can down the road only creates a bigger can.

[5] https://www.titleloanser.com/stats/car-repossession-statistics/

[6] 'Dramatic increase.' Foreclosure filings are up more than 150%. Here's what that tells us about the housing market (msn.com)

Student Loan Debt. The latest student loan debt statistics for 2022 show that there are 45 million borrowers who collectively owe approximately $1.7 trillion in student loan debt. Student loan debt is now the second-highest consumer debt category – second only to mortgage debt and higher than debt for both credit cards and auto loans.[7] The resumptions of student loan payments following a payment pause of more than two years about that began during the early days of the pandemic, will end on August 31, 2022. Unless U.S. lawmakers step in to extend the pause yet again, payments will resume a day later.

The student loan debt burden is not a problem just for new college grads. The majority of student loan debt is owed by adults ages 35 and over whose aggregate outstanding balances have increased by over $12 billion since the beginning of FY 2022.

Federal Student Loan Portfolio by Borrower Age

Includes outstanding principal and interest balances

Data Source: Enterprise Data Warehouse

	24 and Younger		25 to 34		35 to 49		50 to 61		62 and Older	
Federal Fiscal Year	**Bal Owed ($B)**	**Debtors (Mil)**	**Bal Owed ($B)**	**Debtors (Mil)**	**Bal Owed ($B)**	**Debtors (Mil)**	**Bal Owed ($B)**	**Debtors (Mil)**	**Bal Owed ($B)**	**Debtors (Mil)**
2017	$130.3	8.7	$484.0	15.3	$502.2	13.7	$199.8	5.7	$55.4	1.7
2018	$125.4	8.5	$494.8	15.2	$540.3	14.0	$219.4	5.8	$65.2	1.9
2019	$121.2	8.2	$501.5	15.0	$575.5	14.1	$241.2	6.0	$75.9	2.1
2020	$115.5	7.8	$500.5	14.8	$601.7	14.2	$262.2	6.2	$86.8	2.3
2021	$109.7	7.6	$500.2	14.9	$622.2	14.4	$281.8	6.4	$97.8	2.4
Q2-2022	$108.2	7.2	$498.1	14.9	$627.0	14.5	$286.6	6.4	$101.4	2.5

Household Debt and Credit.[8] Aggregate household debt balances increased by $312 trillion in the second quarter of 2022, a 2.0% rise from 2022Q1. Balances now stand at $16.1 trillion, and have increased by $2 trillion since the end of 2019, just before the pandemic recession. Credit card balances saw a $46 billion increase since the first quarter – although seasonal patterns typically include an increase in the second quarter, the 13% year-over-year increased market the largest in more than 20 years. Auto loan balances increased by $33 billion in the second quarter, continuing the upward trajectory that has been in place since 2011. Other balances, which include retail cards and other consumer loans, increased by a robust $25 billion. In total, non-housing balances brew by $103 billion, a 2.4% increase from the previous quarter, the largest increase seen since 2016.

[7] Https://www.forbes.com

[8] Household Debt and Credit 2022:Q2 (Released August 2022) Federal Reserve Bank of New York Research and Statistics Group

The volume of newly originated auto loans, which includes leases, was $199 billion, reflecting higher origination amount per loan rather than more loans originated. Aggregate limits on credit cards were increased by $100 billion in the 2nd quarter, the largest increase in more than 10 years. Limits on home equity lines of credit (HELOC) increased by $18 billion, the first substantial increase in HELOC limits since 2011, reflecting some new originations. 233 million new credit card, auto loan, mortgage and HELOC accounts were opened in the second quarter, an increase from the previous quarter and the highest seen since 2008.

Under other circumstances, these results might indicate a robust economy. But when we peel back the onion and expose record-breaking auto repossessions, an increase in mortgage foreclosures, uncontrolled inflation, a pending recession, the threat of job layoffs and the burden of ever-increasing student loan debt, one can see that we're heading full speed into a perfect storm. Every day, more and more Credit Union members are saying, "I'm as mad as hell and I'm not going to take this anymore!" But what can we do?

Every Credit Union Should Adopt a REVEST Strategy.

Everybody, including cash-strapped consumers, and Credit Union lenders who are caught between a rock and a hard place of serving their members while meeting compliance standards, are facing economic uncertainty. Credit moratoriums have expired, the dam is about to break on consumer delinquency, losses are looming on the horizon and the time to act is now. More than ever before, it is time to be proactive and deploy a *REVEST* strategy – *an award-winning win-win initiative that will help your members restore their self-esteem and creditworthiness while at the same time recovering charge off capital and enhancing your credit union's delinquency management and loss-prevention in order to meet capital requirements while serving the needs of your member-owners.*

In other words, in order to solve your mutual problem, it is time to team-up with your delinquent and charged off members. So, what does REVEST mean and how does it work?

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.*

A successful Revest Strategy will produce the following:

- **Money**: More abandoned, charged off capital will be revested to the Credit Union's balance sheet while enhanced delinquency management resources will improve loss prevention.
- **Members**: Qualified prior-prime members will be revested with creditworthiness, the sense of dignity, self-worth, self-respect, and Credit Union borrowing privileges;
- **Scope and Purpose**: The REVEST Restore, Reinstate and Recover strategy is the embodiment of the Credit Union mantra of People Helping People.

