



Consulting Services
Risk and Collections Consulting



Helping CFE Federal Credit Union Understand Collections P&L

Overview

Client Profile

CFE Federal Credit Union was founded in 1937 as Orange County Teachers' Federal Credit Union by 23 dedicated teachers. Over the past 70 years, CFE has expanded membership to all who live, work, attend school, volunteer, or worship in Orange, Osceola, Lake or Seminole counties in Florida. The credit union has 121,171 members and nearly \$1.3 billion in assets.¹

Business Challenge

With a broad portfolio of loans and credit cards available to members, CFE asked Advisors **Plus**® to conduct an in-depth analysis of its collection practices to gain a better understanding of its profit and loss (P&L) dynamics in this area.

The Solution

Advisors **Plus** performed an in-depth analysis to review CFE's collection practices for its credit card, consumer and real estate loan portfolios (delinquency and net charge-offs).

The Results

Advisors **Plus** identified subprime segments of CFE's account base that were negatively impacting the entire portfolio and segregated them into a secured portfolio that could be more closely managed through changes in underwriting criteria going forward.

Comprehensive Collections Consulting

In 2011, a consulting team from Advisors **Plus** Consulting Services Risk and Collections worked with CFE to prepare a comprehensive collections review. Our analysis looked at CFE's credit card, consumer, and real estate loan portfolios for delinquency and net charge-offs.

Advisors **Plus** reviewed the portfolios from a number of perspectives, including:

- Roll rates and recoveries
- Delinquency and charge-off rates versus industry averages
- A geographic peer group analysis comparing CFE to other Orlando/Central Florida-based credit unions to factor in unique local market conditions that could particularly influence delinquencies or charge-offs.

¹ As of December 31, 2011

A Closer Look at Collections

Advisors **Plus** began by documenting CFE's current collection practices, including initial analysis of the collection lifecycle. We analyzed all aspects of the lifecycle including staffing, work schedule, file penetration, portfolio composition and various queue tasks from initial documentation to recovery.

Advisors **Plus** also performed a "vintage analysis" of CFE's portfolio composition. This review helped CFE understand the inherent risk in its portfolio and the possible influence of underwriting on delinquency. For example, a number of new accounts had been added, heavily concentrated in the subprime market and representing 48% of the total portfolio.

Recommendations Shaped by Analysis

Based on our in-depth analysis, Advisors **Plus** made several recommendations regarding ways for CFE to realize high-impact benefits to its collections operations. They included:

- Invest in collections as an area of core competency by adding full-time employees (FTEs) based on staffing analysis
- Expand work hours to optimize prime-time calling
- Modify collection practices to start calling delinquent accounts earlier and modify the queue structure to segment and differentiate collection practices
- Give collectors authority to negotiate for payments
- Evaluate moving cycle of delinquent accounts
- Review hardship programs offered through the loss mitigation department

In the course of the Risk and Collections Review, Advisors **Plus** also had the opportunity to recommend other improvement strategies for CFE around targeted growth, underwriting, credit line assignment, credit line management, pricing and collection/charge-off reduction.

Collection Consulting Follow-up: Breakout of Secured Accounts

In reviewing the vintage analysis during the collection review, one of the discussion points was the number of gross active accounts and the dollars of balances in the subprime category. There was also discussion regarding the quantity of subprime accounts booked in 2011, which represented a notable 48% of all accounts booked that year.

Advisors **Plus** analysis led our Risk and Collections consultants to believe that this percentage was driven by the secured accounts within the portfolio. CFE requested that we rerun the vintage analysis with the secured accounts segmented into their own group. We completed the revised vintage analysis based on the same dates as the one reviewed.

Our revised vintage analysis showed that there were a significant number of gross active accounts in the secured category and that they were responsible for elevating the percentage of subprime accounts in the total portfolio:

- 26% of gross active accounts (in 2011) fell into the subprime category in the Platinum portfolio;
- 81% of gross active accounts (in 2011) fell into the subprime category in the Platinum Secured portfolio.

Although nowhere near the 81% level, it is important to note that 26% for subprime gross active accounts in the Platinum portfolio was still a very high percentage and above the best practices level for new account acquisition. The secured gross active accounts booked in 2011 comprised 40% of the total number of gross active accounts booked in the total portfolio for that year and represented a significant concentration of higher-risk accounts.

Our Recommendations for Secured Accounts

Advisors **Plus** recommended that any booking of new accounts in the subprime market be restricted to the secured portfolio, but felt strongly that CFE should reduce the overall concentration of new secured accounts going forward. We noted our industry experience that secured accounts in general tend to be a drag on earnings since they represent a breakeven or loss scenario, and human resources because they tend to be high maintenance and require significant customer service and collections interaction.

About Advisors Plus Consulting Services Risk and Collections Consulting

Advisors **Plus** Consulting Services Risk and Collections Consulting provides credit unions with a comprehensive, customized review of collection practices which includes historical delinquency, charge-off and recovery, credit risk, benchmarking and staffing practices.

The Risk and Collections Review draws on nearly 30 years of experience from our Advisors **Plus** risk and collections expert, as well as a database of best practices and benchmarks to formulate recommendations and next steps for clients.



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About Advisors Plus

Advisors **Plus** was established in 2005 to provide consulting and marketing services to credit unions. Our range of services covers the key areas of strategy, credit cards, debit and checking, marketing, contact center, operations, and branch sales.

The experienced consultants at Advisors **Plus** work with the organization's staff through the entire process from project analysis to implementation and management. Our goal is to ensure that each financial institution achieves sustainable business growth, exceptional member experiences and operational efficiencies.

As of December 31, 2011, Advisors **Plus** has superior NPS Scores of: 74 – Credit; 81 – Debit and Checking; 91 – Contact Center. For more information, please visit AdvisorsPlus.com.