

Leading Strategically Through the Recovery
Getting Ready: Actions to Fortify Operations for Loss Mitigation Volumes
5/14/20

Amy Perkins

Okay, I'm going to go ahead and get us started as others are filing in. Thanks again, everybody, for joining us on today's webinar, the latest in our series, "Leading Strategically Through the Recovery." We're excited to have the Bridgeforce team here today to be sharing more about how to strengthen your operations and ready them for the losses that we know are going to be rising over the coming months and throughout the remainder of the year.

Before I hand it over to them to get what you really came here to listen to, I do want to cover a couple of really important things. First, I want to thank LiveVox and RevSpring for their generous support of this series. LiveVox is a leading provider of enterprise cloud contact center solutions, managing 12+ billion interactions annually, with 15+ years of pure cloud expertise, they empower effective channels of choice engagement strategies.

As for RevSpring, they lead the market in financial communications and payment solutions that inspire consumers to pay. Leading accounts receivables management companies trust RevSpring to maximize their financial results through dynamic and personalized print, online, phone, email, and text communications of payment options.

You guys also now why I'm not a radio DJ, because I'm really not cut out for that, but I am genuinely so grateful to LiveVox and RevSpring. We couldn't do these types of things without partnerships like theirs.

Okay, a few housekeeping things. One, all of your mics have been muted for our audience, but we would love, the Bridgeforce team especially would love your engagement, so please, throughout the webinar, feel free in the chat box to submit any questions that you may have. The team has been gracious enough to put some food for thought in there for our attendees to start pondering a couple of questions throughout the webinar, and hope to further engage on those once we get to the Q&A portion at the end. So, please, check out those questions that are now in the chat box and start giving those some thought.

I do also want to mention that this webinar will be available for replay. If you really enjoy it, we'd ask you to share it with your friends, but also if for some reason you can't watch the entire webinar, you can go onto insideARM.com and you'll be able to download a replay.

The last thing I'll say is that the information we share today is not intended to be legal advice and can't be used as legal advice. And I say this on every one—nothing I say should ever be taken as legal advice.

So, now with all of that really great stuff out of the way, I'm going to hand it off to Andrew to kick off introductions and then we'll get started.

Andrew Domino

Thanks, Amy. We welcome everybody and thank you for attending today's webinar on *Getting Ready: Actions to Fortify Operations for Loss Mitigations Volumes*. And special thanks to you, Amy, and insideARM for the opportunity to discuss our views on how to best prepare for the surge in loss mitigation cases caused by COVID. We'd also like to thank LiveVox and RevSpring for sponsoring the webinar today. I'd like to thank our partner, Katabat, who provided some data and insight presented here regarding digital collections.

My name is Andrew Domino. I'm the managing partner and chief operating officer of Bridgeforce. I spent 25 years in the financial services industry and over half of that time has been in collections operations, loss mitigations and credit risk.

We know that your time is valuable and that there are no shortage of webinars on the subject we are covering today and we are grateful that you have chosen to spend some of your valuable time with us and we thank you for doing so.

Pass it over to my colleague, John, for his introduction.

John Sanders

Thank you, Andrew. Good afternoon, everyone, my name is John Sanders. I'm one of the managing partners, as well, with Bridgeforce. I'm actually one of the co-founders of the company. I've been with the organization for nearly 20 years. Quite a bit of experience working with all aspects of collections recovery from

both technology and system implementations through to business and treatment strategy development.

Michael?

Michael Orefice

Good afternoon. My name is Michael Orefice. I've been with Bridgeforce for about three years and have been part of the financial services environment for the better part of 26 years. I've specialized that entire time in the use of technology to support and to foster business outcomes and am excited to have the opportunity to speak with you all today.

I'll pass it back to you, Andrew, to get started.

Andrew Domino

Great, thanks, Michael. Okay, everybody, what we're speaking about today is a deeper dive, specifically what I'm going to cover is a deeper dive into our current state and acknowledging that we are on the precipice of a big problem. My colleagues will discuss how you can best prepare for what's coming and the role of digital in that preparation.

While uncertainty remains in some way in the current environment, we know that this is a unprecedented event, but the actions required to address them are not new, they're just simply different. And the transition from forbearance, which is what we're currently in, to loss mitigation will absolutely arrive. Digital collections and effectiveness will be critical. And what really matters is a rapid response to what we will be facing in the next 45 to 60 days really counts. And that might change based on some products, but we think the initial forbearance wave will start to subside there in the next 45 to 60 days.

So, if we can move on to the next slide. It's impossible to discuss loss prevention today without covering the worrying data and I pulled that short straw. We get hit by that data consistently. Inboxes, news outlets and the endless stream of sources are inundating us with difficult and disheartening information. We acknowledge the seriousness of the situation, but we also remain positive. As a country, we've got the inner strength to address these challenges. Our history in doing so and

having done so successfully in the past fuels our optimism in the face of any economic downturn.

