

Selling Your Charged-off Portfolio:

Four key considerations for credit unions

In 2013, credit unions charged off approximately \$4.45 billion in total loans—that's about \$666,930 per institution—according to Callahan Peer-to-Peer data. Even more disconcerting, less than \$1 billion was recovered. That's because in most cases once a credit union has charged off a loan, they've stopped working it. But, by not working or selling the portfolio, the institution is leaving money on the table.

Lack of time, resources, expertise, compliance, desire—you name it—handling charge offs becomes a low priority in the strategic day-to-day battle of running a credit union. And, even more so, if these are auto lending charge offs, the institution has already taken a loss on the disposition of the vehicle and is struggling with the ongoing cost of resources and time to continue working the debt.

Options available then become hiring additional staff, outsourcing charged-off accounts for collection, or selling the charged-off portfolio. Recognizing the first two options require additional time and money, selling off the portfolio can be a lucrative way to recover some dollars.

Before you sell, prepare your institution with these four key considerations:

1. Do you still consider these accounts members?

This is going to be the most critical question to answer as you approach the sale of a portfolio—because once it's sold, it's sold. If a long-term member contacts you regarding the collection of their account, you aren't going to be able to help them. So what can you do? Either scrub your portfolio before selling it for long-standing members and make a case-by-case decision whether to keep or sell, or if you know there will be issues with members, put a clause for recourse in your sales contract. As you know, this type of question will change by portfolio type and becomes less of a problem for indirect auto versus direct auto portfolios, so you may decide to sell specific portfolios only.

2. Is your portfolio's profile attractive to a debt buyer?

There are critical factors that will make your portfolio attractive to a debt buyer, including:

- › Age of the portfolio:
 - The closer your debt is to its initial charge-off date, the more money you will be able to get.
 - The closer your debt is to its statute of limitations, the less money you will be able to command.
- › Other factors affecting the price include:
 - Credit tier – Is the portfolio prime, subprime, or a mixture?
 - Loan type – Is the portfolio indirect/direct auto, mortgage or student loan? Collectability will change by loan type.
 - Demographics/location – Some states make it virtually impossible to collect which impacts your chances of attracting a buyer.

3. Do you have internal processes in place to make the sale of your debt efficient?

For example, is all the corresponding media or documentation readily available for the debt buyer? Confirm that your imaging or document storage technology can easily compile all of the documents required by the buyer, so that you and the debt buyer stay in compliance. Additionally, ensure you have ceased reporting these accounts to credit reporting agencies.

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4. Have you done vendor due diligence on the debt buyer to mitigate risk?

With regulations surrounding today's lending, and in particular Consumer Financial Protection Bureau (CFPB) scrutiny as it relates to debt acquisition companies, choosing the right vendor becomes critical. It's important to understand that as the original lender you have the potential to be held liable for any recourse taken with regard to your sold-off debt.

So how do you mitigate this risk?

- › Look for a debt acquisition company that is intimate and works within the credit union movement, so they have an understanding of the unique relationship and loyalty between credit unions and their members.
- › Ensure the debt acquisition company you choose has a complete and thorough understanding of regulations with strong processes in place to mitigate your long-term risk.
- › Create a long-term relationship with your trusted debt acquisition company so they become a resource in your overall collections strategy. Your portfolio may sell for a few dollars less, but it's worth the peace of mind to have a trusted ally. Last, be sure to review the debt acquisition company's portfolio evaluation and funding process to make sure it fits with your selling timeframe.

As you look for ways to create cost efficiencies in your organization, selling off your portfolio can become a fast and easy way to recover lost dollars with very little overhead. You won't get dollar for dollar, but you also won't need to attach resources to working the debt, which is a cost-opportunity in itself.

About LCS Capital

LCS™ Capital LLC acquires portfolios in the auto, mortgage and student loan arenas. Utilizing over 30 years of recovery expertise, LCS Capital breathes new life into portfolios considered "uncollectable." An affiliate of LCS™ Receivables Management LLC, together the companies span the recovery spectrum from debt acquisition and sales to nationwide collections and legal referrals. For more information, www.lcscap.com.



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