

PROFESSIONAL COLLECTOR®

THE QUARTERLY NEWSLETTER FOR PAYMENT PROFESSIONALS FROM WESTERN UNION



LOOKING FORWARD

In 2008, the collections industry faces increased business, new challenges

By William Atkinson

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"There has been a widespread credit implosion, starting with the subprime mortgage situation, but also on the card side."

BILL MCCrackEN
Synergistics Research Corp.

GETTY IMAGES

When summing up the past year in collections, Bill McCracken, CEO of Synergistics Research Corp. in Atlanta, Ga., is nothing but frank. "In 2007, the 'stuff' hit the fan," he says. "Headlines garnered by the subprime meltdown were widespread." Many consumers felt the squeeze of the ensuing mortgage crisis, and foreclosures and

delinquencies began to approach record levels. This year, McCracken adds, will bring more of the same.

"There will be a significant uptick in the number of consumers who are affected on both the mortgage side and the [credit] card side," he predicts.

The silver lining here from an industry perspective is that the need for collections will increase significantly. Kaulkin Gins-

berg, based in Rockville, Md., which recently published "The Kaulkin Report, 7th Edition: The Future of Receivables Management," sees growth in all sectors of

My Takeaway

Due to fallout from the mortgage crisis, the need for collections will increase in 2008.

Looking Forward

receivables management in the next five years. But pushback from consumers and increased regulations could still present challenges.

ECONOMIC TIDE

"It will be a hectic year for the collections industry," suggests Gwenn Bezar, co-founder and director of research for the Aite Group in Boston, Mass. McCracken agrees with Bezar, and offers some elaboration.

"It's been said that when the world of credit is in disarray, the collections industry is on top of the world," notes McCracken. "There has been a widespread credit implosion, starting with the subprime mortgage situation, but also on the card side." The problem is greater on the mortgage side, McCracken believes, because consumers know that if they miss mortgage payments, they have some time before "the axe drops." So, they feel they can afford to miss some of these payments.

On the credit card side, though, consumers know that things work a lot faster, in

terms of the lender being able to shut down their credit and come after them. "While the repercussions are already here on the mortgage side, I think repercussions will also come on the card side, but it may be another several months," McCracken says.

According to Michael Klozotsky, an analyst at Kaulkin Ginsberg, the mortgage situation is likely to affect other areas of the industry too, such as the utility and auto sectors. "The massive number of adjustable rate mortgages that reset at the end of 2007 will put consumers in situations where they end up taking on more credit card debt," he says. "Their spending power will be at risk. This will make the collection of other kinds of debt by collections agencies that much more difficult."

CONSUMER CHALLENGES

Klozotsky says the potential downsides for the collections industry as a result of these unfolding economic conditions may balance out the upsides of increased business. "When the economy turns down, of

"Many consumers involved in subprime market problems tend to be below the 50 percent median income, and these are people who have an ear in Washington," McCracken says. They already have the leaders' attention because they are losing their homes, he explains. Forceful collections could thus lead to legislation that will hamper the efforts of collection groups to make meaningful recoveries.

COLLECTOR STRATEGIES

In spite of the challenges, collectors can take certain steps to avoid setbacks. "There will be opportunities for the best collections agencies to differentiate themselves in terms of the quality of service they offer, so they don't end up causing more problems for their clients in a context of heightened scrutiny over lenders' practices," Bezar says. "One strategy for collections agencies will be to work cooperatively with not-for-profit organizations that are trying to help people avoid bankruptcy and develop payment plans."

Consumers look ahead to the next year, and if they get jittery about where the economy is going, they will, at the very least, tighten their purse strings.



course, collectors see more placements," he says. "The problem is that, especially if the downturn is a protracted one — which this one seems to be — recovery rates will tend to suffer."

According to Klozotsky, consumers look ahead to the next year, and if they get jittery about where the economy is going, they will, at the very least, tighten their purse strings. And, McCracken adds, if collection efforts become too zealous or aggressive, they are more likely to voice their concerns to decision makers.

McCracken feels that collectors should take a leading role in making sure that others in the industry adhere to all applicable laws and to a code of ethics. He suggests staying abreast of current legislation by tapping into the resources of organizations such as the American Bankers Association. "The ABA has e-mail newsletters," he explains. "While most of these deal with banking issues, many of them deal with the subprime mess, as well as efforts in Congress to protect debt holders." In the long run, they could help collectors protect themselves too. ■