We all have heightened response to the sensationalism we've been seeing, hearing over the last eight weeks. And, over the last six weeks, we've all been in rapid response mode. That's because this pandemic is real and it's been very confusing for our industry, whether you're having to deal with PPP loans or addressing requests for forbearance, the rules remain fluid. And that can be really quite challenging.

We don't fully yet understand the scope of the impact or the length. And we're getting used to the current environment, which I think is an important thing to mention, that begins to create a bit of a false sense of security, like, things are subsiding. When, actually, for us, in our industry, things are really just getting started.

We view the current situation in three buckets and COVID-19 has led to an intervention and restrictions never before seen in our country's history. It's going to take us years to measure and understand the full effect of the situation we're in and quantify the complete challenges because of this virus.

That said, we know we're only weeks and months away from the operational reality of higher credit losses and related loss mitigation activities. Unlike previous economic events, the origins of this economic scenario is not related to a devaluation or to a specific asset class, like the 2008 mortgage crisis or the stock market crash of 1929. As a result, the delinquency bubble, which took anywhere from 18 to 24 months to really hit its peak in the mortgage crisis, will have a much steeper leading edge and a longer climb for the industry to absorb.

So, when we look at these three specific economic elements to inform how our industry should scope the size of the problem, we look at the size of the problem and we measure that through the unemployment indicators, which continue to grow; we look at the velocity of the problem, and the indicators that show macroeconomic measures which typically pull us out of a recession are getting worse, not better, and they're often conflicting, and I'll spend a little bit more time on that. And then, of course, there's the fear of the unknown. The only thing that is certain is that we don't know what is for certain. But we do know how to

prepare for uncertainty and we have tools in our toolbox that we can modify to help in that preparation.

So, when we look at flattening the curve, the speed of COVID-19 was very steep. Implementing rolling deferments and staggered engagement practices helped our industry spread the inflow of volumes over a longer timeline. And we did that in hopes that the curve would eventually flatten. And most everybody involved did a great job.

The challenge here is that the curve is not flattening and that's what's creating the problem. Latest modeling from Goldman Sachs recently showed that the so-called real jobless rate, which captures the percentage of Americans who want a job but have given up trying to find one surged to approximately 23 percent in April. That was up from just about 9 percent in March. And they warned on Wednesday that the real jobless rate will peak at about 35 percent, which was up from their previous projection of 29 percent.

And we've used targeted forbearance and payment relief to address the strategic need to handle that initial tsunami of loss prevention cases that came our way. And we didn't want everyone to roll into delinquency all at once. Some say it's too early to know for sure, but I don't believe that. I think there will absolutely be a second wave of loss prevention cases that will start to appear in August and September and October. And that can be anywhere from 2 times to 10 times greater than any previously experienced single-month volumes. And that's going to continue to grow until unemployment indicators stabilize.

So, when you look at how do we measure this and what are the indicators that we are using to make these statements? Unlike all other major economic downturns in our history, the immediate reduction in transaction velocity, so the Y, has resulted in numerous ripples after the splash. So, these are impacts that are continuing to grow and cascading down the supply chain. And the greatest influence on the Y is consumer confidence and job security and the overall economy. And COVID has shattered both of those.

What we're showing here is the standard velocity of money equation that's used to measure the impact of events and the seriousness of them. So, I had to get retrained on this one myself, but V is the velocity, P is the price, Y is GDP and M is

the money supply. In some instances of a downturn, one or two of these are off, but not all of them. And when the velocity slows, the items on the left here on this slide are what we see that get hit hardest and first.

So, the frontline impact has already been reflected in the weekly unemployment filings and everybody's seen that. The second wave of the impact is really just starting to make the news and that's the next segment of the supply chain who had surplus goods, immediate revenue loss due to canceled orders, and that's what's going to impact GDP and price.

And while the economy will absolutely reopen, we know the pace will be slow. The economy will not see pre-COVID volumes, in my opinion, for years. It took six years after the Great Recession for us to get back to successful growth. And supply chain issues, so the second segment, are going to continue to grow in their impact.

This can be a bit confusing to understand. So, in the Great Recession, housing was impacted and that was settled, prices normalized, and that helped the recovery. People were able to go in and buy at lower prices, which increased demand. But today, prices are falling across just about every category. So, if you look at apparel, hotels, cars, insurance, airfare, all of those fell through the floor as people stayed home. And everybody knows gas prices are cheaper. I mean, it's great to fill up my truck now, I can do it for almost 20 bucks.

But what's conflicting here is grocery store price tags are soaring. So, recently, groceries grew by about 2.6 percent in inflation. And that's including seasonal adjustments. Eggs are up 16 percent. Eggs. Are up 16 percent. And, according to the Bureau of Labor and Statistics, that's the biggest increase month over month since 1974.

So these are the conflicting measures in the macroeconomy that clearly illustrate the prolonged issues that we will experience in supply chain. And another major problem is with the velocity around the government relief component. There is a multi-trillion dollar growth in the M of this equation, the amount of currency in the economy. But that is not being spent and that is not fueling the economy. Consumer saving rates jumped from 8 percent in February, which were already historical highs—it was 3.6 percent in December of 2007, to over 13 percent in

March. So, while the government is flooding cash into people's hands, the lack of spending is going to continue to increase future inflation risk, which will also constrain any economic resurgence.

