

Can Local Collections lead to greater returns?

There seems to be something incongruous in hosting an event about debt in the casino capital of the world – Las Vegas!

However that's exactly what the Debt Buyers Association did in February this year when they picked Las Vegas as the location for the DBA International conference. Over 1,000 delegates and some 100 exhibitors attended.

For me the event highlighted the wide gulf between the respective debt sale and purchase markets on either side of the "pond". I was taken aback to see how many times in North America debt is sold and then re-sold, often without any collection activity having occurred. This was often supported by the use of online auction platforms and the far more liberal data protection regime that, for example, allows private sector access to workplace data for the immediate attachment of earnings orders.

It was also interesting to see how many sellers and buyers work in a relatively small geographic area, perhaps just one State. Knowledge of local State law and economic circumstances is seen as a positive factor. This means that often the first segmentation of debt being sold is along not credit but geo-demographic lines.

In these situations it is believed that the "nearness" of a collections operation has a psychological effect on the debtor's willingness to pay. On my return I discussed the subject with a

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number of fellow members of the DBSG. Would for example a debtor in Scotland be more likely to pay a demand from a DCA based in Scotland than an Agency based 400 miles away in London?

Perhaps an interesting point to research?

Talking of research, January saw us publish our first tranche of research into credit activity post-debt sale.

The results highlighted the need to ensure that debt is properly reported after it has been sold, by having the accounts re-assigned to the buyer. This ensures that the history of the account is transferred along with the ownership of that account. Merely deleting and reinstating the account

does not accomplish this.

If you would like a copy of the executive summary presentation of the results please email me at alan.golob@callcredit.co.uk.

It is frequently said that in North America the debt sale and purchase market is more mature than in the UK. That gives us the best opportunity to take the best elements from the US and learn from the mistakes made. In my opinion constantly re-selling debt has an adverse affect on the quality of Bureau reporting, the perception of the debt buying and selling market and most importantly the debtor's credit file.

Alan Golob, Head of Collections and Recoveries, Callcredit. ■

Using credit data to enhance account performance

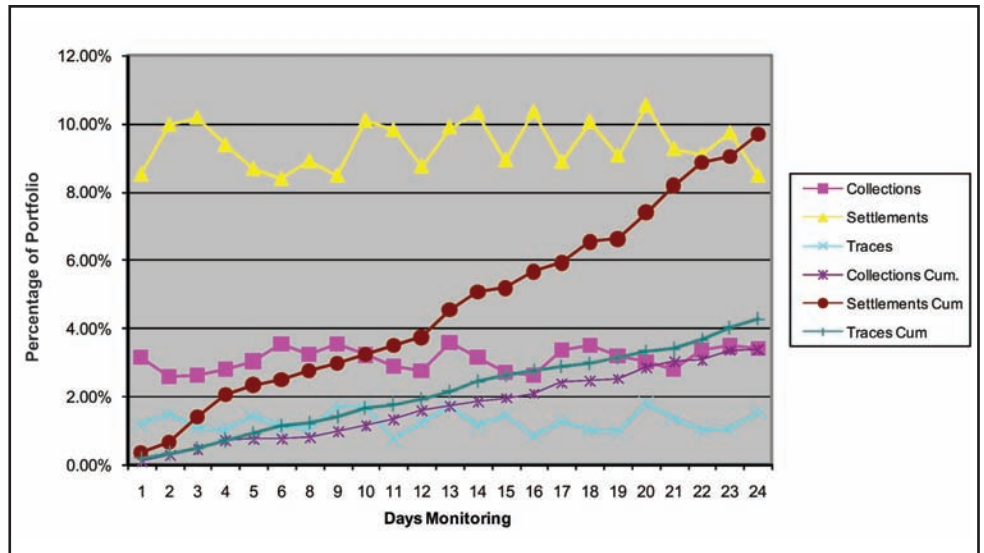
Debt buyers are now able to access credit data on the portfolios which they have purchased providing they share the account performance with the bureau.

So how is the credit data best used? Many are looking at using the data for post-load segmentation and account management functions that would emulate many lenders. These processes and the analytics supporting them take time and this is without even taking into consideration the implementation and interfacing of bureau data within the buyers' automated processes. It is also an expensive process to invest in, especially as many of the larger buyers load books sporadically rather than monthly. Therefore the business cost per segmented account would prove expensive if the buyer chose to not make a new purchase for a period of time.

From an economic and business perspective surely it would make sense to focus resources on the accounts already past the focus of the front end collection process, the rested accounts or assets? This is where the greatest economical win for debt buyers is, and where the credit data can be used with the minimal of interfacing and developing. This is where a daily alerts trigger service like CallMonitor could be of use.

