

Recession Winds Blow in Better Times

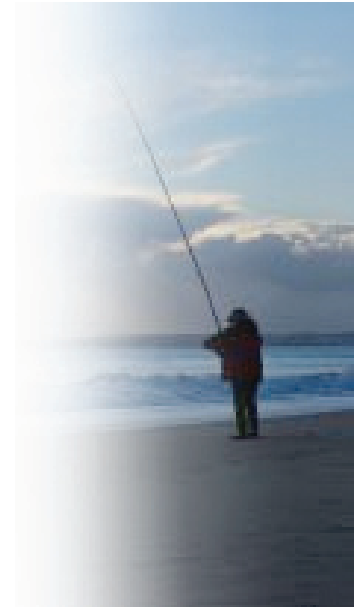
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Seasoned debt collectors face a recession much as fishermen face an oncoming Nor'easter, wary but not panicked. Concerned but not without hope.

Yes, we are in a recession. It might not be official as defined by economic textbooks, but if it smells like a recession, tastes like a recession, you get the point.

To say that debt collectors are recession proof is as ridiculous as saying fishermen are indifferent to the weather. We are not recession proof. Never have been; never will be. The bottom line is when consumers have less access to discretionary cash, well, so do us debt collectors.

During boom times, creditors typically grow market share. Growing market share means taking more risks, and those risks impact the score matrix for charged-off debt. This matrix was articulated in the early 1990's when scoring for charged-off segments was first used. Although old and overly simplistic, it helps describe the differences for debt collectors in various economies.



The matrix has four quadrants:



The percentage of consumers who fall into each quadrant will change markedly with the economic weather. In boom economies, those with High Ability increase. Charge-off problems are acute, not chronic like during recessionary times.

A tough economic climate that hammers consumer confidence will erode Willingness, driving up the cost of collection efforts.

Like a seasoned fisherman, I survived the last real consumer recession of 1990-1991, and I gained a few insights from that experience that might prove helpful 18 years later.

1. Recessions are relatively short. Often, by the time economists declare “recession,” we are coming out of it. The average recession lasts around 10 months. I personally feel this one will be longer.
2. Placements will increase markedly, but unit yield will drop. This is driven by consumers shift to Lower Willingness and Lower Ability to pay.
3. Recessions drive agent productivity. The 1990-1991 recession opened the door for widespread use of collection application systems, scoring and dialers.
4. Recessions have a very happy ending.

As I mentioned earlier, recessions erode Willingness to pay, regardless of changes in Ability to pay. In other words, recessions convince consumers who have suffered no degradation in Ability to pay to become less Willing.

Agency owners, like seasoned fisherman are not panicked by the weather. Yes, they are wary, but they take measures to navigate the changing situation. They also understand that better times, maybe much better times, are over the horizon.

Chief Marketing Officer for LiveVox and chairman and founder of Fidelis Recovery Solutions, John McNamara is a 25-year industry veteran with experience in all phases of collection and recovery operations with intense focus on technology applications. John was previously COO for AMO, SVP of Operations for Nationwide Credit / ACB and VP of Operations for United Recovery Systems.