So then you layer on top of that the fear of the unknown. And all of these indicators and their confictions create that fear. It took six years to achieve sustained economic growth from the last crisis and everyone can agree that COVID is larger and has a more localized impact on small- and medium-sized businesses in the sector, and then just the labor sector in general than any other recession. The end result will be total chargeoff volumes and the duration of flow into delinquency will be significantly greater than any previous downturn, since credit losses will be constrained and originations will not grow. Consumer spending patterns may be permanently altered and small business entrepreneurs will likely have lasting credit problems as we go through this.

Further elongating the down cycle and the supply chain challenges, we've got the fear of hot-spotting and virus recurrence. Santiago, Chile yesterday just announced they've closed for the second time because they had a spike of over 2,700 cases in one day. So this will change our future.

Airlines, sporting events, dense retail centers will face extended revenue decline while concerns over job losses and the general fear of the unknown continues to drive conservative consumer spend.

So, if we can jump to the next few slides. There is some positive news, with all that said, and I'd like to thank my team for allowing me to have one positive slide today. In the center of all this risk sits opportunity. So, while digital customer behavior over the years created a challenge to some traditional collection practices, like dialers and letters, the good news is consumers now expect companies to use their data and customize treatments specifically to their needs because of the urgency caused by COVID. And this includes collections. It's now expected that you will communicate with customers about past-due bills in the digital space. It's like we've been finally invited to the party, right? By the consumer. We are now allowed to play in the digital banking space.

And in nearly all previous economic events, from the Great Depression to the savings and loan crisis, to 2008, banks have always been held at least partially

responsible as a cause for the problem. But this has been an external health situation caused by COVID. And we believe that this will most likely make the consumer engagement and workout less volatile and it will act as a positive influence for regulatory change, which will enable FIs to alter loan relationships and support the consumer recovery. We've got the opportunity here to be the good guys again.

So, no matter where you are in your digital capabilities for collections, you can be confident in your customers wanting to communicate with you regarding their debts in the digital space, and in your organization, recognizing the need to invest in these capabilities.

So, the bad news is, the scale of the problem. The good news is the changing consumer expectations, the consumer demand for digital collections, and us having the chance to help consumers address a problem that we did not create.

So, now I'll turn it over to my colleague, John Sanders, who will help discuss how we can best prepare for these upcoming surges. John?

John Sanders

Okay, thank you, Andrew. Let me just come off mute.

Yes, we now turn this portion of the webinar to the specific actions that can be taken to fortify operations for these anticipated loss mitigation volumes. First off, I would like to qualify what we are about to share with the point that we really do try to ground ourselves in being pragmatic. That said, we realize, while laser-focused on the very immediate and actionable tactics here, we obviously cannot lose sight of the broader strategic picture. And there's certainly, as Andrew mentioned, there's a reasonable chance that this event could have very long trailing effects that span well beyond the next few months and perhaps at least into next year, especially if there's a resurgence.

Therefore, program components required to address this initial surge cannot come at the cost of mitigating future volumes or certainly progressive, strategic initiatives that are intended to lower cost while improving cure success.

On the left side of this screen, tactically, we see the value of separating teams for the immediate firefighting needs, versus preparing for future months.

Organizationally, it certainly makes sense to make someone to be on point for these efforts and deploy or enhance forecasting capabilities, which is really a page taken out of past playbooks, including the last recession.

From a strategy perspective, one size might fit all in the short-term. Hey, let's just give everyone 90-day deferments until we can get our arms around this situation. And certainly that makes sense, but the question becomes "then what?" Do we re-up everyone with a blanket strategy? We certainly can't postpone or suspend payments indefinitely. So, now is a good time to start thinking of how we can right-fit treatments to each borrower, based on their unique level of impact.

And then myself, speaking with industry executives as recent as yesterday, there was a clear sentiment that this situation presents a new digital tech revolution, as it was put to me. So, whether COVID comes back or not and regardless of other digital initiatives already underway, undeniably, it has forced the hand on how to further better serve the borrowers. And we'll get to that in a little bit here.

So, we believe that the best way to shore up operations is to establish a loss prevention program. You can see here that, there's a couple of core components. We highly recommend setting this program up. At the time of the mortgage crisis, there was a massive loss mitigation movement. Our firm found ourselves squarely in the middle of it, especially as we helped design and stand up loss mit programs. So, what you're looking at here is really modeled from that. And of course, while naturally many things have changed since the mortgage crisis, the fundamentals are still very relevant. And I point that out because those programs were battle tested. And at least speaking for our company, we test over \$2 trillion in loans across several lenders during the Great Recession timeframe.

So, the way this works is that basically we rapidly stood up a MASH unit where we could quickly triage borrowers based on need. If you start in the upper left portion of the wagon wheel, as the wave of inbound calls hit, it required a means to assess the risk in segment populations. So, for example, is this a short-term hardship or a long-term hardship? We expect the same situation now.

