

2010 Collections Business Analysis Sample accounts and Dollars Outstanding

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This White Paper is available at (www.justpayontheweb.com/provider). ALL efforts in this document focus on maximizing your collections PRIOR to sending the accounts out to any third party agency or firm. The roll rate percentages are for discussion only and do NOT reflect any client's performance. Whatever your data produces these same concepts work for you in a similar way (*just adjust the initial accounts or outstanding \$ cells*). The purpose of this White Paper is to look at the **Concept** and not the dollars or percentages collected.

Secondly, let me identify the primary credit grantor types for using this concept for maximum benefit. This approach centers on maintaining a customer relationship and favorable impression while collecting and quickly moving to legal on accounts that you would not want to have as customers anyway. It involves developing a professional rigid collection system of policy and strategy. Finally, it involves the use of automated low cost vendors in harmony with your internal efforts. ***Examples would include all mid-sized or smaller credit grantors, credit unions, hospitals and physicians, utilities, cable/cell phone providers, and local governments in some cases.***

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Professional Collection System

The fundamental fact is that you should know where you stand on all unpaid accounts prior to 100 days from the first statement sent date. There is little to NO value in holding an account longer in hopes of collecting. Effective application of energy in the first 100 days gains the maximum return of funds. (In hospital accounts the first day starts when all insurance claims have been applied.)

The most efficient organizations have both a Collection Policy and a Collection Strategy that is in writing and understood by the appropriate persons.

Collection Policy

1. When are statements sent? What is the interval between statements? How many statements are sent?
2. When phone calls are made, what is the minimum account balance used?
3. What are the messages on statements and in phone calls?
4. When does the account go outside for collections? What factors other than delinquency time are used? (Account Balance, Credit Score, assets, past payment history, future income potential)
5. When does the account get written off?
6. What conditions exist for you to use a pre-collection letter service, small claims court, a collection attorney, a collection agency, or temporary in-house collector?
7. If customer makes some small attempt to pay, how far do you go to accept a settlement?

Collection Strategy

- *To collect unpaid accounts as quickly as possible*
- *To collect unpaid accounts with as little investment of time and money as possible*
- *To collect unpaid accounts with the least possible loss of business*

All accounts should be resolved within 100 days from Statement #1.

1. You start with a written Billing and Collection Policy
2. Gather as much credit information as possible as soon as possible
3. Deliver the product/services – collect as much as possible prior to delivery of services
4. Statement #1
5. Statement #2
6. First phone call – 10 days after statement mailing date
7. Statement #3
8. Statement #4
9. Action taken 10 days after Statement #4

Three Requirements for Success:

- 1. Trap specific data “metrics” to measure the effectiveness of your efforts**
- 2. Apply 80% of your energy improving the earliest stages of the collection process by running parallel testing**
- 3. Apply 20% of your energy improving the last 45 days before you send the accounts to a third party by running parallel testing**

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Requirement ONE

1. Trap specific data “metrics” to measure the effectiveness of your efforts

A key to improvement in your collections involves accurate measurement of both your current methods and the parallel testing of new approaches. If you don't know where you are how can you tell if you have improved? Many collection professionals hold fast to traditional methods for the wrong reasons. There is the pressure to keep the status quo.

- ✓ If your predecessor and/or industry peers do it the current way then there must have been a good reason.
- ✓ Fear of trying something new that could either not work or create negative attention to your job performance and stability.
- ✓ Fear of having to report and face the reality of your current collections performance.

This point involves more detail than merely measuring the dollar volume or number of accounts written off. It involves tracking funds received at **each of the cycles** in the process correctly.

Insanity = “continuing to do the same things and expecting different results”

Today we live in a totally different consumer financial environment than has ever been witnessed before. We could invest pages of data related to this but for clarity here are a few facts:

Current Economic Forecasts Consensus

- Consumer debt is too high. Little spending power remains.
- \$2 Trillion worth of adjustable rate mortgages have already re-set. 28% of mortgages exceed market value. Huge wave of Commercial Mortgages coming due with negative equity.
- Consumer credit quality will continue to weaken

- Job markets will slowly continue to decline. Most unemployed will not be re-hired for a long time and then not in their skill and pay rate.
- Auto lenders will see erosion in credit quality forcing dismal sales figures.
- Bankruptcy numbers exceed pre-2005 levels
- Interest rates will remain flat
- Housing markets will remain in doldrums
- Retail chains will struggle
- Higher delinquency and chargeoff rates for the industry in 2010

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Requirement TWO

2. Apply 80% of your energy improving the earliest stages of the collection process by running parallel testing

Let's take a look at which cycle of improvement generates the greatest savings in the collection process. The first table indicates for an example a sample of 12,500 accounts (or you can choose an outstanding balance) as they flow through the collection cycles. As you can see we are assuming set theoretical flow through percentage rates with each example.

