Selling Your Charged-off Portfolio:

Four key considerations for auto lenders

With subprime now comprising about 16 percent of auto financing according to J.D. Power, coupled with outstandings hitting a record $822 billion in 2013, one thing is for certain—delinquencies and charge offs will forever be a reality of lending. And as you probably know all too well, handling these delinquencies and charge offs often becomes a low priority in the strategic day-to-day battle of running a successful lending institution; however, by not working or selling the portfolio, you may be leaving money on the table.

For auto lending charge offs specifically, your institution may already have taken a loss on the disposition of the vehicle and be 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 your borrowers have other active accounts?
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 your financial institution offers multiple products and services, you will need to determine if these borrowers are active customers. If so, either scrub your portfolio before selling it for open accounts and make a case-by-case decision whether to keep or sell; or, if you know there will be customer issues, 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:
  a. The closer your debt is to its initial charge-off date, the more money you will be able to get.
  b. 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:
  a. Credit tier – Is the portfolio prime, subprime, or a mixture?
  b. Loan type – Is the portfolio indirect/direct auto, mortgage, or student loan? Collectability will change by loan type.
  c. 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) regulations as they relate to debt buyers, 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?

- Ensure the 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 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 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 Financial Services Corporation

LCS™ Financial Services Corporation is an affiliate of LCS™ Receivables Management, LLC, and a leader in post charge-off recoveries for the financial services sector. With more than 30 years of receivables management experience, the company maximizes debt recovery for financial institutions nationwide. Together, LCS Financial and its affiliated companies span the recovery spectrum from nationwide collections and legal referrals to debt acquisition and sales. For more information, www.lcsfin.com.

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