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Getting Aggressive Before Delinquencies Rise Helped SSFCU's Numbers Fall Later

By Ray Birch, *Correspondent*

SAN ANTONIO–Even if a credit union has not seen a sharp increase in delinquencies, one CU is advising not waiting until a crisis occurs before establishing an outsourcing arrangement with a third-party collections company.

The $5-billion Security Service FCU just experienced two months of falling delinquencies as the result of being proactive about managing delinquencies before issues arose, explained Nancy O'Malley, VP of asset recovery. An important element of its collections strategy has been leveraging outsourcing.

"If you wait until the crisis to outsource, that's too late," insists O'Malley. "It takes a while to get that strategic partnership going, to get the data downloading process built, and relationships established. You need time to train staff and get them to know your business, your policies, and how you want your members treated."

O'Malley said the partnership with a collections company should be easily expanded and contracted, which allows the credit union to manage delinquency "peaks and valleys." It also allows for better member service, and a happier, more productive internal collections team–"Because you are not always dumping a bunch of accounts on them at once," O'Malley pointed out.

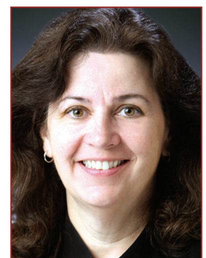
Security Service's delinquencies stand at 1.35%, down from over 1.6%. Before the recession began, delinquencies were below 1%, O'Malley said, sharing that the credit union took a number of steps to make sure the situation would be manageable.

In addition to establishing that solid outsourcing partnership with Financial Corporation of America in Austin, Texas, SSFCU added a delinquency risk scoring system that's significantly boosted staff efficiency, and it has added skilled collectors. Last June, Security Service started hiring, mainly from bank staff needing jobs, and expanded the collections team by 12, totaling 60 employees.

"In the San Antonio market a number of financial institutions have either closed or were winding down operations at the time, and we got some great, experienced collectors," O'Malley said. "You need that type of talent in today's economy."

But what may have played the biggest role in turning around delinquencies is the new risk scoring system. "OK, we added staff. But it's not really about hiring additional people as much as it is about increasing the productivity of your existing staff. All of our collectors were faced with an increasing number of accounts in their work queues every day. So we want their morale up, their energy level high, and focused on their objectives. But to do that, we have to give them tools."

SSFCU invested in a risk scoring system for their collections accounts, working with Monetrics in Beverly, Mass. The credit union uploads account information to Monetrics, such as payment history and account type, which then combines that data with credit bureau information, crunches the numbers, and ranks each account–low, medium, and high risk–based on their likelihood of paying.


Nancy O'Malley
Security Service FCU

"This is an invaluable tool for us," O'Malley said. "It allows us to predict those accounts where calling and making a contact will make a difference, and use our resources most efficiently."

The scoring system not only analyzes risk based on members' account history, but loan type, as well. For example, a car loan on an auto that's rapidly depreciated would be considered a greater risk. Security Service, one of the largest indirect auto loan issuers in the credit union industry, currently uses the scoring system on its auto loan portfolio and plans to expand it to other loan categories, O'Malley said.

The scores are loaded into SSFCU's predictive dialer, which, based on the rankings, assigns call frequency and staff. "We want to make sure our high-risk accounts go to a seasoned collector."

O'Malley declined to share costs of the arrangement with Monetrics.