

Collections Business Analysis
Fixed Balances in closed/(non-revolving) accounts
By
Ray E. Noftsinger, President
American Payment Technologies, Inc.

The fundamental fact is that you should know where you stand on all unpaid accounts prior to 100 days from the 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.

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 as many unpaid accounts as quickly as possible, and with as little investment of time and money as possible, and 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**

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 managers 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 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 will rise
- \$2 Trillion worth of adjustable rate mortgages will re-set in '07 and '08
- Consumer credit quality will weaken
- Job markets will soften but still be stable
- Auto lenders will see erosion in credit quality. Vehicle prices will fall
- Bankruptcy numbers will creep back to pre-2005 levels by third quarter
- Interest rates will remain flat
- Housing markets will remain in doldrums
- Discount retail chains will struggle
- Higher delinquency and chargeoff rates for the industry in 2007

The services offered by American Payment Technologies, Inc. provide detailed financial tracking data to verify the performance against current methods and performance levels.

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 125,000 accounts as they flow through the collection cycles. As you can see we are assuming traditional flow through percentages and that account balances on average start at \$300 and increase at each level of delinquency based on the fact that the lower balances cure out early in the cycles.

Roll Rate Cycles		% Current	% Previous	Dollars
Current to 30 Days	125,000	100.00%		\$37,500,000
30 to 60 Days	10,000	8.00%	8.00%	\$6,000,000
60 Days to 90 Days	2,400	1.92%	24.00%	\$2,880,000
90 Days to 180 Days	576	0.46%	24.00%	\$1,382,400
Post Chargeoff Netback	29	0.02%	5.03%	\$139,069

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

Roll Rate Cycles		% Current	% Previous	Dollars	Savings
Current to 30 Days	125,000	100.00%		\$37,500,000	
30 to 60 Days	9,000	7.20%	7.20%	\$5,400,000	\$600,000
60 Days to 90 Days	2,160	1.73%	24.00%	\$2,592,000	\$288,000
90 Days to 180 Days	518	0.41%	24.00%	\$1,244,160	\$138,240
Post Chargeoff Netback	26	0.02%	5.03%	\$125,162	\$13,907
					\$1,040,147

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

Roll Rate Cycles		% Current	% Previous	Dollars	Savings
Current to 30 Days	125,000	100.00%		\$37,500,000	
30 to 60 Days	10,000	8.00%	8.00%	\$6,000,000	\$0
60 Days to 90 Days	2,160	1.73%	21.60%	\$2,592,000	\$288,000
90 Days to 180 Days	518	0.41%	24.00%	\$1,244,160	\$138,240
Post Chargeoff Netback	26	0.02%	5.03%	\$125,162	\$13,907
					\$440,147

Finally, lets look at improving the 90 Day + cycle by 10%

Roll Rate Cycles		% Current	% Previous	Dollars	Savings
Current to 30 Days	125,000	100.00%		\$37,500,000	
30 to 60 Days	10,000	8.00%	8.00%	\$6,000,000	\$0
60 Days to 90 Days	2,400	1.92%	24.00%	\$2,880,000	\$0
90 Days to 180 Days	518	0.41%	21.60%	\$1,244,160	\$138,240
Post Chargeoff Netback	26	0.02%	5.03%	\$125,162	\$13,907
					\$152,147

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

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 very 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 soliciting your organization for pre-collection letters and other tools to recover the easier accounts have the most difficulty with the collection agencies. 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 in minimizing their fee percentages after assignment of the accounts. Since they have an existing relationship already it is relatively easy to keep these useful products under their control.

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 I am getting paid on a percentage of funds collected then the potential revenue to my 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 value of working the low balances, let’s consider applying more energy to collect the higher balances via account discounting PRIOR to assigning the accounts outside. If for example you are offering your collection firm a 20% retainer then you could at least offer the Customer a one time last chance 20% discount to pay you or you will have no other choice than to report to the credit bureau and assign the account.

“Flexible Payment Program[®]”

American Payment Technologies, Inc. provides an internet platform for enhanced collections with two different services. At the initial cycle APT provides the *Discount Two-Pay[®]* Service. At 45 days prior to third party assignment APT provides for hardship special terms collection on selected balances with the *e-Counselor[®]* Service. These two services are designed to be a transparent offering to the Customer.

For a complete discussion of this product along with sample screens please visit the “Service Provider” section of the system site www.JustPayOnTheWeb.com/provider

1. The “Discount Two-Pay[®]” Internet Service

The *Discount Two-Pay[®]* Service allows you to offer the Customer a small incentive to use the internet site for payment. This internet payment option will provide for you a faster receipt of funds and will allow you to capture payment at a lower cost than any other method.

