UNLOCKING A MULTI-BILLION DOLLAR OPPORTUNITY

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The key to unlocking the treasure chest holding billions of dollars in unrecovered charged off balances is to know where to look. What you do once the treasure is located will determine the difference between success and failure.

During the last ten years, credit unions have charged off $57 billion in consumer debt, of which $45 billion remains unrecovered. The majority of that debt that is within the 7-year reporting statute is still recoverable[1]. According to the Debtor Fiscal Lifecycle, borrowers whose personal loans, auto loan deficiency balances, stranded HELOCS, credit card and other consumer credit balances were charged off prior to 2020, are most likely to have regained their capacity to repay.

In fact, many of those "prior-prime" member-borrowers may qualify for available 0% APR, $0 fee new instalment credit which will enable them to repay their financial obligation while improving their credit score. At this time when liquidity is of upmost concern to most credit unions, "cash is king." How much money will your credit union put back on the balance sheet?

During the Pandemic, many credit unions understandably took a soft approach to charge off recovery. Traditional collection tactics were avoided as millions of credit union members endured financial hardship. Many loan repayment obligations were deferred, and industry-wide, credit unions charged off fewer loans and credit card balances in 2020, 2021 and 2022 than in the most recent prior years. "Kicking the can down the road" has resulted in renewed charge off activity in 2023 – at a time when credit union balance sheets need additional capital to fund growing consumer loan demand.

As we will see below, the majority of member-borrowers whose loans and/or credit card balances were charged off during the last three years are still suffering from the effects of a medical emergency, divorce, loss of employment or other financial hardship that caused them to default and they have not yet regained their ability to repay their financial obligation. Accordingly, the primary focus of

[1] Fair Credit Reporting Act (FCRA) , 15 U.S.C. § 1681 et seq.

our loss recovery efforts should be on those older charge offs that – in many cases – have been ignored by collection agencies. But first, let's look at the numbers.

During the 10-year period from 2013 through 2022, federal credit unions and federally insured state credit unions combined have charged off $57.7 billion dollars of consumer debt. As illustrated below, just 21.6% ($12.5 billion) of those losses has been recovered, leaving $45.3 billion in unrecovered charge offs. Much of that debt has fallen out of statute and is barred from recovery.

YEAR	Charge Offs)	Recoveries	Net Charge Offs
2013	$4,411,453,224	$893,197,645	$3,518,255,579
2014	$4,262,388,634	$897,838,168	$3,364,550,466
2015	$4,571,978,001	$936,214,516	$3,635,763,485
2016	$5,586,648,104	$1,021,342,720	$4,565,305,384
2017	$6,585,754,180	$1,149,200,808	$5,436,553,372
2018	$7,038,929,217	$1,275,535,872	$5,763,393,345
2019	$7,430,807,540	$1,372,887,397	$6,057,920,143
2020	$6,596,091,935	$1,499,761,886	$5,096,330,049
2021	$4,843,787,957	$1,686,455,422	$3,157,332,535
2022	$6,423,695,097	$1,737,421,216	$4,686,273,881
	$57,751,533,889	**$12,469,855,650**	**$45,281,678,239**