Based on the risk, it requires enhancements to operational processes. Obviously, it's got to route borrowers, execute offer strategies and just in general manage the customer experience.

So, how do we then position operations for success? We did so by providing all sorts of tools to be able to help them out. And these range from, candidly, very low-tech in some cases, to more sophisticated automation. So, by low-tech it could be something as simple as cliff notes that hang on the wall with talking points for agents, which might seem underwhelming, but it was a tool and it worked.

On the higher end, we were able to condense 20-minute calls down to 3-to-4-minutes by using Excel macros to capture, say, a borrower's financial condition and suggest potential treatments. And, again, I recognize that Excel isn't necessarily really sophisticated automation. But we'll get into more details momentarily and speak to some of the advancements that can be leveraged in today's age. But the point is these are the bases on this slide that we see need to be covered. And, of course, doing what you can based on what you have to work with.

So, we've included this information to really level-set the fact that preparation for anticipated volumes through establishing a loss-prevention program really requires focus. In sum, we've got to create the treatment strategies, you've got to design the game plan, essentially, manage the program, which includes the, sort of taking an air traffic control view of everything—data, performance metrics, inventory management, the usual items—and then optimizing everything. So, as borrowers are interacting through various channels, it's going to require understanding what's working well versus not. And constantly informing the engagement strategies, for example, or fine-tuning treatments based on what the borrower can financially handle.

And further, I was recently reminded that people handling loss mitigation 12 years ago have probably moved into new roles, so the people in the trenches today, they may have never even experienced an economic downcycle and therefore they simply may not know what they don't know. So, it's not a bad idea to make sure that resourcing plans incorporate previous experience and account for this.

So, the heart of loss prevention, we're going to have to contemplate the transition as borrowers come off of forbearance and deferments and some actually fall into delinquency. So, essentially, there's going to be a segment, we know, that presents itself as relatively, say, low risk, risk of chargeoff and therefore we can leverage a targeted, very proactive treatment strategy to [remove 25:23] those volumes up front. And that will allow us to focus on those that require the most attention and care.

Just to sum up some highlights on this slide, at the risk of stating the obvious, we wanted to point out a couple of things. First, consumer advocacy and the uniqueness of this event may lead to, or even necessitate changes in delinquency treatment for those impacted.

Second, like any scenario, it'll be incumbent on the lender to evidence that their model, strategies, and actions are unbiased. Again, we actually saw this years ago where regulators came through and they expected lenders to evidence the consistency in application of treatments, as well as transparency. So we certainly have no reason to believe that will be any different today.

The initial industry guidance when quarantine started ...

Mike Bevel

John? John. I am so sorry to interrupt, and I feel a little embarrassed for doing it. I think you might be tapping your microphone and I think it's causing a sound, so if you could ... I wanted to bring your attention to it. I'm so sorry.

John Sanders

Thank you for that.

Mike Bevel

Thank you.

John Sanders

No problem. So, apologize to the audience. When the quarantine started, basically, I quote that the guidance was to do whatever you need. And to do whatever you need to help borrowers. And dot-dot-dot was within safety and

soundness. So, the latter being the operating words. Lenders will need to identify ways to validate the level of impact to each borrower, and resultant treatment to ensure consistent application of treatment to each borrower.

Sorry, this here, you could probably make this the first page of your playbook and this we offer today as bonus material for everyone dialing in. This is not just for illustrative purposes. This is actually our IP and you have our blessing to lift it if you want. So, while I speak, feel free to take a screenshot, if you like. But, basically, here's the battle plan.

The left column of the Gantt chart hits all of the core tasks that need to be addressed or should be addressed in quick order. So you can see that it is very front-loaded by design. We have done this before, so this is truly not an academic or an intellectual exercise here. The main areas to sort out include modeling and segmentation. What you get is basically getting a grip on who is at risk and try to rapidly bucket them into a sensible segment to treat.

Next, develop and establish a corresponding treatment strategy for each segment. Quickly build out the operational pieces, such as policies, workflows, cliff notes for the agents to use. And then figure out the way in which you can reach the customer and build out the contact or, as we like to say, engagement strategies. Which I know is easier said than done, but we'll elaborate.

While on topic, on this slide, we know that default collection environments, the current majority level will drive this. It's going to come down to the art of determining what is possible and then working within the capabilities you've got today. So, again, fortunately there's some pretty turnkey solutions that we see that can now be stood up, actually in a matter of days and weeks versus months and years.

And, most importantly, the overarching theme here is rapid response. You can see this Gantt, that many of these tasks are stacked. At first glance, it may look unrealistic and might even appear daunting, but the reality is that we as an industry find ourselves in a situation now and we need to mobilize. So, we truly have roughly 45 to 60 days to get in front of this situation. If your organization or client is thinking about another automatic deferment, I'll call it, then you might buy yourself a bit more time. But these are really the major things to get done to

be effective. And the good news is that many of these tasks can be run in parallel and, if you need help on any of this, certainly call us, we can talk you through it. And that, by the way, is not a shameless plug, but truly a genuine offer, as thanks to insideARM for inviting us here.

