Regaining Visibility for Improved Servicing and Recovery Outcomes

How risk managers can navigate economic volatility and a diminishing view of credit risk

EBOOK

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Amid regulatory changes and economic uncertainty, financial institutions must build proactive servicing strategies like monitoring portfolios for signs of distress.

This can help them prevent default by implementing proactive contact strategies to ensure outreach can occur. By streamlining portfolio management in these ways, financial institutions can also optimize debt recovery strategies.

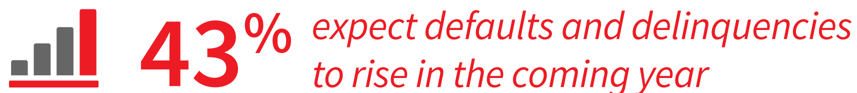
To protect and improve portfolio performance — and mitigate the impact of external market forces — risk managers need a clear understanding of the growing gap between traditional credit data and consumer risk, along with access to tools and insights to successfully overcome these obstacles.

Rising delinquencies and unexpected bankruptcy trends may hinder service and recovery efforts

In our first ebook in the Regaining Visibility series, "Understanding the Growing Gap Between Traditional Credit Data and Consumer Risk," we explored how rising delinquency rates and shifting credit reporting practices have lenders looking for new tools to properly assess consumer credit risk. We also noted the rise in outstanding household debt, as balances for mortgages, home equity lines of credit (HELOC), credit cards and auto loans all increased during Q1 of 2024.[1]

These concerns remain at the forefront of the industry as evidenced by a recent study of 150 U.S. consumer lenders[2]:

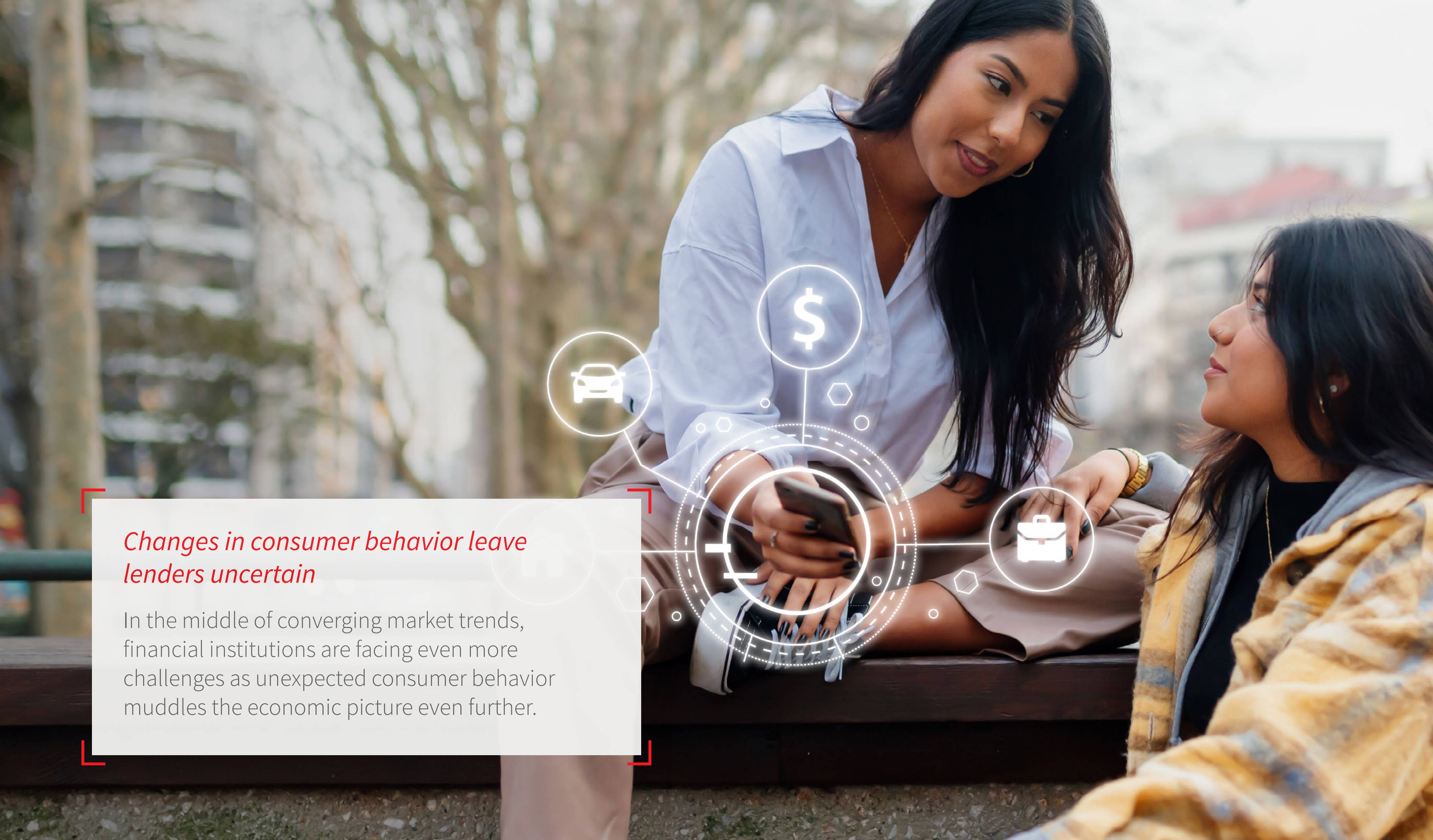
39% *said they have experienced an increase in delinquencies*



