

# **Policies and Procedures of the Collection Department of a Large Eastern Credit Union**

---

## **Purpose**

The purpose of this policy is to set general guidelines pertaining to the collection efforts, collateral repossession, referring accounts to attorneys or collection agencies, and charging off accounts to the Allowance for Loan Losses.

## **General Policy**

The Board of Directors believes all legal means should be employed in the collection of loans in order to protect the assets of the Credit Union. The collection efforts should be conducted in a professional, ethical and emphatic manner. Losses will be recognized and handled as such in order to accurately state the assets of the organization.

## **The Responsibilities of a Collector**

1. To exhaust all possible means of contacting every delinquent member.
2. Complete each contract with a definite understanding and commitment by member.
3. Follow-up promptly and decisively on every promise made by a member.
4. Note all information that will be of future use handling the account.

A collector is generally responsible for the collection effort of an individual loan. They are responsible for documenting their collection work, sending letters, following their accounts according to review cycles established by the credit union, quoting the correct payoffs, assigning accounts out for repossession when appropriate, recommending for liquidation of collateral, reviewing expenses, assigning accounts to be sure the collateral is delivered to its appropriate location.

They are also responsible for updating non-financial data on the system, reviewing incoming bills from vendors, and forwarding them to the Assistant Manager for final approval before payments.

## **The Role of the Collector**

As a collector, you have a large responsibility. Your collection results affect the credit union profits and your approach to borrowers has a large impact on member relations. Your responsibility is to collect from members who are not making payments on time. This means you have two sets of objectives.

The first set includes the collection process. This means you must: exhaust all appropriate means of contacting every delinquency member, find out why the member has not paid on time, resolve the problem, gain commitment from the member to make payments by a specific date, take careful and accurate notes which will be helpful for every commitment date and promise made by each member, and finally, refer to your Assistant Manager all cases when there is a doubt as to the proper course of action.

The second set of objectives concerns your responsibilities as a representative of the credit union who is in constant contact with the public. Here your role is to be firm but fair with delinquent members, provide them with assistance in handling their financial responsibilities, display empathy but not necessarily sympathy with their financial difficulties, but finally, remind yourself that you are constantly an ambassador of the Credit Union and that your approach to your job will strengthen member relations with the Credit Union while processing the corporate public image.

A third objective is that you should always work with an awareness of collection costs. Be mindful of high costs involved in making collection calls so that you can spend every second on the telephone as profitably as possible. The tools of collection: the telephone call, the letter, skip tracing, repossession and litigation should be applied in a logical sequence, which provides for the use of stronger ones as delinquency worsens. Such a symptomatic approach assures that you will have additional tools if your current approach does not bring the desired results. You will not threaten the borrower, but instead gradually increase the pressure to meet your objectives.

## **Reminder Notices**

The system automatically generates a reminder notice ten (10) days after the due date for payment on personal loans. These notices are generated and mailed by the Credit Union serving to call attention to the fact that the member is past due on a loan payment. The second notice not only reminds the borrower of a late payment, but also adds an applicable late charge.

## **Telephone (General)**

By far the most important and widely used collection tool is the telephone. The majority of your time spent collecting will be on the telephone. The telephone is an effective collection tool for a number of reasons. First, it puts the member at your direct disposal. Your member will have to stop whatever they are doing and consider their financial situation and the request for payment that you are making. Second, your questions and requests for action must be dealt with somehow by the member.

If you approach this properly, you most likely will achieve your objective. Third, your direct communication with the member can give you an insight into the kinds of results you can realistically expect. Fact finding questions, combined with active listening, can give you this insight. Collecting accounts using the telephone is a skill that can be learned, developed, and refined with practice.

As you probably realize, there are some telephone strategies that bring better collection results than others. The credit Union policy is to personally contact the borrower when it first becomes necessary. This is normally done after the fifteenth (15th) day of delinquency. However, there are situations where earlier contact will be needed. Obtaining payment from a borrower before that 30th day of delinquency is essential to prevent a more serious situation.

### **The Objectives of the Telephone Call**

1. To determine the reasons for non-payment and present a plan to resolve the situation.
2. To establish a firm but practical date, if possible, when payment is to be made.
3. To determine through appropriate questions and guidance that future payments will be made promptly.
4. Prepare fact-finding questions.
5. Determine your preliminary proposal.
6. Prepare an opening statement.

