Build Resilience in Your Consumer Portfolio with Integrated Servicing Strategies

Leverage alternative credit insights to recognize shifting portfolio risk and proactively work with accounts to help prevent delinquency.

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Rising Delinquencies Can Signal Deteriorating Credit Quality

The U.S. economy faces substantial headwinds. Financial volatility has created an environment of uncertainty, leaving many banks with substantial credit exposures. The statistics are indeed concerning:

> **Aggregate household debt balances increased by $148 billion in Q1 2023, a 0.9% rise from Q4 2022. Balances now stand at $17.05 trillion — a $2.9 trillion increase since the end of 2019, just before the pandemic.[1]**

The share of debt newly transitioning into delinquency increased for most debt types in Q1 2023. Transition rates into early delinquency for credit cards and auto loans increased by 0.6% and 0.2% respectively. Delinquency transition rates for mortgages upticked by 0.2%.[2] And about 102,000 consumers had a bankruptcy notation added to their credit reports in Q1 2023, stepping above 100,000 in a quarter for the first time since Q2 2021.[3]

"Inflation and rising interest rates are creating the potential for a severe economic downturn and a significant rise in consumer delinquencies across all markets, especially subprime sectors," according to Reuters.[4]

With consumers facing economic turmoil and insecurity, changes in their financial stability can occur at a faster pace and larger scale. How can you be proactive in identifying, segmenting and prioritizing those accounts that need your help to withstand fiscal challenges and avoid default?

The Degradation of the Traditional Credit File

For decades, lenders and financial institutions have trusted traditional credit data in evaluating a borrower's ability and propensity to repay a loan. However, this data may not offer a full picture of a consumer's financial health. Multiple factors have contributed to the contracting view of consumers from the traditional credit file.

Reduced medical debt reporting – Medical debt declined 37% between 2018 and 2022 on consumer credit reports due to litigation and compliance risks.[5]

Removal of paid delinquencies from reporting – Some debt-buying companies may no longer be reporting paid delinquencies to consumer reporting agencies upon payment or settlement.

Regulation F – Changes to Regulation F now limit when a debt collector may furnish information to a consumer reporting agency.

Transfer of debt – New prohibitions restrict the transfer of a debt when a debt collector knows or should know that the debt has been paid, settled or discharged in bankruptcy.

Alternative financial products – New payment methods such as Buy Now, Pay Later allow borrowers to take out multiple loans from multiple lenders, which may not be reported on traditional credit reports.

Tax liens and civil judgments – In 2017 civil judgments were removed from traditional credit reports; and by April 2018, all tax liens were removed from traditional credit reports.[6]

Student loan forgiveness – In 2022 the U.S. Department of Education announced it would allow 7.5 million borrowers with defaulted federal student loans to return to repayment status.[7]

The predictive power of traditional credit reports may have become limited, not only at loan origination but also throughout the customer journey. However, a plethora of untapped, alternative data exists that can add value to a consumer's profile. Look to new sources of data to fuel growth along with an effective portfolio servicing strategy that engages consumers, builds customer loyalty and helps mitigate defaults.

Building Credit Portfolio Resilience

Amid persistent economic uncertainty, alternative credit insights can provide a more holistic and nuanced view of a consumer's financial stability and willingness to repay.

Alternative data goes beyond traditional credit data such as credit card, mortgage and auto lending records. It takes into account:

- **Alternative credit-seeking insights such as short-term lending activity**
- **Public records insights including lien and judgment records**
- **Asset insights such as property ownership and personal assets**
- **Stability insights including education records and professional licenses**

Using those insights for a more comprehensive view of the consumer, you can develop a portfolio servicing strategy that helps you support consumers adversely affected by economic trends.

Consider these five strategies for building a portfolio servicing approach that relies on perspectives gained from alternative data including:

1. **Data hygiene**
2. **Compliance (bankruptcy, deceased, SCRA, etc.)**
3. **Monitoring and contact strategies**
4. **Segmentation and prioritization (outreach, pre-default options, collection optimization)**
5. **Legal or litigation strategies**

1 Assess Current Data Hygiene

An initial review of your portfolio begins with data hygiene. Contact data decays quickly; annually[8]:

25-33% of email addresses become outdated

20% of all postal addresses change

18% of all telephone numbers change

Incorrect data hinders your ability to connect with customers and can contribute to erroneous decisions. Recent Gartner research found that organizations believe **poor data quality is responsible for an average of $15 million per year in losses**.[9] In addition to financial costs, businesses can also experience loss of reputation and miss opportunities.