43% *expect defaults and delinquencies to rise in the coming year*

Another troubling trend is the rise in the number of consumers entering third-party collections for the first time without prior delinquencies on their credit report.

This places tremendous pressure on loan servicing and debt recovery efforts. Uncertainty combined with the erosion of the traditional credit file and continued reliance on it for credit risk has led to unreliable credit assessments and increased delinquencies.



Changes in consumer behavior leave lenders uncertain

In the middle of converging market trends, financial institutions are facing even more challenges as unexpected consumer behavior muddles the economic picture even further.

For the first time in ten years, consumer bankruptcy rates are deviating from seasonal patterns

March usually experiences more filings than any other month, but that changed in 2024, as numbers trended higher from April through July.

This trend is likely to continue, as interest rates and housing costs remain high while consumers have reduced discretionary spending and continued drawing down their savings.[3]

Take note — best practices include regular monitoring of bankruptcy filings to ensure regulatory compliance. Advanced analytics can provide a foundation for a wide range of bankruptcy solutions.

Consumer bankruptcy filings by month

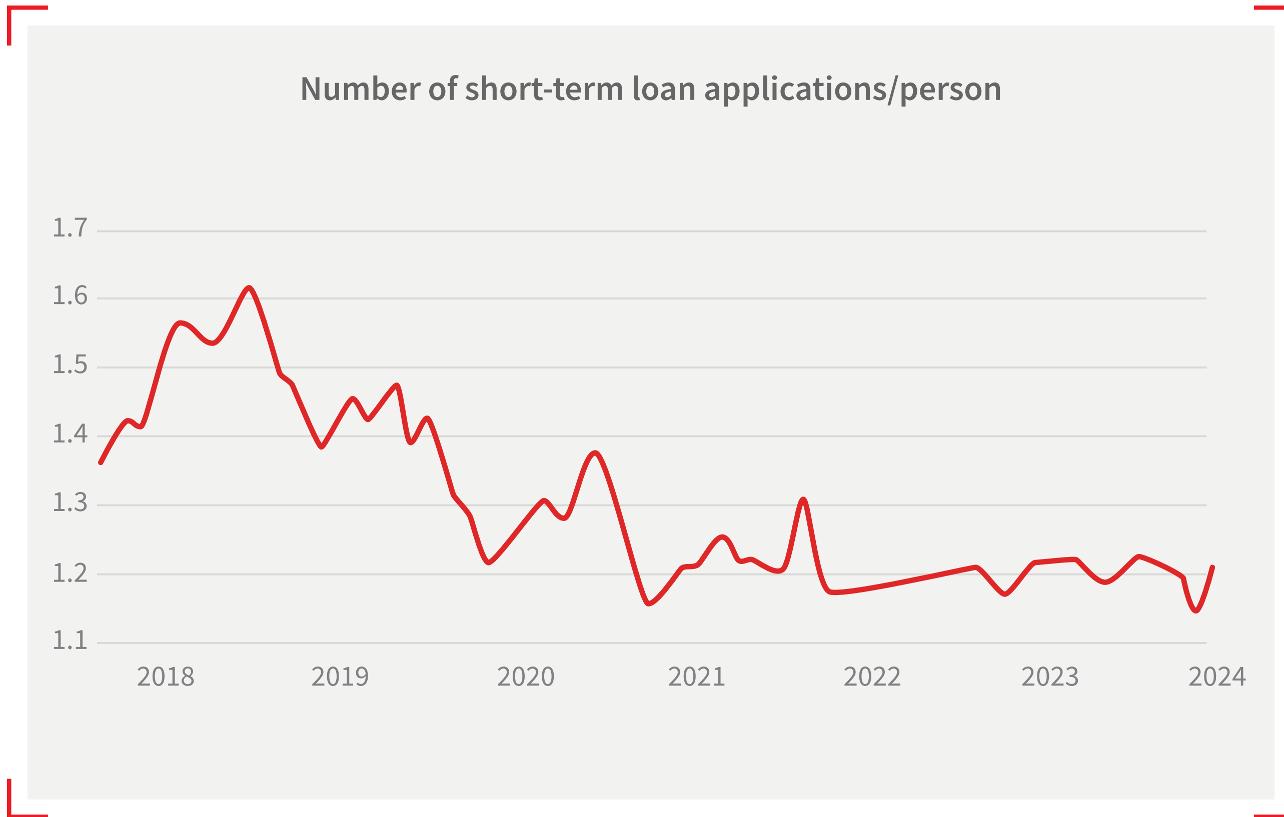
2019 2020 2021 2022 2023 2024

90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000

January February March April May June July August September October November December

2024: April - July numbers trended higher than March

An unexpected drop in short-term lending applications



Another surprising consumer trend is the decline in short-term lending. **Applications per person reached a six-year low in February 2024,** on the heels of a lackluster holiday season for the short-term loan sector.

One possible factor could be the growing popularity of Buy Now, Pay Later (BNPL), which offers consumers a more affordable option for financing purchases.

Short-term loans are generally offered with little or no collateral, and lenders repay principal plus interest, usually within a year.[5]

Buy Now, Pay Later is a means for shoppers to finance purchases over a brief period of time, often in four payments, generally without interest.