In terms of this next picture, it's really a double-click into what we mean when we think about operational controls. Hopefully everyone can see this okay. While you take this in, I'd say that as an operator myself back in the day, these are the major bases, again, to ensure get covered in order to do this right.

And also of note, now is probably a good time to emphasize that risk and control has to be sorted out day one. That's really non-negotiable. So if you take anything away from this picture, it's simple—you have to be able to evidence absolutely everything. And we hate to sound preachy here, but we just spent most of the past 10 years [cannily 30:47] helping organizations navigate all sorts of compliance and regulatory matters and I don't think anyone wants to experience a compliance lookback in 2023 for something that needs to be done in 2020. So, that's why we lead with this point.

And the operating word, again, is "evidence." So, it's a good idea to have P&P, policies and procedures dusted off, if you haven't touched them in a while. Another bonus tip today: Process flows we realize are less desirable of an activity, but they really can be a good tool to knock out many steps at once. So, if you take a little time to whiteboard how work literally flows from one end to another in your process, it not only gives you a picture of how to operate, but you can then see where the potential fail points are. And what we like to do is then overlay controls for those areas where things can potentially break. So, once you do that, not only are you aware of it, but you can control for it. So if you get a knock on the door down the road from a regulator or internal audit, even, you can push these across the table and readily evidence that you have a pretty good grip on the process and of course comply with what needs to be done.

The other noteworthy item here is treatment tools. So, I mentioned earlier that we built these back in the day in Excel, but there are certainly way slicker options that even allow borrowers to self-serve. For example, they can put debt and income levels into a web page based on that. You can show the borrower what hardship programs they're eligible for.

So this is the sweet spot here of the webinar today. We truly feel that, especially if history is a predictor of the future, then a large population of society will come back on the path to whatever normal might be. They'll get their job back. But, for a period of time, they may have reduced hours due to things like social distancing, for example. Perhaps reduced income. Yet they will still have the same pre-COVID debt obligations.

So, therefore, helping these folks while they regroup is the goal of loss prevention, not just mitigation loss for the lender, which is also important. But truly helping society get back on its feet. And we've seen the long-term benefit of that when done right, including customer loyalty.

Last point on this, there's also workflow automation tools we'd like to point out that can be leveraged, things that guide, validate and orchestrate these activities, and obviously helps ensure process is being executed the way you need it. So, regardless of whether it's the newest agent or a more seasoned rep handling the situation, this tool of course can help ensure consistency, which is a good thing.

All right, this slide, just in the interest of time, might be a little busy, but in a nutshell, we want to reach customers the way they want to be reached. We want to first ensure that reaching them based on preference. Some folks want to interact via text or check out their treatment options on the web. We've seen interesting ways that borrowers interact with a lender. They might research the treatment options on the web, say, three times, but eventually set up a payment arrangement through the IVR. So, best solutions have omnichannel capabilities with a decision engine that sort of sits in the middle as the brain, hooks everything together. The pieces on this page, such as analytics, communication channels, and so forth, they do exist today. And, again, I'll mention these solutions are now advanced enough that they can be turned on relatively quick in a secure way with what I'll call Day One pre-configured strategies to achieve this. So this is really not over-the-rainbow capabilities. Again, we can certainly direct you to reputable providers if you're interested, just as a byproduct of where we traffic in this space.

Something else to think about. Several institutions and perhaps you're one of them or service one of them, have brought these financial wellness programs

online over the past few years. These were intended to be value-add services to help organize finances, educate borrowers, monthly debt obligations and that sort of thing can be put in there. So, if you've got that, there's likely some valuable data that you can grab and use to inform treatment strategies. And, while they were built for likely other marketing opportunities, the point is, if your institution's already made the investment and the effort, might be good thought for leverage.

I think finally I would just call out here, we recognize this is the most communicative event we've seen. We're seeing daily briefings, obviously, from the federal level, down the state, and of course messaging around, hey, work's being done with banks so you can get relief from having to pay your bill. When we hear that, that only further amps up the need to advance the analytic capability and leverage more channels to maintain effective engagement, obviously, with the consumer. That's not going away. So, in the short term, you've got to work with what you've got, but if you need rapid response, we can direct you to some industry solutions.

Modeling and segmentation. I've hit on this throughout, the most noteworthy item to contemplate is revisiting the current models and account segmentation. We alluded to some of the unique properties to consider. That would include hot-spotting of the event. Certainly, segmentation of accounts by industry sector we expect will require some unique adjustments to accommodate some of the specific event impacts.

There's been advances we've seen in analytics and exposure of consumer-centric [wall 37:06] data that should hasten the evolution of some of the modern loss mitigation practices. But, regardless, every organization should be capturing, measuring, and just candidly forecasting impact here for the COVID impact for the portfolio.

Not unlike mortgage, the mortgage crisis, we did see at the county level, actually, various levels of impacts. Unlike mortgage, one thing we've contemplated is a unique twist that this is the possible need here for institutions to capture high-risk classifications for consumers that may be prohibited from work based on health risk. So that's going to cause banks to segment out that population, creating

[candling]. And this would be a first and it might require some incremental thought around use of consumer information.