Here are Four REVEST Steps Credit Unions Should Take Now:

1. **Enhance Your Data Intelligence to identify at-risk borrowers**

“It is essential to proactively identify the vulnerable. It is worth repeating that collections departments are now tasked with dealing with thousands of customers who are not in arrears to do the usual reasons and without the usual market data to help identify and segment them. These customers have been furloughed with a rapid, surprising, and significant reduction in income and these dramatic changes in circumstance have yet to be detected by credit bureaus. 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.”[9] Are your borrowers “loading up?” Are they “borrowing from Peter to pay Paul?” Are late charges accumulating? Has there been a recent job change? Have they relocated? Divorced? Is there a medical issue? Are there changes in payment habits to other lenders? Before you reach out to a pre-delinquent, delinquent, or charge-off member, learn everything possible about their current circumstances and consider options that will help your member satisfy their obligation to the Credit Union.

2. **Early Intervention**

“Borrowers with no history in delinquencies will start entering collections buckets due to COVID-19. It will be essential to identify these customers from perennial defaulters and treat them separately. Traditional risk models have been built on historical data to predict a borrower’s propensity to pay. Given that COVID-19 is an unprecedented event, historical data in banks will not reflect the current crisis or anything similar to what the model can learn from. Banks will need to identify customers who are at risk and in need of assistance. In the wake of the current crisis, banks need to be extremely proactive and empathetic to their customers. Customers will need to be respected and receive personalized treatment. Maintaining customer experience, understanding the needs, and providing optimal solutions is the need of the hour. Data analytics and advanced intelligence can help collection organizations make more informed decisions.” [10] Approach your member-borrower with options to help create a mutual plan for resolution. Remind the member that your primary goal is to help them preserve their relationship with the Credit Union. Establish a positive rapport by determining a mutually acceptable communication method and schedule.

[9] “Why Customer-Centric Debt Collection is Critical,” Bruce Curry, Vice President, Collections and Recovery, FICO

[10] “Building a Resilient Debt Collection Ecosystem in the Next Normal”, Ajay Koushik R., Product Manager, Infosys The Edge Quarterly (August 25, 2021)

3. Require Third Party Performance Accountability

If it ain't broke, don't fix it. However, Credit Unions should recall accounts from agencies that have made no contact with borrowers within the last 6 months. Consider additional member-centric 3rd party recovery sources. "There is a greater need to quickly simulate strategies, implement champion-challenger on the portfolio faster, and see and evaluate results to identify what is working what's not."[11] Accounts that have not been contacted within the last six months probably won't be contacted during the next six.


Are these the accounts you THOUGHT your agency was working?

4. Treat Collections as a Credit Function

Loss recovery is the tail end of the lending process and collection is a lending decision. Collection managers are required to quickly come up with qualification criteria for these at-risk customers and treat them differently through intuitive payment plans and restructuring. Charged off debt can be refinanced with flexible repayment terms that benefit both the Credit Union and the member, but remember the new CECL rules:

> *On March 31, 2022, the FASB issued ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," which eliminates the TDR accounting model for creditors that have already adopted Topic 326, which is commonly referred to as the current expected credit loss (CECL) model. The FASB's decision to eliminate the TDR accounting model is in response to feedback that the allowance under CECL already incorporates credit losses from loans modified as TDRs and, consequently, the related accounting and disclosures – which preparers often find onerous to apply – no longer provide the same level of benefit to users.*

In lieu of the TDR accounting model, creditors now will apply the general loan modification guidance in Subtopic 310-20 to all loan modifications, including modifications made for borrowers experiencing financial difficulty. Under the general loan modification guidance, a modification is treated as a new loan only if the following two conditions are met:

1. The terms of the new loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks.

[11] The Edge Quarterly, August 25, 2021

2. Modifications to the terms of the original loan are more than minor.

If either condition is not met, the modification is accounted for as the continuation of the old loan with any effect of the modification treated as a prospective adjustment to the loan's effective interest rate. [12]

Let's take off the rose-colored glasses and face the facts: the negative financial effects of the pandemic are still with us, cash-strapped consumers are increasing their debt, the economy is not under control and consumer confidence is at a 1 ½ year low[13]. Many Americans have to choose between filling the tank and feeding the family. The global and domestic economies are in the toilet, there is no clear path to recovery. Putting up storm shutters after the hurricane is an effort in futility and the time to adopt a Revest Strategy is now.

REVEST: Restore, Reinstate and Recover. Bad things – such as pandemics, inflation, recession, and other external forces - happen to good people. Many of your members are frustrated and embarrassed. They are as Mad as Hell with their current situation and they are searching for a solution. They need your help. The key is to remember that collection and recovery efforts are credit decisions. It doesn't matter if a loan, mortgage, or credit card balance is formally restructured or placed on an informal repayment plan, the REVEST goal is to RESTORE member dignity and self-esteem, REINSTATE member privileges and RECOVER capital. By eliminating the embarrassment of delinquency or charge off and *restoring* the member's sense of dignity and helping *reinstate* creditworthiness, the *recovery* of past due payments or charged off balances becomes a common TEAM goal of the Credit Union and the Member. This is, in its most perfect sense, People Helping People.

CU Revest is the Credit Union Industry's award-winning Credit Union Service Organization specializing in the restoration, reinstatement and recovery of money and members. Created by financial services veterans to help Credit Unions and credit union members navigate the financial challenges of Great Recession and beyond, CU Revest has recovered millions of dollars in "uncollectable" charge off debt and returned more than 4,000 "prior-prime" members to positive status with their Credit Union. Using proprietary predictive analytics built on the repayment attributes of more than one million borrowers and over $4 billion in assets under management since 1997 and combining behind-the-scenes Tracking and Monitoring Intelligence technology, CU Revest provides unique capital and member-focused restoration, reinstatement and recovery solutions for Credit Unions and their members. For additional information, please contact:

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[12] https://www.crowe.com/insights/fasb-tweaks-cecl-tdr-accounting-and-vintage-disclosures

[13] https://www.reuters.com/markets/us/us-consumer-confidence-slips-further-july-2022-07-26/