The 2023 holiday shopping season set records for BNPL usage

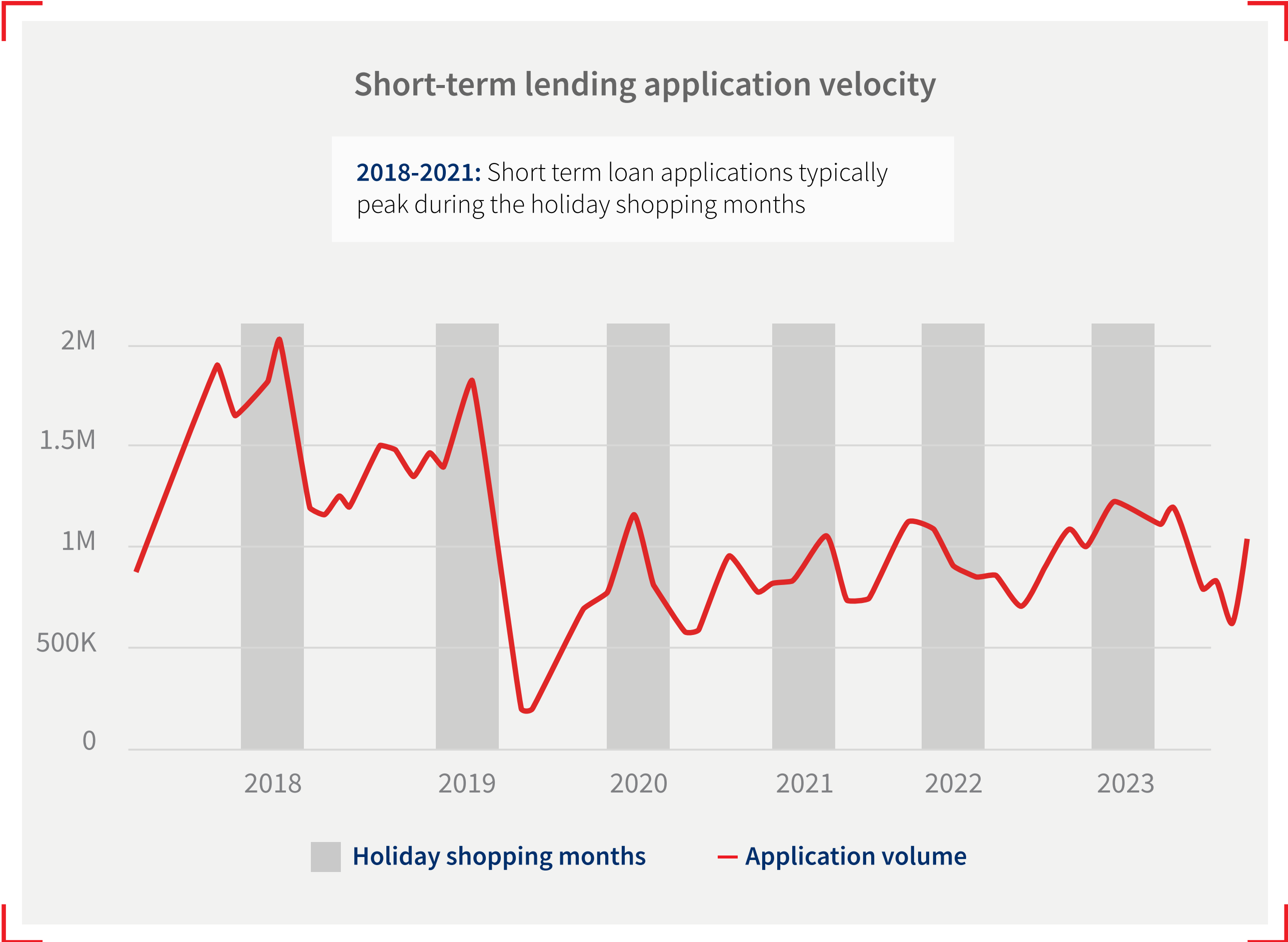