Treatment strategies. In the interest of time, I just point out the following here, that consumer communication throughout this event will be more important and frequent than previous economic events. And evolution of treatment may need to align with government or industry approaches as relief programs continue to be developed and evolved.

Now we can move to the next slide. So, before I turn the mic over to my colleague, obviously, volumes may require different placement approaches. Channel diversity and digital capabilities may be a key driver of placement for institutions without strong digital capabilities. We know multiple organizations have already looked to the collection agency market for their capacity needs, fearing the likelihood that large pools of accounts can't be reached through staffing challenges. Now is also a great time, we think, to tee up third-party involvement so, if you're a third-party collection company doing those things to help institutions more seamlessly integrate and board is only going to help the cause. First party approaches typically provide, obviously, the shorter onboarding runways, keeping all the information and activity inhouse and reduce the regulatory exposure associated with some third-party activities. So we appreciate that there are tradeoffs. But, regardless, our vantage point is that adding modular capacity enables the business operation to balance and right-size account focus. So, basically, align performance around the most advantageous accounts.

As for capability vendors, suffice to say there's large segments of the delinquency portfolio that may have strong digital preferences, so leveraging those platforms and enhancing those capabilities really makes sense.

The complexity of advanced analytics machine-learning and AI in today's environment is also quite extraordinary, so we're seeing that some of these packaged platform solutions, if leveraged, can help design more impactful strategies and really, can really move the needle.

So we've touched some pretty good ones ourselves. We've seen them. We can offer opinions on vendor options. On this side, just simply say we close with the thought that, while you can outsource lots of things, you can't outsource

responsibility. So, if your organization heads in this direction, it's really important to get it right.

With that, I'll turn the last section over to my colleague, Michael Orefice, to bring us home.

Michael Orefice

Thanks, John, I appreciate it. So, we're going to go through the role of digital here and cover a couple of quick things. There's also a couple of great questions out there, so we'll make sure we also leave time for those, so thank you, everybody, for posting out in the chat window the questions that you have.

As everybody's talked about, there's a lot of firsts that come with this, but one of the most interesting firsts is, if you sit back, this is really the first event of this economic nature in the digital age. And while we've all heard about digital and it is truly exhausting at this point, in 2008, you weren't going to pick up your phone and solve anything with your mobile app, because there were basically 50,000 mobile apps worldwide and every bank could almost let you log in successfully all the time, but you certainly weren't going to go do anything complex.

Now, it's a completely different environment, it's a completely different audience. The consumer base and the average age of the consumers that are out there in the portfolio, especially those most likely impacted by this event, are people that are digital savvy and have very specific expectations about the banks' ability to meet them where they want to be.

And that's great and for many of you that's fantastic news because you are further along in the digital maturity curve. But for many of us that are on the call or for many of the clients we work with, that's not going to do you a bit of good in the next 60 days. So this slide really accounts for the fact that, if you're on the left-hand side of analog maturity, at the low end of basic operations, you got to do what you got to do. So, set up your segmentation, set up your single-flow processes and take action to start mitigating the impact of your inflow. It's [Captain Obvious 42:26] work, but it's absolutely the hard things that has to be executed right away.

If you're capable of advancing your operations in short order, some of the projects that might be easier than maybe the hard lift or heavy lift IT projects that are required oftentimes, then start moving your advanced operations, specifically your intelligence. The data analytics components are things that can sometimes move faster because it's just about getting the data into the hands of skilled data scientists to start moving the needle for you.

On the digital side, this is going to run for six years. That's really what the model showed from 2008 to 2014 for the mortgage crisis. Obviously, in 2014, as my colleague Andrew talked about, we started to see sustained, consistent economic growth. If this is a 6-year model, then you have a pretty long runway to go ahead and start moving your digital capacity and capability forward. So, start with your passive capability, start with your interactions. But don't do anything at the cost of losing the ability to understand how digital is working. And I'm going to show a little bit of that here in a minute. But that's really the next facet of expertise you're going to need to look at.

This is the collections marketing comp data model. It's got engage, influence, communicate and cure. You notice it doesn't have "contact" on there. And the reason is we're transitioning from the nomenclature of "I want to contact somebody." What I want to do is, I want to engage them. And, in the digital world, engagement is not about a synchronous conversation—I pick up the phone, I call you, we talk a conversation, I try to cure, and then we hang up and I document it in account.

Engagement is I use any or all of the channels that are available to me and I influence your behavior. I present content to you in passive ways. I measure what you do with that content and I count that as communication. And then I connect in mechanisms and ways that allow you to self-serve or to allow customers to interact with me without having to go through this synchronous reality that has been the case for the better part of four decades in collections.

And, when you do that, that's when you can really start saying digital consumer engagement is happening differently. But, again, all of that only counts if you can measure it and you can see how effective it is so that, at the end of the day, you can start tying cure activities and the health of your delinquent portfolio and what you think you're going to get inhouse today and tomorrow and next month to the

actions that are corresponding, triggers and events in the digital world that the consumers are taking.