You need to establish a foundation of data quality that includes robust contact information on a consumer to optimize contactability. Your data should be refreshed on a regular basis or on a monitoring cadence.

Good data quality increases efficiency and productivity. Perhaps most important, it creates a better customer experience as the right message is delivered to the right people.

An effective data hygiene strategy should:

Cleanse

- ✓Conduct regular data quality checks
- ✓Validate and standardize data

Enrich

- ✓Enhance incomplete customer records
- ✓Combine duplicate records to create one robust version

Refresh

- ✓Remove outdated information
- ✓Update current consumer contact information

2 Compliance with Regulatory Requirements

The implementation of a successful data quality strategy must take into consideration the parameters outlined in applicable federal laws and regulations. Following the rules can be the difference between compliance and millions of dollars in fines.

Bankruptcy

Once identified, you should consider monitoring the account to identify any changes in the disposition of the bankruptcy. If the debt is discharged, you may be prohibited from further pursuing collection including taking legal action and communicating with the customer.

The Servicemembers Civil Relief Act (SCRA)

The SCRA provides protections for servicemembers in the event their military service impedes their ability to meet financial obligations incurred before entry into active military service.

The Fair Debt Collection Practices Act (FDCPA)

The FDCPA is a federal law that enforces limitations on what debt collectors can say or do when collecting certain debt. The FDCPA prohibits debt collection agencies from using abusive, unfair or deceptive practices to collect debts from a customer.

Deceased Consumers

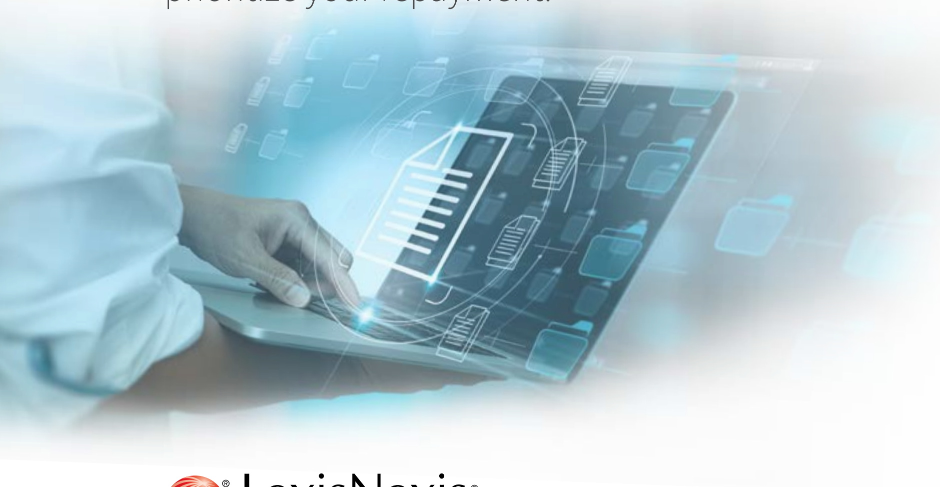
If a consumer you're pursuing has passed away, you must provide information about the debt to the person who is authorized to act on behalf of the deceased consumer's estate.[10]

Traditional credit data alone may not tell you if any of your consumer accounts fall into categories covered by regulatory requirements. Incorporating robust alternative data into your strategies can provide additional insight.

3 Monitor Evolving Portfolio Credit Risk

Although your customer may have qualified for credit at account origination, you can't be sure their financial situation won't change. Economic conditions and life events can affect a customer's repayment ability. You need insights to evaluate shifting portfolio risk and to contact your customers.

Monitoring your portfolio can help you identify accounts that are at increased risk or already showing signs of delinquency. Reassessing risk can potentially limit further exposure and enable a more proactive approach in reaching out to those customers and helping them prioritize your repayment.



Be aware that bankruptcy filings are expected to increase[11]

Implement proactive contact strategies today as consumers can become more transitory during times of economic stress

Understand consumer preference in collection communication strategies to help ensure positive connection for payment plans and resolution