The alerts are granular enough for detailed refinement, but in this application they are only really needed to show a change in a customer's credit risk (either an improvement or a change to detriment) so that the rested assets (or accounts on a long term repayment plan) can be re-positioned. This not only creates a regular and short term optimal income from these accounts, but it also saves the business considerable costs, as the accounts that are not generating the relevant alerts can remain in the current strategy and not cost the business any operational resource.

As an example, we analysed portfolios from two leading debt buyers. Both portfolios were purchased over 12 months ago, and each account is now classed as a 'rested asset' or beyond



the initial collection focus following loading. The portfolios were also a mixture of banking and credit card products. Three main groups of alerts have been monitored on each portfolio (the definitions and significance of each alert grouping is subjective). The three groups outlined are:

Collections – Accounts to be re-worked as collections as the daily alerts or sequences of alerts has identified positive changes in the individuals credit file.

Settlements – Accounts to be re-worked as collections or offered a full and final settlement as the sequencing and individual alerts point towards an impending insolvency, or a significant reduction in the ability for the individual to pay.

Trace – The amount of new addresses captured on the monitored book.

The results suggest the following:

1. There is a continuous generation of daily alerts throughout the study period, and there is value in the continuous monitoring of accounts
2. At the end of the 16 week study period around 40% of the accounts had shown deterioration in their credit facilities. On a purchased book this may be expected, but by sequencing these alerts the purchasers are able to rationalise and suppress the actionable accounts queues
3. Around 10% of the accounts show an

improvement in their credit relationships which would indicate that they may be in a position to increase their repayments with the debt purchaser

4. Around 11% of the accounts had moved and been validated to a new address during the 16 week monitoring period

5. The results are not exclusive, though the duplication of master alerts by accounts is around 8%. Therefore around 92% of these results are distinct by account

6. Significant operational savings and increases in collections would be possible by segmenting small proportions of the book into actionable strategies

Application

If you were a debt purchaser and had purchased this book this is likely to mean the following:

1. Around 10% of the purchased book improved their credit standing with other lenders during the four months of monitoring. There would be a high proportion of these debtors able to pay, or increase their repayments to you.
2. The purchased population remains highly transient. Approximately 11% of the customers moved over the study period which would immediately save you 11% of your current lettering costs as these customers could be contacted at their new address. Combining the new address information with the

improvement in credit standing flags could also indicate that the debtor has capital to settle the accounts too.

3. One year after purchase 40% of the customers continue to decrease their credit standing with other lenders. These customers can be segmented and depending on your business rules (and

other alert types and frequencies) be offered settlements or re-sold, minimising your inevitable losses from these debtors.

4. Around half of the book hasn't changed and wouldn't need contacting. Therefore you would save around half of the operational costs normally associated with routinely re-working these accounts

to capture any new payments.

5. The alerts are consistent and continuous so the operational resource needed to apply these targeted strategies would have minimal effect on your business resource.

Steve Preston, Senior Business Consultant, Callcredit ■

Call for change

Callcredit is calling for change in the debt sale reassignment sector.

Commonly, when debts are sold, the records are still deleted and then reinstated despite the ability to re-assign being available. However, Callcredit believes that it is in the best interests of the buying and selling community that repayment records are preserved while being transferred to their new owners. This ensures that the history associated with the account is kept intact to give the new owner as clear a picture as possible of the new debt.

To help clients benefit from full disclosure of the histories of debts that they buy or sell, Callcredit would now re-assign the

records of any bought account for free. Records can still be deleted and re-instated, but this will occur a charge.

Of course, the consumer will also benefit from effective debt reassignment. As well as ensuring the consumer file contains the most up-to-date information, re-assignment also provides complete transparency and continuation – an important factor in the consumer understanding their own debt situation.

To discuss issues relating to Bureau reporting please contact **Callcredit's Collections & Recoveries Client Manager James Syron on 0113 244 1555 or email james.syron@callcredit.co.uk**. ■



The Consumer Credit Act and Unfair Relationships

Debt Buyers and Debt Collection Agencies must ensure fair relationship with debtors.

This April marks the official implementation of The Unfair Relationship section of the Consumer Credit Act, applying to all credit agreements written prior to April 2007. Under the new section a court can file an order if it finds the relationship between the creditor and debtor, usually arising from a credit agreement, to be unfair towards the debtor.

With much discussion around the Credit Crunch and responsible lending, the onus is now firmly on the creditor to prove that the agreement is fair towards the debtor. One of the options available to the court is to order the creditor to repay all funds paid by the debtor and discharge the amount owing, illustrating the 'teeth' of this new legislation.

