

Collaborative Collections: Best Practices in Outsourcing

Why are some lessors rewarded with significantly better results for their outsourcing dollars? Their best practices reveal several concrete steps that every leasing and finance company can take — regardless of size or portfolio strength — to improve collaborations with outsourcing partners.

BY ED CASTAGNA AND DAN POTTS

In the world of sports, it's called teamwork. In the world of business, it's collaboration. And in the world of equipment leasing and finance, it's a key strategy for reducing account delinquencies and write-offs.

Most equipment leasing and finance companies rely on at least one outsourcing partner for help in collecting delinquent accounts, repossessing and remarketing assets, and recouping deficiency balances. Larger leasing companies may retain six or more collections, remarketing, and legal experts who routinely assist in-house staff.

Each lessor hopes to forge the right combination of internal and external talent needed to ensure the fastest, most efficient, and cost-effective resolution possible for problem accounts. The reality is, some lessors are far better than others at leveraging outsourcing partners to streamline the collections process. These leasing companies are successfully collaborating with outside collections, remarketing, and legal experts to:

- tackle delinquencies at earlier stages when chances are greatest for recovery
- decrease active account delinquencies and write-offs
- free up internal staff for strategic projects

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Best Practices

Insist on working with leasing industry specialists. In addition to lessees and personal guarantors who are experiencing financial difficulties, a significant percentage of delinquencies and write-offs — perhaps as many as one-third — are spurred by contract disputes fueled by the complexity of the leasing business. It's no wonder why some professionals who are general experts in consumer or commercial collections fail miserably when it comes to managing leasing accounts.

Frequently encountered lessee disputes include, but are not limited to: equipment performance/functionality; purchase option obligations; vendor misrepresentation; claims of fraud; insurance liabilities; late fee assessments; and charge-off penalties. An industry tested outsourcing partner who truly understands the wide variety of commonly encountered contract disputes offers lessors a more seasoned approach when engaging in settle-

ment negotiations and enforcing contractual obligations. As a result, outsourcing partners can effectively refute contractually invalid disputes.

Lessors can increase their chances of resolving account delinquencies before write-off by selecting service providers who understand leasing transactions and the laws pertaining to it. Outsourcing partners should demonstrate strict compliance with, and knowledge of, revised UCC Article 9 guidelines so lessors are assured their accounts are being managed appropriately and within set legal parameters. For example, from a collections standpoint, Revised Article 9 provides additional clarity and leverage which substantiates both the lessee and any personal guarantor as jointly liable "obligors" within a defaulted lease transaction. This allows the lessor the ability to simultaneously enforce deficiency balance collection and recovery efforts from both parties. From an asset management standpoint, one important provision of Revised Article 9 mandates that a commercially reasonable asset liquidation transpire. Failure to do so can jeopardize a lessor's ability to legally enforce collection of any remaining deficiency balance.

Leasing experience also equips service providers with the knowledge necessary to determine the best strategy depending on the particular account scenario. Collections, remarketing, and legal partners, for example, should be capable of evaluating whether or not a particular piece of equipment is worth repossessing and, if so, the best strategy for securing and remarketing it.

Remember, outsourcing partners who ignore account history are destined to repeat it. Beware of collections and remarketing specialists who are willing to tackle problem accounts without first providing an appropriate level of due diligence by reviewing and inquiring about their history. This is a mistake that can waste precious time in the collections process.

First, the service provider may unknowingly duplicate previous efforts that were unsuccessful, or select the wrong strategy for the particular situation. Second, an uninformed cold call to a lessee may reveal the service provider's unfamiliarity with the case and diminish his or her credibility and bargaining power.

Outsourcing partners should ask lessors background questions about accounts they are assigned and view all pertinent communications system comments and letters before making the first call to the lessee or personal guarantor. Information gathered through this process will help pinpoint the best approach for maximizing collection opportunities.