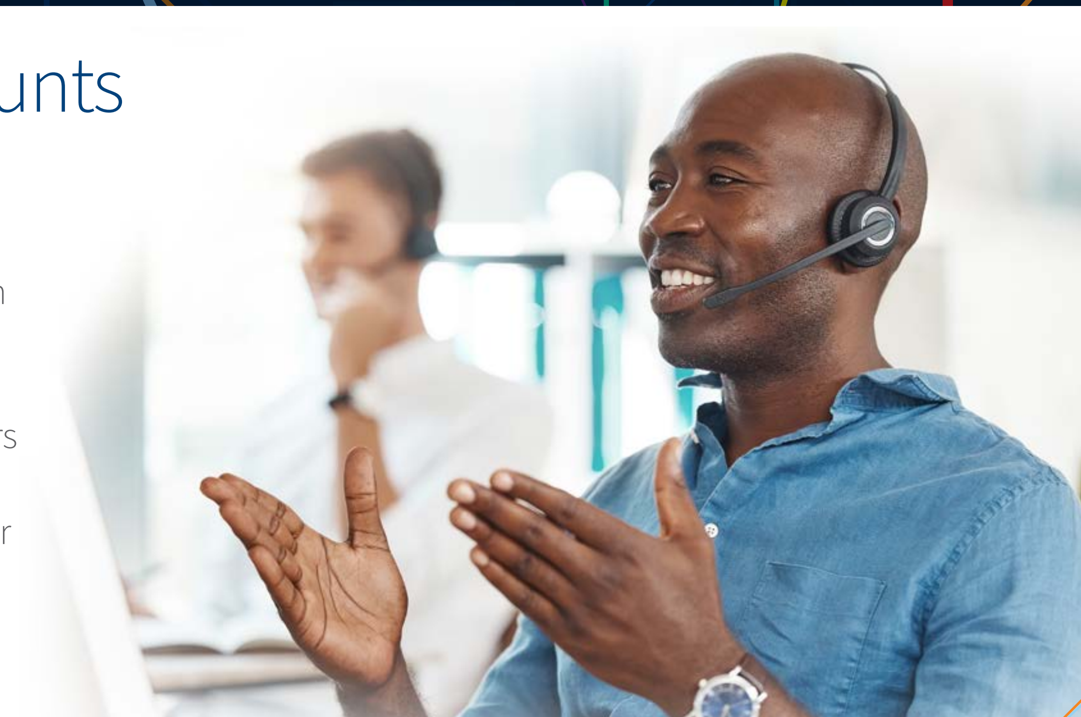
Maintain active contact with consumers to offer loan modification or hardship programs to help cure more early delinquency or defaults

Ensure collection operations are in place should consumers increase in portfolio defaults

Supplement consumer data hygiene and compliance functions, such as phone, address, email monitoring, bankruptcy, deceased and military with strong scoring and segmentation processes

4 Segment and Prioritize Accounts for Servicing and Recovery

The customer experience has never been more important in cultivating loyalty and increasing retention rates. Financial institutions shouldn't treat all consumers with the same strategies, especially in times of economic stress. Consumers who may be at risk differ from those in strong credit health. Be proactive in developing customized approaches to better engage customers who are struggling.



Consumer outreach, loan modification, hardship accommodations or early-out provisions can help prevent default. Segmentation fueled by alternative data insights can help you strengthen customer relationships and minimize loss. Proactive outreach and early-stage mitigation activities can be an essential step in rehabilitating and assisting many consumers.

5 Explore Litigation Strategies

Not every case is worth the cost associated with litigation. Determining which accounts to pursue through the legal channel requires a focused strategy, taking into account numerous factors. Those factors include:

- **State laws that impact your ability to effectively collect during the legal process**
- **The presence of previous liens and judgments**
- **A serviceable address**
- **The indication of a place of employment**
- **The indication of property ownership**
- **The presence of a current bank account**
- **The likelihood that the consumer has the ability to repay their debt**

Financial volatility has created an environment of uncertainty, leaving many banks with substantial credit exposures.

Revisit Your Approach to Consumer Risk Management

Is alternative data the future or a necessary element to incorporate into workflows as a best practice? When traditional credit data doesn't provide a complete perspective, alternative data can fill the gaps and empower more insightful decisioning. It provides a more complete picture of consumers and their financial standing not only at the application stage but also in portfolio management, account servicing, collections and recovery.

Alternative data insights can inform your collections and litigation strategies by providing a more complete view of the consumer including more current and robust contact information to improve right-party contact, offering the opportunity to build a strong relationship. You can assess shifting risk in your portfolio, segment your accounts and be proactive in limiting or avoiding defaults.

Are you ready to tap into next-generation, predictive, alternative data insights from LexisNexis® Risk Solutions? Transform your customer servicing strategies and drive profitable portfolio growth. Learn more today.

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Contact us at 866.528.0780
or visit risk.lexisnexis.com/collections

[1-3] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, 2023: Q1
[4] https://www.reuters.com/legal/transactional/reg-f-finally-bright-line-rules-come-debt-collection-2022-04-27/
[5] https://www.consumerfinance.gov/about-us/blog/debt-collectors-re-evaluate-medical-debt-furnishing-in-light-of-data-integrity-issues/
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