The key to that is to look at creating journeys. And I use this as a really basic model. There are thousands of these journeys that are encapsulated in a single mobile app journey workbook, if you were to look at them from this perspective. This is a simple one that talks about somebody logging in, seeing a number of their accounts, picking the one that's delinquent, taking the action of all the things they can do, like look at it, give me my summary, look at my past transactions, whatever it is. In this particular case, they're saying "I want to make a payment." They're presented with an action bar that allows them to say "I can pay X" or "I can pay Y." And, as it's doing that, as they're moving the slide bar, which is the third window in the middle, the new plans and offers that you're calculating autonomously in the background are prefilling that dropdown box so that they can find the one that's right for them at the time they need it.

Then they take the cure action. You do the payment confirmation page. And you ask them, How would you like me to interact with you around this negotiation, around this agreement we just established? I could send you texts, I could send you reminders, I could send you thank yous, we can do all kinds of different things. And that's what the expectation is. If you look at the average 22- or 24-year-old, through all of the applications that they have, be it social applications, business applications, professional applications, they are interacting in those ways all the time.

So, the key is that you have to create the user journeys that are required to meet their needs. And you have to be able to bury or embed in those the information exchange and the ability to track those interactions. You should be analyzing and scoring every session so you can see how they're working cumulatively. You should be analyzing that across a larger pool of the population so you can really start tying cure percentages and accuracy and effectiveness to those interactions as really strong predictors of whether or not those people can be collected.

When you look back at the volumes that we're talking about here, the ability to work with those that are collectible and differentiate that from those that are probably going to maybe touch collections, but are going to work themselves out of the problem, and those that might be on the back end that are really going to

need to look at many different paths because they've been so heavily impacted. Those are really, really kind of outlying groups. That controllable group in the middle is something that you can really look at from this journey perspective.

There's a lot of information here, you can pore through it at your own leisure, but moving left to right to get from traditional to advanced metrics, these are the things that have to cumulatively be built and added to your KPI report. It shouldn't be overly complex, it shouldn't be extraordinarily detailed. But it absolutely should combine conventional marketing metrics through the digital space into your normal operational metrics for your collections and loss prevention activities.

Lastly, and I just kind of introduced it to take the wahoo moment out of here is that marketing has a huge advance start to this race. They've been doing this for the better part of a decade, really getting deep into how to do marketing properly. And the marketing funnel that might wind up with somebody taking a new offer or a [crossover 48:22] will look exactly like the marketing funnel that looks like somebody who's going to select a cure offer that's out there.

So, if you have the expertise, fantastic, leverage it. If you don't, start looking to change the diversity of your workforce so that there's a marketing mentality that's incorporated into how I'm using channels and how I'm effectively getting content out there so that you can de-emphasize some of the traditional channels that are automatically de-emphasizing themselves as the portfolio continues to age a little bit. And you can start differentiating contact strategies in ways that really will lower your cost to cure, while at the same time offering a tremendous amount of flexibility in meeting the consumer in the space where they want to cure. And that's a huge benefit of digital and it's not one that can be easily replicated through human interaction. So it's a nice breath of relief that that's sitting out there.

So, at this time, I'm going to pass it back to John to wrap all this up and summarize before we get to the Q&A. So, John?

John Sanders

Great, thank you. Well, first, I want to thank everyone for taking time to listen. If you retain anything from today's call, here are three things to remember. First,

we strongly encourage setting up a dedicated loss prevention team, even if it incorporates or sits on top of your system [audio glitch] management group. we certainly suggest getting to work on specific treatment strategies within [audio glitch 49:49]. Concurrently, you can start honing the customer engagement strategies. And, of course, make sure all this is done appropriately within compliance and controls.

I've signaled throughout that we have some accelerators at Bridgeforce. These can get you moving and have you prepared. We know there's a surge. We have our views as to how big it might be, but the truth is, it's really still too early, very early to tell.

While on that topic, kind of the last freebie I'll offer today is that we built a calculator to estimate volumes. So, if anyone is interested in it, we'll offer it to you for free. No catch, just it sits in a spreadsheet. So you can email us and we'll make sure you'll get a copy.

Also I want to just briefly to send thanks to insideARM. I encourage everyone to sign up for the insideARM Strategy & Tech Conference in July. I think that's fairly timely, because it's certainly by then I think we'll be in a spot where the first wave of accommodations we spoke of will be at our shores and I expect it'll be rich with even more industry insights for you.

So with that, I'll offer the mic back to our friends at insideARM.

Amy Perkins

Thank you, John, and thank you all, that was really great. So much substance, as always, from this team, so I really appreciate that.

We do have a couple of questions, I'm going to jump into those. The first one is about the recent HEROES Act that's been proposed out there. I know that that's fairly new news. I don't know how much you've had a chance to digest or analyze, but folks are wanting to know your opinion on the impact to the industry of that proposal?

Michael Orefice

Yeah, that's a great question. You know, there's a couple of things that are really challenging about the great efforts that are being taken to make sure consumers have the financial opportunities they need to weather this.