$16.6B

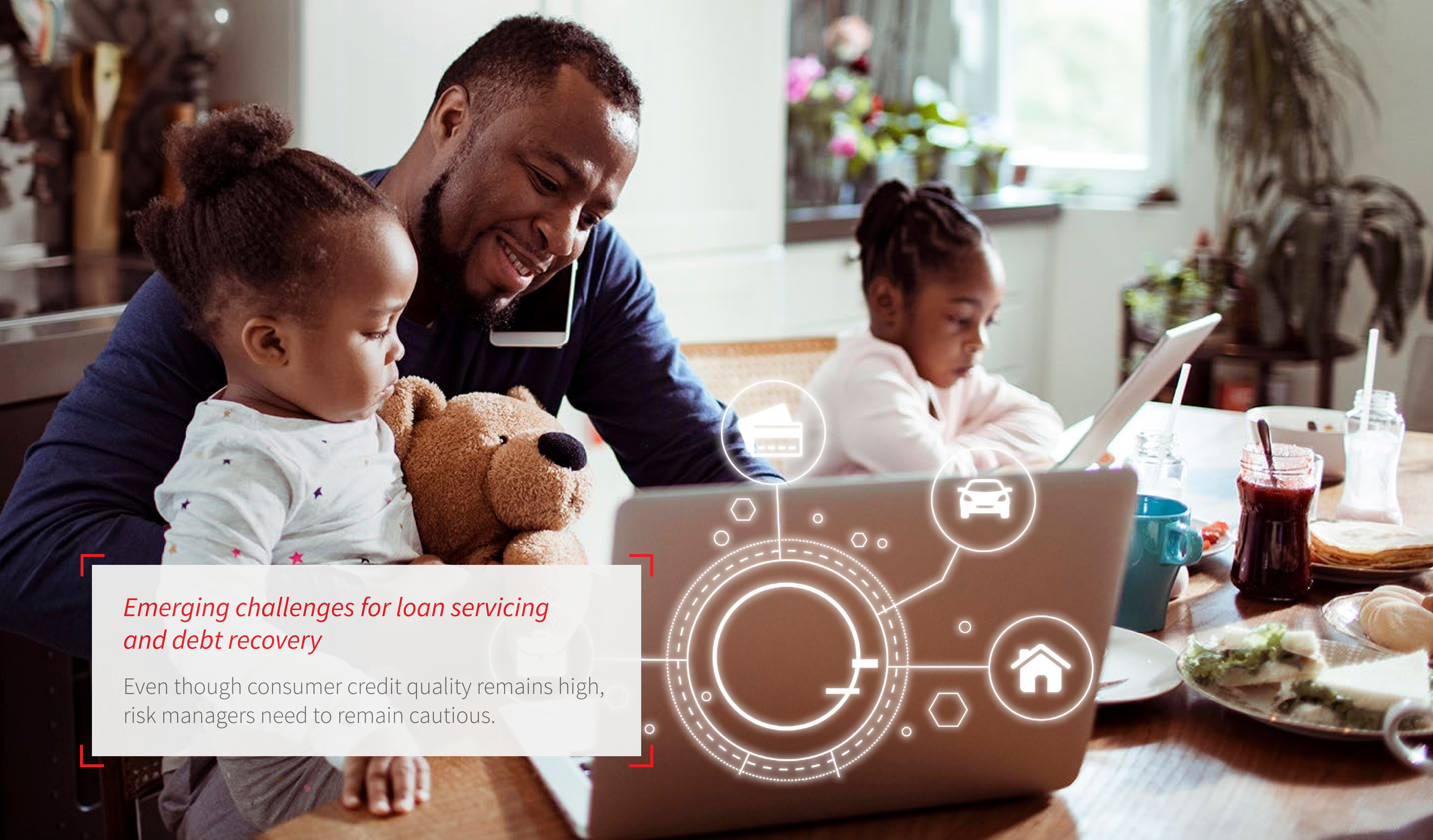
amount shoppers spent in online BNPL purchases in 2023