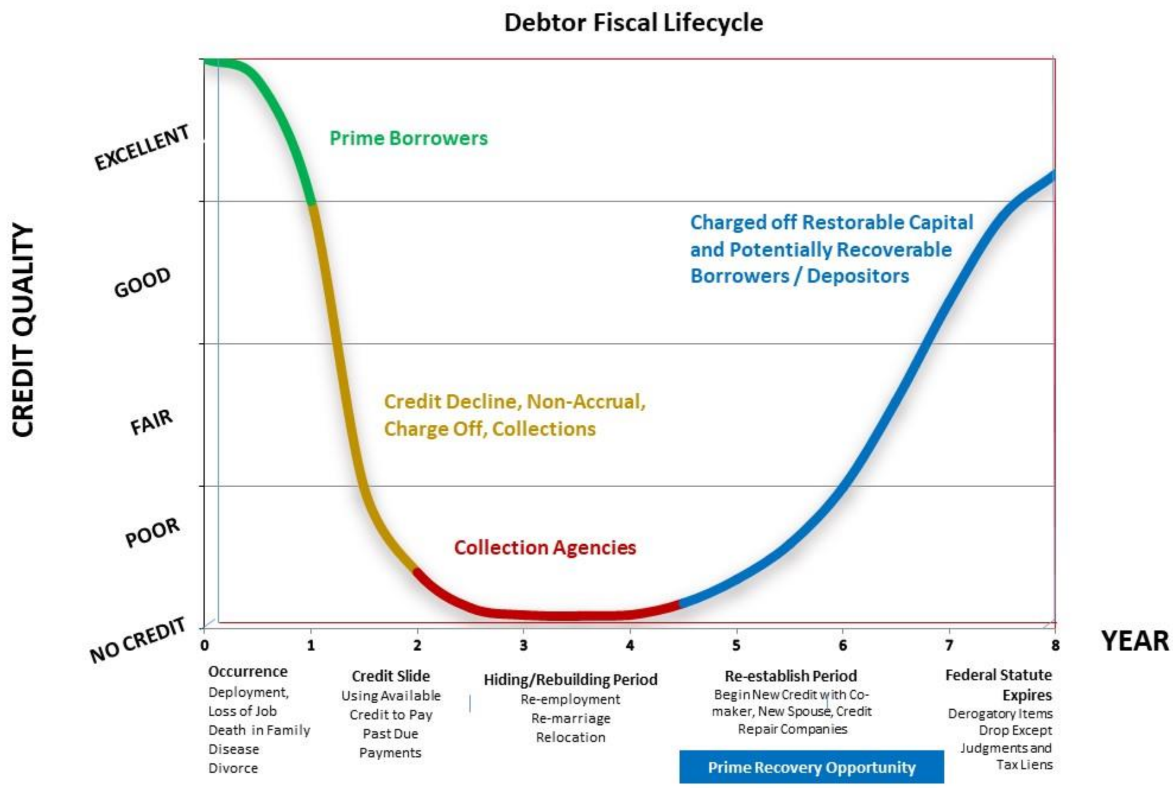
Source: NCUA Call Report Data

On the other hand, the charge offs taken prior to the pandemic are still recoverable and present a persuasive opportunity. Focusing on the four-years from 2016 through 2019, credit unions recovered just $4.8 billion of the $26.6 billion in consumer charge offs, *leaving 82% of the charged off totals available for recovery.*

YEAR	Charge Offs	Recoveries	Net Charge Offs
2016	$5,586,648,104	$1,021,342,720	$4,565,305,384
2017	$6,585,754,180	$1,149,200,808	$5,436,553,372
2018	$7,038,929,217	$1,275,535,872	$5,763,393,345
2019	$7,430,807,540	$1,372,887,397	$6,057,920,143
	$26,642,139,041	**$4,818,966,797**	**$21,823,172,244**

This is where the treasure is buried. As we will see below, this cohort represents those borrowers who are <u>most likely to repay</u>.

The Debtor Fiscal Lifecycle. There's an old expression, "bad things happen to good people, and if you leave good people alone long enough, they recover." But how long is "long enough?" When are the right and wrong times to reach out to a charged off borrower? While there is no "one size fits all" answer to these questions, the general recovery strategy to recapture charged off consumer credit losses and rebuild "prior prime" member relationships requires an understanding of the "Debtor Fiscal Lifecycle."

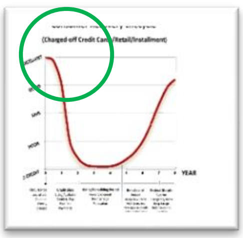


The Debtor Fiscal Lifecycle is intuitive to every credit professional. When a financial crisis occurs, monetary and credit resources become strained or non-existent. In most cases, along with the decline in credit and creditworthiness comes embarrassment and a deterioration of self-respect and self-confidence. The communication between lender and borrower can become strained and may ultimately stop. Collection departments and third-party collection agencies do what they can, but both are limited by available resources. As a result, attention becomes focused on loss mitigation or the recovery of the low hanging fruit in early-stage charge offs; older ones become ignored and eventually abandoned. The result is that billions of dollars of charged off accounts simply fall through the cracks every year.

