BEST PRACTICES

A Collection of Best Practices for:

Collections

Includes Detailed Best Practices for:

- Collections Operations
- Collections Account Maintenance
- Collections Compliance
- Debt Sales
- Deferment & Forbearance

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The Collections Operations Group makes contact with debtors to collect outstanding balances. They are responsible for identifying and updating debtor contact information in the company's database (or any record-keeping system) when possible. Contact methods and frequency vary based on the number of days the account has been delinquent as well as the amount that is owed. For example, if the account has only been past-due for 10 days or less, the collections group might place a single call per week. In some cases, these calls might be automated, using a pre-recorded message to notify the account holder that their bill is past due. At the 30-day point, however, the group may increase the frequency of calls and begin sending traditional "snail mail" notifications. When accounts become 60-90 days past due, collections activities intensify until the debt is either written off or sold to a third party collection agency or debt recovery firm.

Collections Operations

Collections Best Practices

Best Practice 1-A

⚙ Automate Late Payment Notifications to Increase Customer Awareness of Delinquent Payments

Work closely with the Information Technology (IT) Department to standardize and automate late payment notifications, as well as automatic dialers configured to contact delinquent account holders based on collections risk and overall likelihood of collecting. Ensure that call lists are segmented based on account risk (higher account balance = higher risk) to determine frequency of contact (can be through phone, email, mobile device notifications, physical mail).

Typical Practice (the Status Quo): Notify customers of unpaid bills as soon as delinquent accounts are discovered. Once discovered, contact lists should be segmented on the number of days that the account has been passed due (30, 60, 90, 120, 150 days, typically). The sooner delinquent accounts are discovered, the sooner customers can be notified.

Benefits of this Best Practice: Automating late payment notifications increases the likelihood that customers will be made aware of their delinquent payment(s). Furthermore, segmenting call lists based on account risk improves the likelihood of collecting on high-risk accounts and eliminates wasted time calling low-risk (lower account balance), low-value accounts repeatedly.

➕ **Related KPIs:** Average Account Age (Delinquent Accounts), Total Volume: Delinquent Accounts, Percentage of Delinquent Customers Contacted

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Best Practice 1-B

⚙ Implement an Online Collections Self-Service Program to Improve Customer Experience

Develop and implement an online collections self-service program, which enables customers to research their collections options, interact with the Collections Department and monitor their payments. Work with delinquent customers to make it easier for them to pay back loans (this can include adjustments in interest rates, loan lengths, payment installments, loan terms, etc.) and inform them to seek free or low-cost consumer credit counseling services.

Typical Practice (the Status Quo): Periodically contact delinquent customers (through email, phone calls, etc.), taking priority levels into account (i.e., accounts nearer to default should get more frequent calls, etc.), in order to obtain the amounts owed to the company. Ensure that customers are provided with all relevant information (i.e., collections options, payment status, etc.) only upon contact.

Benefits of this Best Practice: The implementation of an online collections self-service program not only provides customers the ability to interact with the Collections Department on their own time, but it also frees up collections employees to perform other tasks (such as contacting delinquent customers who are on the cusp of default). Such online services, furthermore, allows customers to research their collections options and work with numerous parties (i.e., the Collections Department, a third-party consumer credit counseling service provider, etc.) in a low-stress environment to figure out how to best pay back what they owe before their delinquent account is considered defaulted.

➕ **Related KPIs:** Cycle Time: Loss Mitigation Decision, Loss Mitigation Success Rate, Average Account Age (Delinquent Accounts), Total Volume: Delinquent Accounts

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Use a Set Number of Focused Metrics to Efficiently Measure Collection Representative Performance

Use a set number of focused and clearly defined metrics that reflect functional efficiency, effectiveness and strategic value (Delinquent Accounts per Collections Employee, Percentage of Right Party Contacts, Amount Collected per Collections Agent, etc.) to measure the performance of the organization's collections employees. Provide frequent (daily, weekly), potentially even real-time, updates on performance levels across the organization's Collections Department.

Typical Practice (the Status Quo): Have Collection Department managers hold ad hoc weekly or monthly 'huddles' to discuss the performance of the organization's collections employees. Use standardized checklists to track as many collections productivity metrics as possible.

Benefits of this Best Practice: Using a set number of focused and clearly defined metrics ensures the efficient measurement of individual collection employee performance and allows Collection Department managers to identify key differentiators between high

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