### **.Collection Discussions**

Your ability to communicate effectively is the key to your success. You must be firm but fair with the borrower. You should determine the cause of the problem and seek solutions satisfactory to the Credit Union and the member.

### **An Effective Collection Call Involves Eight Steps**

1. Identify yourself and the Credit Union.
2. State the reason for your call.
3. Pause for member response.

4. Ask fact-finding questions.
5. Present your proposal.
6. Overcome objections.
7. Obtain commitment from the member.
8. Close the call.

### **Follow-up**

The central portion of any collection call is the action you take following the call itself. Effective follow-up requires your close and constant attention.

A collector has a choice of taking and selling collateral or abandoning the collateral and suing the debtor for a money judgement.

The decision to abandon collateral must be approved by the Assistant Manager.

Situations that may justify collateral abandonment are:

1. Unable to locate collateral.
2. Collateral has little or no value.
3. Cost of taking, storing and selling are equal to potential sales price; and
4. A lien has been placed on the collateral that equals or exceeds the collateral value and collateral has no insurance.

Only one judicial action may be taken to collect an obligation secured by real estate which means a creditor Credit Union may not disregard the deed of trust and sue upon the note.

In rare situations, we are able to sue for a money judgement without abandoning our legal right to the collateral. Please refer questions concerning such suits to the Credit Union attorney.

Under no circumstances should a collector use foul, abusive or questionable language, either

on the telephone or in person. A collector must never represent himself to be an employee of any branch or agency of the federal, state, county or city government.

Do not give the impression that a communication, spoken or written, is for any other purpose than to obtain information concerning a debtor.

Do not discuss the debt with anyone other than the debtor or his immediate family. Never discuss the debt with a third party when attempting to locate a member.

Do not discuss a member's employer for the purpose of collecting a delinquent debt.

The practice of making repeated telephone calls for the purpose of harassing a member is expressly forbidden. Calls to a debtor must never be made after 9:00 p.m., or prior to 8:00 a.m. Calls should never be made on Sunday, legal holidays, and periods of religious observations.

It is the responsibility of each collector to be aware of the Federal Trade Commission Guidelines on Collection Practices and the Federal Fair Debt Collection Practices Act and to comply with these laws in the collection of accounts.

## **Repossession and Sale of a Vehicle Collection Procedure**

In the event that a borrower becomes delinquent in the repayment of a loan secured by collateral, the Credit Union may act to repossess the collateral. The Credit Union Collections Department is responsible for reviewing past due accounts and recommending timely repossession action in accordance with established Credit Union policy.

The following has been prepared to outline the procedure for initiating and completing the repossession and sales of a vehicle. Included also-is the procedure for handling member payments once a repossession action has been initiated (or completed).

### **Repossessing a Vehicle**

#### ***Collector's Duty:***

1. Confirm that member's car title is on file with the Credit Union.
  - a. If the title is not on file, request the assistant manager to review the documents on hand and consult with Legal Counsel to determine whether the Credit Union has authority to proceed with repossession action.
2. Contact the Division of Motor Vehicles (DMV) in the state where the vehicle is titled to assure that the lien has, been properly recorded.

- a. A list of DMV's by state along with addresses, phone number, and fee requirements is maintained the Collections Department.
3. Fill out member's name, address and account number on Repossession and Liquidation Record.
4. Print a status of the account.
5. Prepare "notice of intent to repossess" letter(s), address to the maker and the co-maker as applicable.
  - a. Letter must be signed by the Assistant Manager
6. Prepare Repossession and Liquidation Records, "notice of intent to repossess" letter, copy of status sheet, and summary of collection activity to date to Assistant Manager for review. Initial and date the Repossession and Liquidation record.
7. Initial and date the Repossession and Liquidation record.
8. Sign "notice of intent to repossess" letter(s).
9. Place a warning code on the account.
10. Mail "notice of intent to repossess" letter to member, certified mail, return receipt requested.
  - a. If member elects to voluntarily turn in the vehicle, have member complete and sign the Voluntary Repossession Statement and with Assistant Manager consult for appropriate action.
11. Determine the exact location of the vehicle.
  - a. Prepare the "Repossession Assignment Sheet".
12. Locate a licensed and bonded repossession agency in the area where it has been determined the vehicle can be found.

