

# LESSORS TURNING TO ONE-STOP OUTSOURCING FOR QUICKER COLLECTIONS AND REMARKETING

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*Speed offers a distinct advantage when resolving past due balances. The need for shorter collection cycles is among the key factors influencing one of the newer trends in asset management --one-stop outsourcing -- which combines collections and remarketing efforts with legal programs.*

## Old Model for Outsourcing

Traditionally, equipment leasing and finance companies have outsourced part or most of their collections, repossessions, remarketing and legal activities to different service providers based on their expertise in specific areas. It is not unusual for some lessors, for example, to work with four or more outsourcing partners.

However, there are two main disadvantages to taking a decentralized approach to asset management outsourcing:

- 1) There are inevitable communication delays among multiple outsourcing partners, which lengthen the collections and recovery process; and
- 2) It requires more work for the lessor, who must manage multiple relationships and ensure that service providers are obtaining the information they need from one another as quickly as possible.

## New Model for Outsourcing

Today, lessors have an asset management option that was not available to them five years ago: one-stop outsourcing. One-stop outsourcing services can manage the full spectrum of collections, repossession, legal activities and remarketing efforts required for equipment leasing and finance businesses.

One-stop outsourcing partners employ professionals who are experienced in managing an array of services, including: collections prior to charge-off; appraisal of leased assets before or after charge-off; voluntary and involuntary repossessions; full condition reports and appraisals on-site; asset location and skip tracing; equipment remarketing; post charge-off and deficiency balance collections; and legal services through nationwide attorney networks.

## Bottom-Line Benefits

Equipment finance companies that are using one-stop outsourcing services have reported the following results to date:

- **Faster collections/recovery cycles.** By eliminating communication delays among multiple service providers, one-stop outsourcing services are reducing cycles by days and sometimes weeks for individual lessors. These services have the potential to trim the collections/recovery timeline by as much as 400 %.
- **Greater lessee responsiveness.** Lessees who repeatedly default on payments are more likely to take collections seriously if they realize their collectors are backed by repossessors who will make sure the asset is recovered on a specific date. Knowing that collectors can order a repossession with little or no warning also helps persuade lessees who really need the equipment or have invested substantially in leases with buyout options.



- **Improved collectibility.** Resolving past due balances while still early in the delinquency cycle prevents a more serious risk if they slip too far behind into severe delinquency, non-earning status. The ultimate goal is to rectify these accounts before they enter into charge-off territory.
- **Reduced expenses.** Most one-stop outsourcing services charge a percentage of the payment recovered rather than specific fees. This helps lessors conserve in-house staffing resources without expanding overall costs.

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# COLLECTIONS & REMARKETING

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- **Faster return on assets.** Revised Article 9 provisions enable remarketing to occur simultaneously with deficiency balance collections. This can speed up the recovery process by weeks and, sometimes, months. Expediting collection efforts during the asset liquidation process is critical for lessors since a deficiency balance typically far exceeds the sale price of an asset.
- **Minimal equipment depreciation.** The older the equipment, the more it depreciates. One-stop outsourcing services accelerate the collections and remarketing process so equipment is sold faster, for higher returns.

## Industry Influences

While the majority of leasing deals are successful, more than 1 in 10 transactions fail, according to a credit risks study released by the Equipment Leasing and Financing Foundation in 2005. Today, a growing number of lessors are opting for one-stop outsourcing services to resolve problem accounts. Continuing consolidation and competitive pressures are encouraging these companies to attack problem accounts quickly – on all fronts – to improve returns and internal efficiency.

Equipment lessors are also outsourcing collections services at earlier and earlier delinquency stages. Accounts that previously were outsourced around day 180, for example, are now being outsourced between 90-180 days and sometimes earlier.

This trend is evident at all levels. Large-ticket and middle-ticket lessors are moving down the market in credit, deal structure and collateral funding, which has made their transactions more labor-intensive. These lessors may not have the in-house resources necessary for chasing early stage delinquencies, but recognize that swift action tends to improve collectibility. So they assign all or part of their early stage collections to a seasoned outsourcing partner.

Small lessors are also beginning to outsource early stage delinquencies despite previous fears that outsourcing would offend lessees and compromise future sources of business. Drained from dealing with increasing volumes, these companies are assigning early stage collections to outsourcing firms that have demonstrated the skill and diplomacy to handle sensitive relationships.

## Outsourcing Requirements

Successful asset management programs indeed require experience and professionalism. Lessors considering one-stop outsourcing services – or any collections, repossessions, remarketing and legal services for that matter -- should ensure that outsourcing partners have the qualifications necessary for working with lessees and obtaining the best possible outcomes.

Key requirements include:

- 1) **Industry experience.** Outsourcing partners should have long-term experience serving equipment leasing and finance companies. An in-depth understanding of the equipment finance business helps avoid unnecessary errors and pave the way for successful resolutions.
- 2) **Professionalism.** One hint that an outsourcing partner lacks professionalism is its willingness to proceed quickly with lessee contacts before reviewing account history. Collectors who take this critical step are more likely to resolve the issues at hand and avoid costly mistakes, such as contacting lessees who have actually paid but have had their payments misapplied.
- 3) **Diplomacy.** Lessees are customers, even those who are in arrears. Outsourcing partners should approach lessees with diplomacy whenever possible in order to maintain relationships and encourage positive outcomes. Outsourcing partners must also have the experience and professionalism to know when it is time to apply appropriate pressure.

## Conclusion

Lessors can greatly benefit by using one-stop outsourcing service providers, as they can significantly speed up the collections, remarketing and legal processes for past-due balances. However, prior to partnering with a one-stop outsourcing provider, it is important for lessors to ascertain that the company they choose is qualified for the tasks at hand. Some of the qualifications that a lessor should look for when assigning problem accounts for quick and successful resolution are finance industry knowledge and experience, professionalism, diplomacy, and expertise in all aspects of collections, repossessions, remarketing and legal processes.

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