Part I of recovery commentary: Skip-tracing strategy and measuring value

Wednesday, Jan. 22, 2020, 11:59 AM

By Joel Kennedy
NAF Association

SAN DIEGO -
Editor's note: This commentary is the first in a series compiled by Joel Kennedy, who is the current president of the National Automotive Finance Association and chief operating officer at TruDecision, looking at the intricacies of repossessions and recovery.

The industry that locates borrowers and collateral, recovers collateral and handles liquidation on behalf of lenders has grown significantly in the last five to 10 years. Forwarders present lenders a streamlined way to manage recoveries, liquidations and vendor compliance, as a result of their configuration and focus on technology and innovation improvements to the process. During this time, lenders have seen the value in the forwarder model, resulting in the growth of this industry, and now

— forwarder consolidation. The most impacted players in this new world are the recovery agents, and the recovery industry is feeling the economic squeeze, and recovery agents are suffering, or worse shuddering up.
The National Automotive Finance Association along with the American Recovery Association have facilitated working sessions between both lenders and recovery agents for the past few years — with the goal of driving standards within the industry that will benefit all players, and create an environment where recovery agents can once again thrive. Last year, the top forwarders in the industry got together and are actively involved in leading this initiative to a lasting result.

As someone involved in this initiative since 2018, and now as the president of the NAF Association, I wanted to get into the details of the skip / recovery space to better understand the lender's challenges and the solutions that are available for them. To get educated, I embedded myself for some time within the operations of Flying A Information Resources, a skip / locate and recovery company. The results of my learnings are captured within a three-part editorial series on the fundamentals of skip and recovery. I would be remiss if I did not thank CEO Dick Landeis and president Jim Snead of Flying A Information Resources, for supporting this initiative and opening Flying A's doors and process to me.

Improving Skip-tracing Results

In Disney's "The Mandalorian," the client says that "Bounty hunting is a complicated profession," and provides the main character, a bounty hunter nicknamed "Mando" with only limited information in his pursuit of a bounty. The bounty hunter works solo and has to rely on his own skill and cunning to locate and capture the bounty. This Mandalorian is a specialist, a professional bounty hunter that his peers hate due to his success at catching elusive bounties that have frustrated and confounded them all.

Just as the Mandalorian is brought in when all other possibilities are exhausted, so too is the world of locating borrowers and collateral that have evaded you — also known as skip-tracing. I happen to believe that the seeds of the problems are sewn early on in the business setup. Auto lenders build up the detailed economic forecast and budget, and most of the focus is on stressing the model relative to revenue and losses. We tend not to spend too much time on the particular underlying people, process, and technology required to deliver on the details of plan. As a result, big dollar recovery processes like late-stage collections, skip, impound, vehicle in shop, and deep-skip tend to be cobbled together as afterthoughts.

Far too often it is “too little, too late.” We’ve all seen the scenario of some “pointy haired boss” lambasting the head of collections for a growing list of uncollectable accounts. So, as ops folks, we react by taking immediate action. Get the car, find the borrower, do whatever it takes to get the job done — fees and overtime be damned. Just find a local skip / recovery specialist and assign the case on the double (skipping all sensible vendor due diligence). Equally as detrimental is the fact that the decision whether to build the intelligence internally or outsource is oftentimes based less on considering the strategic elements, and more on the ego of the collections VP or the CEO.

The Challenges

From the smallest to the largest automotive lenders, the challenges are common:

—Challenge No. 1: I can’t locate my borrower.

There are skip accounts in every stage of delinquency, but they tend to get noticed when they start rolling into the 31 days past due bucket. The focus in the earlier stages of delinquency (say anything prior to 61 days or more past due) tends to be more on locating the borrower and trying to help get them back on track, and collections tends to utilize a standard set of borrower outreach tools that escalate as you trip different days past due triggers. So, the phone calls, text messages, and emails continue, while possibly layering in more mail, collectors refer back to the loan package and start calling references, possibly running an updated skip report, and maybe issuing a field call. How well focused and measured these efforts are can vary on the level of management, rigor and controls in place, and this can have a bearing on the results.

—Challenge No. 2: I can’t locate my vehicle.