- a. Lists of repossession agencies are published by Automobile Recovery trade association and maintained by Collections Department.
13. Contact agent selected and provide the following account and vehicle information:
    - a. Member's name
    - b. Location and serial number of the vehicle.
    - c. Any other information available that will assist the agent in repossessing the vehicle.
  14. Enter account information in the Repossession Log.
    - a. Update Repossession and Liquidation Record and the Repossession Assignment Sheet.
  15. Forward "hold harmless" letter to agent if requested by agent.
  16. Maintain contact with agent until vehicle is repossessed.
    - a. Allow one week before first follow-up.
    - b. Document each contact with agent.
  17. Upon notification that vehicle has been repossessed, enter date of repossession in Repossession Log.
  18. Within 24 hours of repossession, send appropriate "redemption letter", to member via certified mail, return receipt requested.
    - a. Enter date letter is mailed on Repossession and Liquidation Record and Repossession Log.
    - b. Forward a copy of the letter to the joint owner, if applicable.

19. Request the agent to provide Credit Union with the following:
  - a. Condition report of the vehicle in writing.
  - b. Photograph of the vehicle.
  - c. Photograph of the personal effects found in the vehicle.

### **Selling a Repossessed Vehicle**

1. Fifteen days after "redemption letter" is mailed, begin advertising the vehicle for sale.
2. Ensure that proper title work has been completed in order to transfer ownership of vehicle.
  - a. Contact Division of Motor Vehicles where vehicle is located to determine title requirements.
3. Record bids received on the Repossession and Liquidation Record.
4. Accumulate sealed bids until all bids have been received and bidding period has been closed.
5. Open and review all bids.
6. Accept a bid and enter the approval on the Repossession and Liquidation Record.
7. If sale is taking place outside of Metro area, advise Repossession agent of approved bid and send "Authority to Sell" via certified mail.
  - a. Forward executed limited Power of Attorney if requested by agent.
  - b. Request that gross proceeds and that final billing be sent to Credit Union.
  - c. Payment must be made by certified check, cashiers check or money order.

- d. Upon receipt of the check from the agent, photocopy the title or other proof of ownership, mail the original title and Bill of Sale to the agent.
- e. Update the Repossession and Liquidation Record and Repossession Log.
8. If sale is taking place within the metropolitan area, inform party,' in writing, of accepted bid.
  - a. Request that sale be completed within 48 hours. Payment must be made by certified check, money order, or cash.
  - b. Upon receipt of the funds from purchaser, photocopy the title or other proof of ownership, mail the original title and Bill of Sale to the buyer.
  - c. Update the Repossession and Liquidation Record and Repossession Log.
9. Check file for all remaining bills and submit to Accounting Department.
  - a. As additional bills for repossession are received, submit with appropriate check request to the Accounting Department.
10. Upon receipt of the check from the Accounting Department, photocopy the check for Credit Union records, and send checks to payee indicated.
11. Complete the Deficiency Breakdown.
  - a. If there is a deficiency balance, send Deficiency Breakdown and a Deficiency Balance letter to the member and, if appropriate, joint application. Make notation of deficiency balance on file.
12. If member does not reply to 11a, consult with Assistant Manager to determine what to do.

### **Processing Payments After a Repossession Action has been Initiated**

1. Refer any payment received after repossession action begins to Collections Department for handling.

2. If payment is received after mailing "letter of intent to repossess", but before assigning the vehicle for repossession and:
  - a. Account is brought current, stop the repossession action. If the check which brought the account current is returned by the bank unpaid, proceed with repossession action. Inform member in writing of the action that has been taken.
  - b. Partial payment is received, contact a repossession agent in the state involved, and follow the agent's guidance as to whether to proceed with repossession based on local laws. Document the agent's advice. Inform member in writing of action that has been taken.
3. If payment is received between assignment of repossession and actual repossession of collateral:
  - a. Account is brought current, stop the repossession action. Maintain a close check on the account, to insure that it does not become delinquent again. Any costs incurred by the repossession agent shall be paid by the member.
4. If payment is received after repossession:
  - a. Partial payment is received, contact repossession agent and follow agent's advice based on local laws.
  - b. Payment in full is received. If payment is by certified, cashier's check or money order, and if sufficient to pay off the loan in full, the collateral will be released upon authorization from Assistant Manager.