Clearly the Act is working on behalf of consumers who may have fallen foul of unscrupulous creditors, but equally the Act is also of concern to reputable Debt Collection Agencies (DCAs) and debt purchasers. They will need to ensure that they are not placing undue pressure on debtors to meet unfair payment agreements.

An effective way of limiting exposure to unfair relationships is by gaining access to full bureau data – this will give the creditor a complete view of a debtor's financial circumstances, enabling them to sort the 'can't pays' from the 'won't pays'. Being able to view a consumer's financial history is ultimately a far more effective method of assessing affordability than the archaic Income and Expenditure form or the telephone interview.

While debt purchasers (DPAs) have access to credit data in their own right,

contingency debt collectors (DCAs) need to have permission to gain access to a consumer's credit report. At Callcredit we are working with a number of lenders who wish to allow their DCAs to access full bureau data on their behalf. This access will only be allowed for that particular lender and as part of the Collections process. These data will show a debtor's current and defaulted accounts including secured and unsecured account performance and balance history. They will prove invaluable in minimising both the risk of instigating what could be classed as an Unfair Relationship and any impact on collection figures.

For more information on the range of tools now available to help you make the most of the change in legislation, talk to an expert in our specialist Collections & Recoveries team by calling 0113 244 1555 or email collections@callcredit.co.uk. ■

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Banking Code changes offer help for customers in financial stress

Bank and building society customers are set to benefit from changes to be introduced following a wide ranging independent review of the Banking and Business Codes. The Banking Code is the charter that sets out how customers are treated by their banks and building societies, the new editions of which will be released to the public in Spring 2008. A large majority of recommendations made by the independent reviewer have been accepted and will be included in the new codes; after working within the collections industry for many years there was one that caught my eye.

“More help for customers who may be heading towards financial difficulties”

Not all debtors that make a late payment, default on an account or accumulate debt are suffering from extreme financial stress. Of course some debtors are and need creditor support and sometimes quality independent debt advice. Others simply need to amend their lifestyle, re-assess their spending habits and prioritise their commitments. Experienced collectors can sort the ‘can’t pays’ from the ‘won’t pays’, but it is much more cost effective and helpful if the Collections process can identify potential financial difficulties cases before a call is made or a letter is even sent.

KPMG have forecast that personal insolvencies may hit record levels in 2008, with over 130,000 people to be either declared bankrupt or enter into an Individual Voluntary Arrangement, a 22% increase on the 2007 amount. Alarming figures and hence the key issue that the Banking Code addresses is to try and identify these people at an early stage in the customer lifecycle and work towards prevention in conjunction with cure for individuals that have fallen off the financial edge. My colleagues within risk have been conducting excellent work with lenders on the Overindebtedness Initiative and can assist with monitoring customer behaviour to spot potential problems early on. However, my interest lies with the customers that have fallen into collections or even recoveries, identifying financial difficulties at this stage and working towards a solution.

Callcredit has been successfully working with several organisations over the last 12 months on “Litigation Segmentation”. This product operates on a batch process that is able to assess the likelihood of successful litigation. The process involves identifying individuals’ total secured & unsecured debt, those who are home owners, an individual’s available equity and their lifestyle demographics amongst other key factors. A whole debt book can be



segmented into different cohorts. Many lenders have been particularly interested in the “low risk secured” cohort; however, this product also accurately identifies a cohort that is “not suitable for litigation”. This group contains debtors that include characteristics such as total debt (secured & unsecured) greater than value of property. It could be said that debtors within this group may be just around the corner from a change in circumstance but if you are looking to identify a group of accounts that may be in financial difficulty or heading in that direction, then it’s a great place to start.

James Connolly, Business Development Manager, Callcredit. ■

Collections, Recoveries and Debt Sale Seminar (from a lenders’ perspective) June 5th 2008

At the Callcredit SHARE Conference in January I gave a presentation on the results of the first tranch of research we had conducted on credit activity post debt sale.

The feedback received on the day and subsequent interest in the research indicated that our clients would welcome a seminar focused specifically on Collections, Recoveries and Debt Sale, from a sellers only perspective.

I would therefore like to ask to you reserve in your diary June 5th this year for this seminar. More details regarding the agenda, location and timings will follow shortly.

The topics covered will include some that flow naturally from the research, including bureau reporting by buyers post sale and guest speakers presenting on innovative tools to help in the debt sale process.

The seminar will include a “networking lunch” which will give you a chance to chat – without having to rebut advances from buyers looking for your business!

Alan Golob, Head of Collections and Recoveries, Callcredit ■

If you are interested in taking part in the seminar please email michelle.burley@callcredit.co.uk.

What do you think?

Send your comments to marketing@callcredit.co.uk