Ironically, this phenomenon occurs at the time when many members have regained their capacity to repay their obligation. Many credit union borrowers would, if given the chance, like to have their membership privileges reinstated by their credit union once their obligation has been repaid. This intangible bond, created on the foundation of member service, is unique to credit unions and virtually non-existent with commercial banks and other types of financial institutions. Therefore, the desire to regain financial credibility, self-respect, and the possibility of reinstated credit union membership privileges creates a strong incentive for the repayment of a charged off credit card balances, direct and indirect loans, HELOCs, mortgages, or negative share account balances. However, as this may occur several years after the date of last payment or date of charge off, all communication between the credit union, its law firm or collection agencies and the borrower has usually stopped and, eventually, the accounts fall out of the federal reporting statute and become time-barred from recovery.

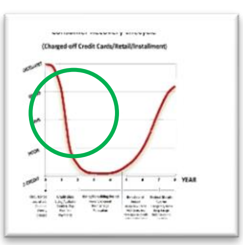
The Four Stages of the Debtor Fiscal Lifecycle.

STAGE 1: **The Event**. The "lifecycle" begins with an event that either slowly or immediately disrupts the financial foundation of a prime borrower. The occurrence may be a divorce, a military deployment to active duty, unemployment, underemployment, a medical emergency or onslaught of a protracted medical condition, death of a spouse or partner…any event or series of events that challenges the borrower's ability to meet his or her timely credit obligations.



While most "events" are short term and most borrowers recover from them without negative effects on their ability to make timely payments, many credit union members are not as fortunate, and the event becomes a slippery slope. A recent and very familiar example from the COVID-19 pandemic is the loss of income over time resulting from the need of an income-producing spouse to quit work in order to care for his or her children. At this point in the life cycle, the borrower is generally unaware of the gravity of the situation and the lender is never aware of the potential delinquency or charge off.

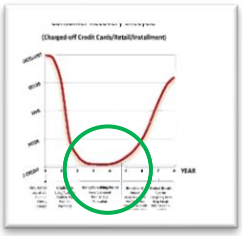
STAGE 2: Credit Slide. A decline in the ability to make timely payments is generally accompanied by a feeling of embarrassment which can lead to desperation. Borrowers begin to prioritize their credit obligations based on immediate need and begin to "borrow from Peter to pay Paul." For example, if the rent or house payment needs to be paid family car is needed to get to work, then the current rent or mortgage payment might be skipped or a credit card advance may be used for the current car payment. And the next month's rent or car payment. And the one after that.



The borrower's financial assets are draining and desperation begins to set in. It is during this stage that delinquency is reportable, collection activities begin and charge offs may occur. It is possible that the Credit Slide stage may last months or even years after the Stage 1 event. This is a time when collection departments are under pressure to prevent credit losses and collection agencies are under pressure to perform. Payments may stop completely and loans, credit cards and lines of credit may be charged off. It is also a time when the borrower is

least likely to have the financial capacity to resume payments or repay a charged off balance. It is also the stage where borrowers are likely to seek Chapter 13 or Chapter 7 bankruptcy protection.

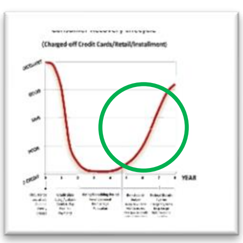
STAGE 3: The Hiding Period. This is when many borrowers tend to "go off the grid." Collateral may have been hidden, wireless carriers may have been changed or burner phones may be used. The member may have relocated, gotten remarried, found a new job in another city or state, or moved in with a friend. Your skip tracing efforts have been fruitless and even if the member has been located, he or she doesn't want to talk to you. It isn't time yet.



In the vast majority of cases, borrowers are incommunicative in order to focus on rebuilding their financial lives. They aren't trying to permanently escape their financial obligations; they're buying time in an attempt to get back on their feet. This may take several months, perhaps several years.