## **FORM LETTER**

RE:

(Mr.), (Mrs.), (First), (Last)

(Year) (Make) (Model)

This is your authorization to act as our agent to collect or repossess, on sight the above collateral which is covered by a defaulted contract.

You are not to reassign if no longer in your service area. Report findings and send detailed report with invoice.

We agree to indemnify and save you harmless from and against any and all claims, including court costs, reasonable attorney fees, and other expenses of litigation, except for unauthorized agents of your firm.

This indemnification is granted as consideration for your acting as our agent. It is agreed that this contract is executed within your state and that the laws of your state shall be applicable. When there are two states involved, the laws of both states may be applicable.

Your special immediate efforts will be appreciated. Please acknowledge and keep us fully informed.

Sincerely,

Assistant Manager



## **Visa Collections Procedures**

The following procedures pertain to the collection of delinquent Visa accounts and includes the handling of Visa generated notices and reports as well as internal collection letters and procedures.

### ***Visa Collector:***

1. Receive 1st, 2nd and 3rd notices (Exhibits 1 and I(a)), from Credit Union Service Center, monthly as indicated on quarterly statement and Notice Production Schedule.
  - a. First Notices are generated on approximately the 10th day after billing.
  - b. Second Notices are generated 20 days after billing. For a more detailed explanation of the timing and generation of account notices, see Visa Operating Guide.

2. Record date of each notice on Accounts in collection card as it is received.
3. Mail notice to member as it is received.
  - a. Record date notice is mailed on accounts in collection card as it is received.
  - b. Maintain a continuous follow-up on the delinquent accounts by reviewing the daily transaction on Irregular Accounts Report.
4. After a second Notice has been mailed, note on account in collection card no check status of account in 15 days.
5. Check status of amount after 15 days. If member has not responded to second notice, send letter number 5 requesting account to be brought current within 20 days.
6. Check status of account after 20 days.
7. Notify member by letter (Number 6) that delinquent VISA account will be forwarded to the assistant Manager for consideration of a revocation of line of credit if account is not brought current within 20 days of the date on the letter.
8. Note on accounts in Collection Report to check status of account in 20 days.
9. After 20 (or 30) days, check status of account.
  - a. Check Report Daily to see if any payments have been posted in the last working day.
10. If no payment has been posted or received, send account to Assistant Manager requesting a review of the member's credit worthiness and approval to cancel member's Visa. Fill out Part A of the Worksheet for Cancellation of Visa (number 8). Forward Worksheet, Memo and member's account file to Assistant Manager.
11. Upon arrival of the Assistant Manager to cancel member's Visa, advise member, by letter (number 14) that Visa has been revoked and all future payments should be sent directly to Credit Union. Request that member cut revoked Visa card(s) in half and return them to Credit Union.
12. Call Credit Union Service Center to obtain current balance on member's Visa.

13. Fill out Part B of worksheet to cancel Visa.
14. Complete the following forms:
  - a. Revoked Card List -- for maximum time period and for region(s) that include member's billing address and current residence (if different than billing address).
  - b. Cardholder Account Adjustment Form for current balance of account.
  - c. File correction form to change statement address: Credit Union
15. Forward Revoked Card List Cardholder Account Adjustment, and forward Correction Form to Assistant Manager.
  - a. Update Revoked Card List every 60 days until member returns card or card expires.
16. Build new loan as indicated on Part B of Worksheet for cancellation of Visa.
17. Monitor daily report of transaction on Irregular Account for payments or purchase posted to revoke account in collection.
  - a. If any purchases or payments are posted, fill out Cardholder Adjustment Form for the amount and forward to Credit Union Service Center.
18. Follow-up with regular Credit Union internal collections procedures.
19. Monitor monthly report on Status Account to check for revoked accounts in collection that are going to expire.
20. One month following expiration date, fill out Account Delete Form and forward complete form to Assistant Manager.
21. Continue with regular collection procedures.