As a delinquent account ages, the focus on finding the collateral takes central focus. Locating a vehicle when the borrower has changed jobs, residence, possibly even moving out of state can be tricky. Most recovery agents can conduct some skip tracing to provide more information for the case. If your collateral is equipped with a GPS, you can do some skip tracing there (even if the device was tampered with), and if you subscribe to a license plate recognition (LPR), that can be another source of leads.

—Challenge No. 3: I have deep skip accounts that are at a dead-end, and I am battling against the clock and charging off.

Deep skips are those skip accounts that have been worked but are unresolved. They may have been worked internally, and also by an outside skip agency, or even a repossessor, with no result. Deep skips tend to get thrown over to skip / forwarders from time to time, and lenders figure this is a no-lose proposition to find either the collateral, the borrower, or both. Assuming that the borrower is so many payments behind that getting reinstated is not really an option, locating the collateral is the first step towards recovering the vehicle and liquidating at auction.

—Challenge No. 4: My operations are not skilled at skip=tracing.

Skip-tracing is definitely a skill and an art. You are looking for patterns in publicly available data, customer provided data, and special data sources (like skip reporting tools, legal records, bureaus, etc). The tools are far from a silver bullet, you still need your skip analyst to be able to make sense of all of the information in front of them, and be selective in what additional data is needed to fill in the picture. Further, there are quite a few areas of compliance that need to be addressed when, say, calling borrowers' place of employment, or their provided references, or known family identified from skip / bureau tools. Building this up from scratch will require some measure of expertise, most likely at the manager level, and the time and resources required to train the team up. For smaller lenders, you can run into situations of inefficiency where you will need to staff and train more than one person to make sure that you have coverage when the person is out or decides to leave the company.

—Challenge No. 5: Skip tools are expensive, and managing the cost and utilization is difficult.

There are many skip tools out in the marketplace. Speak to any experienced skip tracer and they will be happy to provide you with their favorite techniques and resources, but for the most part, they will tell you that you are likely to be using various resources until the point that you find a missing piece to your puzzle. So, in the context of trying to control and manage costs, this can be problematic. If the list of skips grows, it is easy for management to say "pull out all the stops, run every skip report you can.” The CFO sees that expense line grow (after the fact), and now your skip tracers are constrained to run fewer reports.

—Challenge No 6: I don’t have a path to develop skip tracing skillset internally.

As outlined in Challenge No. 4, you need some expertise internally to either staff or train your skip resources. In cases where that skill set is not readily available, lenders often lack the requisite path to stand up a successful skip team. This can not only be costly, but quite daunting a task, and time consuming — potentially taking your eye off the ball in other areas where management needs to be actively engaged.

In summary, many lenders struggle with locating their skipped borrowers, and vehicles. They may not possess the path or skillset in-house to positively resolve the situation. The cost to address the gap in skip capabilities can be expensive to resolve, and in the learning phases the cost of running redundant, superfluous reports can only set you back further with the internal turmoil that will ensue.

The Solutions

The issues we outlined exist in some measure at most lenders. There are strategic and financial considerations, understanding your company’s risk tolerance, comfort with compliance, and a variety of other factors to consider in how best to approach gaps in skip tracing performance. Thinking in the most basic terms, there are three possible outcomes that can resolve these gaps:

1. Build the Capability Internally

Building skip capability internally can be a good idea, provided you have a path to acquire (or develop) the team to deliver results, and do so safely with consumer rights and compliance central to your controls. Additionally, the cost of running the variety of skip tools is something that needs to be well-managed and tightly controlled if you don’t want end of month “surprises” for your CFO. Ideally, as a skip function grows and matures, there should be ways to train this skillset into your collections staff (particularly the late-stage group, where the lines between collections and skip are blurred) and extend your ability to locate and resolve skips earlier in the process. These are real benefits, and can be realized if you have a clear path, and are willing to make the investment in time and money.