This is also the time period when most loans, lines of credit, credit card balances and negative share balances are charged off. Attempting to harvest the "low hanging fruit" of freshly charged off credit obligations, internal recovery departments and third-party collectors aggressively attempt to make contact which frequently has the negative effect of driving the borrower deeper underground.

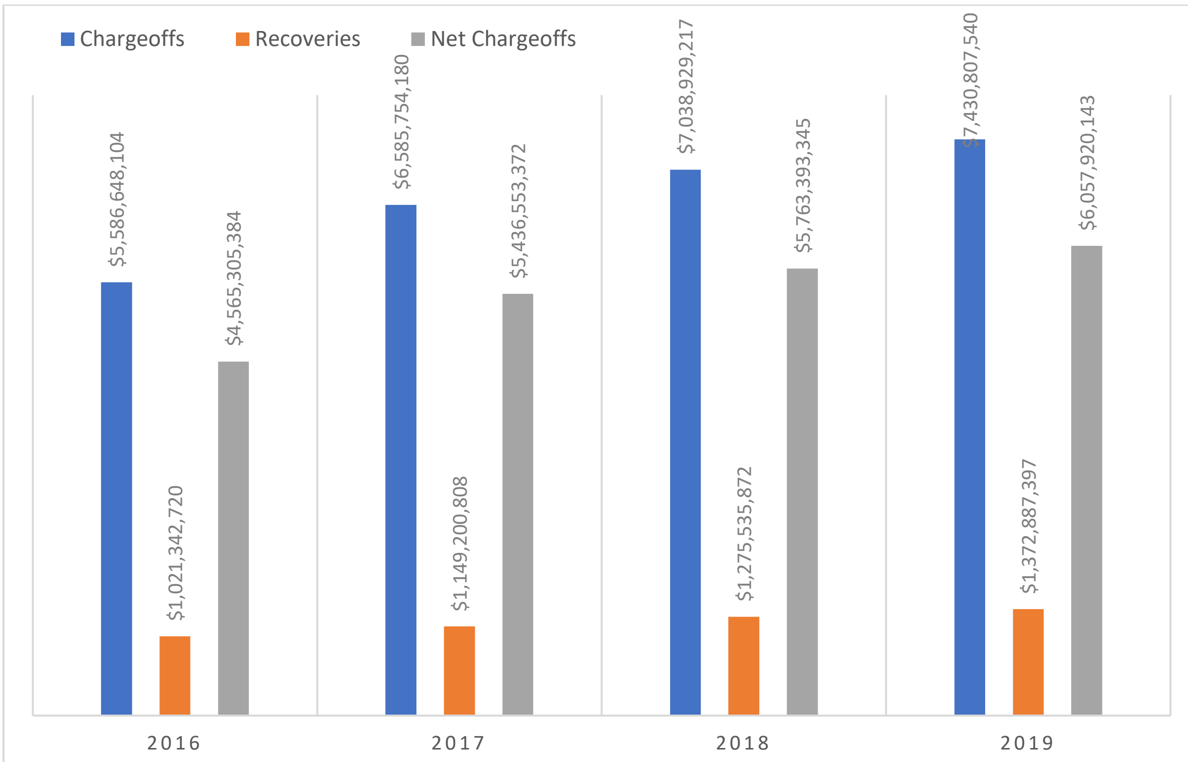
STAGE 4: Re-establishment. Generally speaking, it is now several years since the event that caused the initial credit default and the member (yes, even though charged off, the borrower is still a member-owner of the Credit Union) has recovered from the medical condition, remarried, gotten a new job, or otherwise has regained his or her financial footing. Now capable of paying the rent and feeding the family his or her primary goal is to once again become credit-worthy.



In addition, most members want to re-establish a positive relationship with their credit union. This intangible bond between Credit Union and member often remains intact after a financial crisis. After years of member service have been shattered by a temporary financial crisis, long-time members express their desire to be able to walk into the Credit Union without feeling embarrassed. This simple fact has been proven to be a critical recovery tool.