$940M

in BNPL spending on Cyber Monday, a new single day record[3]

The widespread use of BNPL — most of which don't report to credit bureaus — has reduced risk managers' visibility into consumer debt loads, impacting their understanding of consumers' ability to repay.[4] Unpredictable bankruptcy patterns and affordable alternatives to short-term lending are further clouding lender visibility into consumer credit risk.





Emerging challenges for loan servicing and debt recovery

Even though consumer credit quality remains high, risk managers need to remain cautious.

Obtaining a clear view of credit risk amid regulatory changes

High interest rates and persistent inflation could lead to financial instability, and the resumption of collection of federal student loans has the potential to drive up delinquency rates. The 2022 Fresh Start program also reset delinquencies prior to the March 2020 student loan pause and will resume reporting in Q4 of 2024.

Regulatory changes to credit reporting add difficulty to an already complicated situation.

Since 2017, the amount of information collected by credit bureaus has steadily decreased due to these changes — making it more difficult for risk managers to assess consumers' ability to repay.[6]

Timeline of credit risk visibility with traditional credit data

2017

National Consumer Assistance Plan removes tax liens and civil court judgments

2023

national credit reporting agencies remove all medical collections under $500 tax liens and civil court judgments

1.7x more likely that consumers with a tax lien or civil court judgment on their record will default on a debt obligation vs. those without.

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Lending institutions share primary servicing and recovery challenges

CHALLENGE 1

Collectable accounts come first

97%

expect collections challenges in the coming two years[2]

The most resilient companies will emphasize information gathering that supports prioritizing the right customers. Failure to adapt could impact cash flow and profitability.

CHALLENGE 2

Borrower communication is critical

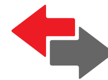
85%

have either upgraded or are planning to upgrade customer communications[2]

They are upgrading to an omnichannel approach and cite economic pressures as the key reason, due to the increasing importance of right-party contact and contact efficiency.

CHALLENGE 3

Rising delinquency rates may divert resources



71%

are upgrading or planning to upgrade their collections capabilities[2]

Given the current economic conditions, these efforts are likely to continue for the near future.