For the Customer the benefit is to avoid the time and trouble of writing a check, finding and paying for a stamp, and carrying the envelope around to mail. Our experience with mid-size and larger organizations is that online payment is already currently offered but does NOT have adequate participation volumes. By offering a \$5.00 to \$10.00 internet discount depending on the balance, the usage rate of internet payments will substantially increase. The discount is not disclosed until the Customer logs in so you already have the payment in process prior to the disclosure.

Not only will a larger volume of internet payments result in cost savings but more importantly you will now have the opportunity to gain payment commitment from the accounts that normally would flow through to statement #2. This is achieved by offering a two-payment option where 75% of the balance is paid during the immediate internet session and the 25% balance is auto-debited one month later. With this option there would be no discount so that only persons with cash flow challenges would be likely to take the offer. The statistical increase of these type payments more than offsets the discount offered to the immediate balance paying Customers. (*see the comparison data below*)

American Payment Technologies has removed the negative factors in this approach by having our site be re-directed from your billing site for transparent Customer access. APT also provides follow-up for any insufficient funds returned including incurring the bank fees for the returned items, all of the functions associated with the second payment, and detailed statistical reporting of Customer activity. In addition, American Payment Technologies provides utilities for easy import and export of all activity between your system and the *Discount Two-Pay[®]* sub-system. Basically, any Customer that performs a

transaction in this system is completely serviced by APT until all funds are received. You obtain electronic flow-through of all funds each Tuesday.

Now let's review our results by offering both a discount and two-pay option at the 30 day level. The assumption is that the improvement would result in a combined 15% collection improvement but you must subtract the discounts given to come up with the true net savings. As displayed below, you would get a better result with the discount two pay service offering than merely offering the discount.

Performance Improvement Chart based on the “net after discounts” return with a Two Pay program linked to a \$10 internet discount for single pays.

Roll Rate Cycles		% Current	% Previous	Dollars
Current to 30 Days	125,000	100.00%		\$37,500,000
30 to 60 Days	10,000	8.00%	8.00%	\$6,000,000
60 Days to 90 Days	2,400	1.92%	24.00%	\$2,880,000
90 Days to 180 Days	576	0.46%	24.00%	\$1,382,400
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Offer Two Pay Program +
Improve 30 to 60 by 15%
Offer \$10 Internet Discount

Roll Rate Cycles		% Current	% Previous	Dollars	SAVINGS (NET) After the discount	SAVINGS without discount
Current to 30 Days	125,000	100.00%		\$37,500,000		
30 to 60 Days	8,500	6.80%	6.80%	\$5,100,000	\$608,750	\$600,000
60 Days to 90 Days	2,040	1.63%	24.00%	\$2,448,000	\$432,000	\$288,000
90 Days to 180 Days	490	0.39%	24.00%	\$1,175,040	\$207,360	\$138,240
Post Chargeoff Netback	25	0.02%	5.03%	\$118,209	\$20,860	\$13,907
					\$1,268,970	\$1,040,147

For a complete discussion of the products along with sample screens please visit the “Service Provider” section of the system site www.JustPayOnTheWeb.com/provider

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2. Pre-collection Hardship Program (*e-Counselor*®)

As early in the cycle as possible, you should give your Customers a hardship set of options. Obviously, you would not provide this as a part of Statement #1. However, there should be a strong emphasis on introduction of this program with Statement #2 and all future communication. The channel of choice for all **low and mid-sized balances** should be the automated internet flexible payment program www.JustPayOnTheWeb.com. The **high-balance accounts** can then be directly referred to a phone number for your internal collection staff. You can set the balance threshold for the phone call option and change it at any time depending on your staffing and backlog.

The first line of collection in hardship involves a discount coupled with a string of monthly payments until completed. The options would include single pay now with discount, three payments, and six payments.

*The fact that your Customer is considering a hardship program indicates that they are an honest debtor and will pay if it can be at a level they can afford. Should the debtor be unable or unwilling to take the discount over 6 monthly payments you can offer one final payment arrangement via internet financial counseling (*e-Counselor*®). This section of the website requires the debtor to provide income and expenses along with all consumer debt obligations and current payment amounts. From this exercise a remaining monthly dollar amount will be generated to make payments on the current bill. Should this budget process be unable to produce net monthly cash, suggestions are offered to control other expense areas in order to meet this commitment. The debtor is offered at any time to return to the last offer of 6 monthly installments. Some debtors will PREFER to return to the prior offer and make payments over 6 months after they understand the information required for the special hardship offer. However, should the debtor complete the process a final offer is provided based on your minimum acceptable amount coupled with the monthly funds available calculated in this process. At this point you will have demonstrated the need for charitable treatment of this account and if your organization is non-profit you could accept whatever is available and report the balance as charitable.*

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