If, during the first three stages of the Lifecycle the member has been treated with empathy and respect and not treated like a financial criminal, the Re-establishment Stage is by far the most opportune time for a Credit Union to recover both the charged off credit balance and a "prior-prime" member.

Borrowers whose credit obligations were charged off in 2016, 2017, 2018 and 2019 have entered the Re-Establishment stage where the probability of repayment is significantly higher. This cohort represents $21.8 billion in credit union charge offs where the member-borrowers are most likely to have survived a medical emergency, re-married or settled a divorce, become re-employed, or otherwise survived the event(s) that caused them to default on their financial obligation.



Source: NCUA Call Report Data

The problem facing many credit unions is that their third-party collection/recovery sources do not actively "work" these older charge offs. Rather, they direct their focus toward more recently charged off accounts because the debtor information they're provided is fresh and more up do date. Many collection agencies assert that "older" accounts are more expensive to recover.

How do you know which borrowers are back on their feet?

A valuable key to unlocking this multi-billion dollar recovery opportunity is provided by CU Revest, a multiple credit union-owned CUSO that serves only credit unions and has recovered millions of dollars in "abandoned," "cold-case" charge offs while helping thousands of charged-off members re-qualify for borrowing privileges with their credit union. CU Revest has developed a proprietary 24/7/365 behind-the-scenes account monitoring tool called Borrower Lifecycle Assessment Situation Technology ("BLAST") specifically for credit unions.

BLAST[sm] "blasts" through information-blocking walls and mines valuable data from applications for cell phone service, residential rental, mortgage, credit card, direct and indirect auto loan, personal loan, auto loan and lease, business loan and lines of credit, equipment lease, payday loan, rent-to-own, auto pawn, and export applications, as well as bankruptcy filing, vehicle impound, dispute reporting, death register and multiple other databases. The data provides current information about a borrower's residence, current landline/mobile phone numbers, bank, credit union, fintech and other financial services accounts, employment, home ownership data, credit card available balances, and more.

BLAST[sm] is a highly effective tool for everything from locating skips to updating current data to devise and present repayment options that are within a borrower's current financial capabilities.

An ultra-cost-effective credit management technology tool, BLAST[sm] is available by subscription and does not require internal resource allocation, or additions to staff. The data mining technology resides on CU Revest's ftp servers, eliminating the need for additional on-site data center storage, software maintenance or update costs.

Reperforming Loan Program

Another unique key to unlocking this recovery opportunity is CU Revest's Reperforming Loan Program. Simply paying off a charge-off balance in full has absolutely no effect on the borrower's credit score. When BLAST[sm] - and a brief dialog - helps to identify a pre-qualified charged off borrower (prequalification includes a reasonable debt to income ratio, no federal tax liens or past due child support, and the agreement to pay 20% "down"), CU Revest may offer to re-write the outstanding balance into a new loan with 0% APR and no fees. Payments are reported monthly to credit reporting agencies giving the borrower a golden opportunity to improve his or her credit score. The CU Revest "reperforming loan portfolio" has, on average, resulted in an increase in FICO scores of 80 points.

The key to unlocking the treasure chest holding billions of dollars in unrecovered charged off balances is to know where to look. What you do once the treasure is located makes the difference between success and failure.

About CU Revest

CU Revest was created by financial services veterans to help credit unions recover charged off consumer loans, lines of credit and credit card balances by providing strategic solutions to member-borrowers who have fallen victim to events that have temporarily derailed their financial security. A Special Asset Management Credit Union Service Organization – and NOT a collection agency - CU Revest has recovered millions of dollars in "abandoned, cold-case" charge offs while returning more than 14,000 "prior-prime" members to a positive relationship with their credit union. CU Revest can be a *part of your credit management team* working with your internal staff as well as your third-party collection agencies. Or, if you prefer, CU Revest can provide both 1st and 3rd party collection services, as well as immediate or over-time purchase of your charge off portfolio. In other words, CU Revest can tailor their services to meet your specific needs. One way or the other, we'll help you put capital back on your balance sheet and "prior-prime" members back on the books.

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