2. Outsource Broadly

The last decade saw a substantial increase in the proliferation of, and increased market share of skip specialists and forwarders. These outsourcing partners can take your skip activity when assigned and manage the entire process. Lender clients will want to clearly establish their expectations for receiving updates with good content and frequency. You will get the benefit of having a managed process, with streamlined process flow, and if you can integrate the data back in to your core (loan servicing) system, you can make it faster and easier for collectors, and recovery specialists to act quickly and not drop the ball. Beyond the core components of service delivery, outsourcing of skip can open each of your assignments to a variety of data sources and skip tools that are constantly changing, each of which costs money to run. A perfect example of this is tapping into LPR analytics (i.e. have we seen this car before on prior scans?), and posting these vehicles into a live status in LPR, opening them up for not only skip, and locate, but if the client wishes — also recovery.

As already mentioned, the market for outsourced skip and subsequent processes (recovery, disposal, etc.) has grown significantly in recent years. To lender clients, the simplicity of managing all skips (and beyond) through a single or handful of vendors is an attractive option to managing all aspects of skip cases directly. If a lender truly has a solid leader and grasp of skip to the point where they will consistently outperform an outsourced option, and do so at a cheaper cost, then by all means. There are many lenders that do just this, just as there is an ever-growing portion that opt to outsource. The fact is that results and performance can change over time, and performing routine comparisons of the results and cost of achieving those results is something that I always advocate.

Which leads us to our final option.

3. Outsource Partially / Specific Elements

In non-prime auto, while there are several large, national players, for the most part the industry is characterized as fragmented, with a majority of smaller regional participants. Sometimes due to smaller volumes, managing the process internally and directly can be the best option. Problems can however crop up when a borrower goes outside of the lenders' geographic footprint. Lenders may need to engage new skip and repo companies that operate in these "out of footprint" areas, leading to the assignment of skips and repos out to forwarders that have already established relationships with providers that have been vetted for process, compliance, etc.

Another reason why companies may outsource some (but not all) skips would be that they have arrived at a point where they are at a dead-end. Sending these to an outside party to crack the case is a way to keep things moving.

What I do encourage in cases like these would be to create a learning loop with the outside vendor that allows your internal skip tracers to learn and grow. Industry veteran and expert, Dick Landeis, CEO of Flying A Information Resources said, “The best thing a lender can do is get the skip accounts to your skip agent earlier. There is nothing gained from letting an account age.”

Jim Snead, the president of Flying A Information Resources added, “Like many skip agencies, we will tend to see accounts that have been worked 2 or 3 times by recovery agents that don’t specialize in skip, and are flipped over to us. We are always happy to help, but I can tell you that in most cases, had we gotten the account sooner, we would have solved the case quicker, resulting in higher recovery dollars to the lender client.”

So, I am not the only one that thinks “the sooner the better” when it comes to case submission — so identify the dead-ends sooner and you help the vendor out and yourself with better results. It ultimately increases overall client satisfaction, and results, and the vendor will always have new data sources / methods that will keep them relevant and not losing future business because of it. A win-win.

Measuring Results

While we discussed the virtues of lenders looking outside for help to generate improvements, at the end of the day what matters are the results. We ultimately want to move the needle on the results, irrespective of whether they came internally or externally (of course cost of getting the results needs to be considered). At the end of the day, the metrics we want to move are:

• Reduction in delinquency

• Reduction in skip accounts

• Improved skip performance

• Improved recovery rates from skip efforts appending more reliable, up-to-date whereabouts of your collateral and customer

• Reduced losses

• Streamlined operations, faster management of your issues with accountability

As a former operator of more than 20 years, I can tell you that there is always something new that you can do, some new technique, or some outside service that you can employ that will make all the difference and you think “why didn’t I do this sooner?” To me, the big key with all of this is keeping an open mind, not allowing management hubris get the better of you, and openly testing and evaluating options that impact your business configuration.

Acknowledgment

I would be remiss if I did not thank Dick Landeis and Jim Snead of Flying A Information Resources, for supporting this initiative and opening Flying A’s doors and process to me.

Joel Kennedy is chief operating officer of TruDecision. As president of the National Automotive Finance Association, Joel is passionate about growing and improving auto finance ecosystem. Joel has more than 24 years’ experience helping big banks down to start-up finance companies to build, grow, improve, and repeat. Joel can be reached at (240) 308-2169 or joel.kennedy@trudecision.com.