QUICK TIPS for Improving Collections Outsourcing

- Insist on working with leasing industry specialists
- Remember, outsourcing partners who ignore account history are destined to repeat it
- Team up early for accurate equipment valuations
- Require seamless communications and automated access
- Consider streamlining collections and remarketing through full-service recovery outsourcing
- Think ahead about remarketing options

Team up early for accurate equipment valuations. Estimating the fair market value of disputed assets is an essential step before determining whether it is cost-effective to repossess. Some lessors handle valuations internally but ask collections or remarketing partners to verify their figures. Other lessors completely outsource equipment valuation responsibilities. In any case, it is important for service providers involved in the collections process to have a proven system for determining fair market value in the current marketplace.

Data from published sources such as auction guides and trade books is an extremely useful tool but in no way comprehensive. Published data, for example, can be up to a year old and seldom matches the condition of the equipment in question.

A better measuring stick for assessing current values is to research live databases of equipment leasing and finance remarketers. Some remarketers operate global websites that sell equipment, thereby attracting large volumes of competitive bids daily on a wide variety of machinery. These websites often net higher selling prices than absolute auctions because they are used for orderly liquidations, allowing sellers flexibility in setting their own timeframe and conditions for gathering bids.

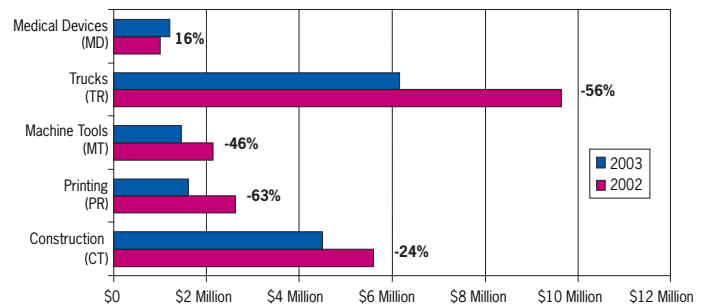
Require seamless communications and automated access. For a lessor, one of the biggest headaches of working with multiple service providers is the potential for communications delays or misunderstandings between different parties involved with the same account. This is complicated in situations where the service providers are actual competitors and not inclined to share information with one another. The results of miscommunication can be disastrous — repossession seizures of equipment, for example, after collectors have settled accounts and agreed the equipment could stay in place.

One solution is to hand accounts over for repossession only after spending considerable time attempting to collect. However, this approach can result in significant depreciation of assets, increased opportunities for lessees to hide assets, and reduced recovery success rates. It is much more effective for collectors and remarketers to work in tandem. Service providers should offer lessors password-protected access to their online systems so all parties are informed of account status.

A leasing company's lawyers can also benefit from having quick, automated access to service provider systems. When preparing a case to collect a deficiency balance, for example, it helps when attorneys can access the equipment remarketers' system to view equipment condition reports, logs of bids, and other documentation that may be required by the courts.

Consider streamlining collections and remarketing through full-service recovery outsourcing. Some service providers offer leasing and finance companies a complete recovery program for managing routine collections, repossessions, remarketing for seized equipment and end-of-lease returns, and collections of deficiency balances. These services can significantly speed up the collections process compared with handling it internally or outsourcing responsibilities to different service providers.

Nassau's "NQI" Top 5 Repossessed Capital Assets (2002-2003)



One reason that complete recovery programs often work faster is that they reduce communication delays between collectors, repossessioners, remarketers, and lawyers. Another reason is that collections specialists working with repossessioners within the same organization have additional leverage and muscle when convincing lessees and personal guarantors to resolve problems promptly.

Complete recovery programs vary among service providers, but typically handle the following: 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; deficiency balance collections; and legal services provided through nationwide attorney networks.

Think ahead about remarketing options. Many delinquent accounts end up requiring a repossession. It pays for lessors to seek the advice of a remarketer that specializes in the leasing industry, up front, to ensure maximized return on the assets in question.

Seasoned remarketers can advise lessors on the optimum strategy to use in a given situation. If the assets are of wide public appeal, such as personal computers and cars, for example, the smartest approach may be an auction. If the assets are machinery or business equipment which have a more limited local market, a better option may be to sell the asset over a global remarketing Web site using an orderly liquidation process.

Summary

Lessors who are collaborating successfully with outsourcing partners to improve collections have learned a number of lessons that can benefit any equipment leasing and finance company. Their reward is a faster, more efficient, more cost-effective collections process that reduces delinquencies and write-offs — and ultimately increases overall recoveries. **m**

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