Roll Rate Cycles	Accts.	% Cur.	% Prev.	\$ Outstanding
Current to 30 Days	12,500	100.00%		\$3,750,000
30 to 60 Days	625	5.00%	5.00%	\$187,500
60 Days to 90 Days	350	2.80%	56.00%	\$105,000
90 Days to Chargeoff	298	2.38%	85.00%	\$89,250
Chargeoff	600	4.80%		\$180,000

(Note: chargeoff is higher than the 90 day due to accts going direct to chargeoff from all prior categories)

Now lets look at improving the 30 day cycle by 10%

Roll Rate Cycles	Accts	% Cur.	% Prev	\$ Outstanding	Monthly Savings
Current to 30 Days	12,500	100.00%		\$3,750,000	
30 to 60 Days	563	4.50%	4.50%	\$168,750	\$18,750
60 Days to 90 Days	315	2.52%	56.00%	\$94,500	\$10,500
90 Days to Chargeoff	268	2.14%	85.00%	\$80,325	\$8,925
Chargeoff	540	4.32%		\$162,000	\$18,000
				Total Monthly	\$56,175

Now lets look at improving the 60 Day cycle by 10%

Roll Rate Cycles	Accts.	% Cur.	% Prev	\$ Outstanding	Monthly Savings
Current to 30 Days	12,500	100.00%		\$3,750,000	
30 to 60 Days	625	5.00%	5.00%	\$187,500	\$0
60 Days to 90 Days	315	2.52%	50.40%	\$94,500	\$10,500
90 Days to Chargeoff	268	2.14%	85.00%	\$80,325	\$8,925
Chargeoff	569	4.56%		\$170,841	\$9,159
Total Monthly Savings					\$28,584

Finally, let's look at improving the 90 Day + cycle by 10%

Roll Rate Cycles	Accts.	% Cur.	% Prev	\$ Outstanding	Monthly Savings
Current to 30 Days	12,500	100.00%		\$3,750,000	
30 to 60 Days	625	5.00%	5.00%	\$187,500	\$0
60 Days to 90 Days	350	2.80%	56.00%	\$105,000	\$0
90 Days to Chargeoff	268	2.14%	76.50%	\$80,325	\$8,925
Chargeoff	586	4.69%		\$175,792	\$4,208
Total Monthly Savings					\$13,133

As you can see, the greater gains are possible in the earliest cycles.

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Requirement THREE

3. Apply 20% of your energy improving the last 45 days before you send the accounts to a third party by running parallel testing.

The “net” funds collected in the first 100 days from statement #1 are extremely high compared to the netback of funds after assignment to a third party. Although your third party vendors would be very upset, you have an obligation to expend effort to collect as much as possible internally prior to the outsourcing.

Companies solicit your organization for pre-collection letters and other tools to recover the internal accounts frequently. When the collection agency finds out they will offer the service free or at low cost in order to prevent the program from becoming effective. This

type of service for you is a total conflict of interest that competes with their collection fees at the next step. Since they have an existing relationship it is relatively easy to keep these useful products from being tested due to their control of the relationship with your contact person.

Let's just be honest with ourselves here for a minute. Once you assign your low balances to a third party agency or law firm there is almost NO hope of ever seeing hardly any money collected. Put yourself in their shoes. If the agency is getting paid on a percentage of funds collected then the potential revenue to the agency on a small balance is tiny. So, the agency will at the most write a letter or two, or perform a single predictive dialing phone campaign, or merely leave answering machine messages on the low balances. Most agencies will probably do little to nothing at some low balance level.

Since we all know that this is what will happen on the low balances, why not offer a generous hardship discount PRIOR to assigning the low balance accounts out?

Now that we have identified the minimal value of working the low balances without big discount, let's consider applying more energy to collect the higher balances via account discounting PRIOR to assigning the accounts outside. If for example your collection firm is averaging collections of 15% of funds assigned and then takes a 20% fee of collected funds then your "netback" is only 12% of funds assigned.

You could at least offer the Customer a one time last chance 70% discount to pay you or you will have no other choice than to report to the credit bureau and assign the account. You would still get more net funds and perhaps keep the customer should their situation improve in the future. If the customer doesn't take the offer, then you can have the collection firm give it a try as you are currently doing. You can substitute your own percentages here but the concept still makes sense to everybody except the collections firm.

With a few simple tools in this last stage prior to assignment and with the discounts offered, you could have a high probability of achieving double the netback funds you are currently obtaining and possibly preserve the relationship with the customer should they improve down the road.

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