CHALLENGE 4

Consumer credit files lack key information

39%

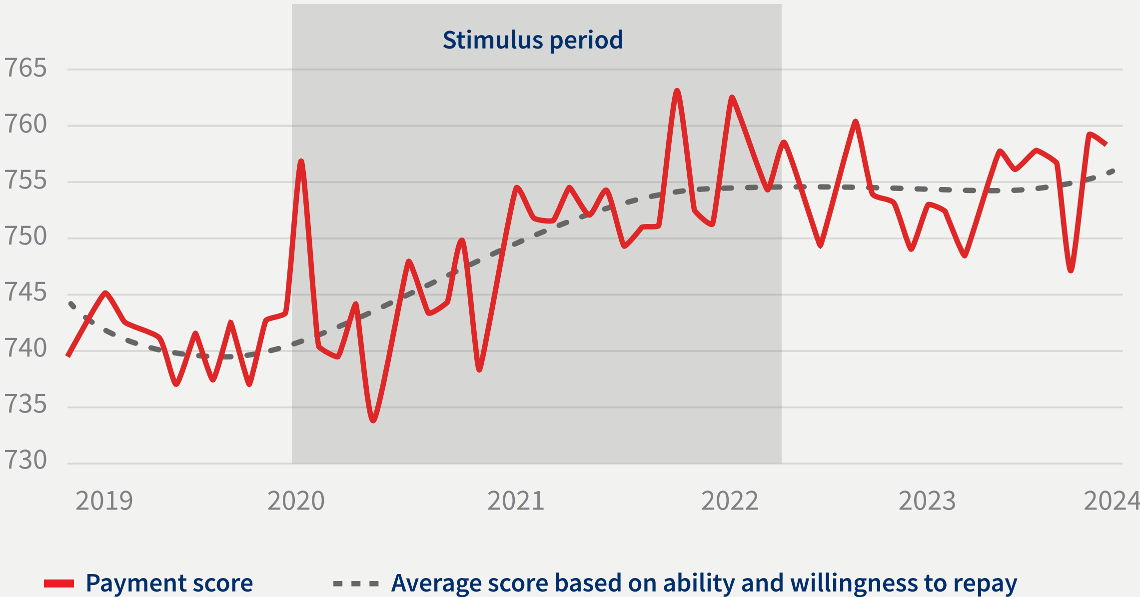
say they are examining their portfolios more closely for signs of financial distress[2]

However, regulatory and economic changes are making it more difficult for lenders to determine a client's ability to repay.

Alternative credit insights can support more effective collection and default prevention strategies

A recent study revealed that about half of all consumers entering collections for the first time do not have prior delinquencies on their credit report. This makes portfolio management challenging, making it difficult to properly assess consumer credit health and outstanding debt obligations. Without this knowledge, lenders may be unable to determine a customer's ability and willingness to pay, and consequently, could struggle to allocate resources related to collectability.

Servicing and collections teams can incorporate alternative data to add value to a consumer's profile



By leveraging new sources of data to build an effective portfolio servicing strategy, these teams can engage with consumers, build customer loyalty and help mitigate defaults.

Monitoring portfolios for liens and judgments, bankruptcy and address and phone number changes can also help identify accounts that are at increased risk or already showing signs of delinquency.

Risk managers can take proactive steps like implementing customized outreach strategies to rehabilitate eligible consumers. But if they're in default, companies can look to recoup their losses through collection activities.

Ability and willingness to pay are essential to debt recovery

Understanding a consumer's ability and willingness to repay once their account has gone delinquent is essential. Gaps in traditional credit reporting may limit predictive insights.

LexisNexis® RiskView™ for collections analyzes alternative credit-seeking data and non-credit events data to provide a broader picture of a consumer's current financial stability and asset availability.

LexisNexis® RiskView™ Payment Score offers lenders a way to support collections efforts. With the help of predictive analytics, this product assigns a dual-performance score to customers, ranking accounts based on the likelihood of repayment within three months and the capacity to repay the highest percentage of the debt owed.

LexisNexis® RiskView™ Attributes offers over 350 next-generation insights that connect the nuanced details of non-credit life events with near real-time alternative credit-seeking insights. These FCRA-regulated attributes can be used for segmentation in identifying the accounts with a higher likelihood of repayment.

Risk managers can also make more confident decisions by accessing FCRA-regulated data sets and key searches with **LexisNexis® Accurint® for Collections: Decisioning Workflow.** The Decisioning workflow helps determine a consumer's ability to repay and prioritize accounts to increase collections success.

LexisNexis® Accurint® for Collections: Contact and Locate Workflow delivers access to robust search tools that streamline skip tracing efforts and pinpoint right-party contacts. By simplifying collections workflows, financial institutions can quickly find people and remain focused on successful collections.

Learn how LexisNexis Risk Solutions collections and recovery solutions can help you optimize recovery workflows by monitoring shifting risk in your portfolio, creating proactive outreach strategies and segmenting accounts.

This is the second ebook in a series of three. For more insights, visit:
risk.lexisnexis.com/regaining-visibility

Sources:

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About LexisNexis Risk Solutions

LexisNexis® Risk Solutions includes seven brands that span multiple industries and sectors. We harness the power of data, sophisticated analytics platforms and technology solutions to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit LexisNexis Risk Solutions and RELX.

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