So, the great things about some of the HEROES Act components are certainly the programs that are designed to make sure people are getting real relief for food, for medical benefits, and other things. Some of the monetary components of that program, however, are a big challenge and it really just relates back to something simple that Andrew already talked about. We saw a big stimulus package go out and we saw a whole bunch of people get \$1,200 checks. In fact, my niece got a \$1,200 check and her lifetime taxable earnings is only \$238. So the indiscriminate approach which was necessary at the time does lead to some problems and one of those problems is that people are taking it and they're putting it in their savings account. They're not taking it and bringing it back into the market.

So, while I certainly understand and can appreciate the need to get confidence back into the people, I think what's missing is the no-strings-attached components that aren't forcing the reentry of those dollars into the marketplace, aren't offering that to say, hey, we know you have debts and you should use some of that for the debt process and things like that.

So, it's a well-intended program. We're very hopeful that it will absolutely instill confidence after this does settle down and people are more sure of their surroundings. But in the meantime, it does really two things that are problematic. It's not improving the Y in the equation that Andrew talked about, but it is increasing the M, which is the money supply. And those are two things that work together to slow down velocity. So if we can't find a way or a catalyst to get them out there and using those dollars to really feed the economy, it may be very well intended, but it may not have the [mit 53:28] positive effects, in fact it might have a fairly negative effect in long-term inflation and some other things.

Andrew Domino

Yeah, I think the point here is spending is not social anymore, especially not right now. You get a stimulus check before, you're off to the mall or down to Main Street and you're going to the smaller businesses, you're buying craftsmen's products at specialized shops. Those aren't open right now and people are still legitimately afraid to go outside. So, I don't think any stimulus package, unless the

states open up and the shops open up, is going to have the economic impact that we've seen before. And I think that that's only going to occur when states begin to open back up and do so carefully.

Amy Perkins

Yeah, for sure. Thank you both. I know there are some very specific callouts to the collection industry, too, within those acts, limiting or recommending limited or delayed interaction with consumers in an attempt to collect a debt, both for creditors—I think I saw in there that creditors may be ... well, it's proposed that they're covered under the FDCPA more directly than they have been in the past, which could change things for a lot of folks.

So I think, there's a lot there I think for all of us still to digest and analyze, but I think those are definitely good points. But we'll see how that plays out for this industry in particular, I guess, over the coming weeks. So, thank you guys.

Then we have another question. What is your suggestion for managing the impending second waver versus the reality of the reputational risks in collections as it pertains to reaching out to consumers and all of that?

Andrew Domino

So, I'll answer that in two parts. I think, one, during the Great Recession and the mortgage crisis, we did quite a lot of work in Ireland and that was like a microcosm of what was happening in the United States and around the world. And the customer engagement model, so how the customer was willing to engage with you, even when they couldn't pay, was one that was used as a segmentation tool to determine, all right, do I move to foreclosure? Do I move this customer off of forbearance and allow them to start to go through delinquency? And I think that model has some relevance here.

There are people that jumped on forbearance that didn't need it, that are still working. There are people that legitimately needed the help. But, as we get through this cycle, if you have tried and are trying to engage the customer and, even if you have one digital channel, so that it's not just based on a phone call, if the customer's not engaging with you, then that can go a long way to reducing reputational risk, if you're taking them off of forbearance and moving them through the cycle, because they're not making an effort. And at the end of the

day, I really stand by what I said: Our industry didn't cause this problem. This was a global health issue and, in order for us to be able to help the consumers, they need to be engaged. And, when they're engaged, we can help them. But I think that that model will go a long way to stemming the reputational risk of us needing to eventually allow folks to go past-due and then work through the charge-off.

Amy Perkins

Okay. Yeah, that's great. All right, we have one last question in the queue. It's from someone on the healthcare side of collections around digital. So, thoughts on HIPAA and how that plays into digital strategies for those collecting on healthcare portfolios?

John Sanders

I'll take a crack at that and then let a colleague...

Andrew Domino

Go ahead, John.

John Sanders

Well, I was going to say, I'll be real quick, I know we're out of time. I think, HIPAA actually scares me, I'll be honest. And, as I talk to my, my wife is [in] telemedicine, quarantine, on the other side of that. I think there's going to be some things they have to figure out now, as well. But it does call to mind maybe setting some expectations, even this is an opportunity to reaffirm consent related to consumer communications, as well. But I think some of that we still, we're going to be in some newer waters that we have to sort through. Mike?

Michael Orefice

Yeah, combining HIPAA with PCI and PII and any other restrictions could further elongate innovation and data movement in banks and financial institutions and financial transactions. That could be very problematic, just because it will already throw more mud into a very muddy and challenging process.

But one of the things that is absolutely apparent and has been a topic of much discussion thus far is, in the first outbreak, as we've all experienced, we did a shelter in place. And, as people are starting to lift those restrictions, they are maintaining restrictions for people that are high-risk. And we've also already

heard of questions about, if I've already had it, could I get some sort of card that allows me to wander free?

So we're going to have to address something or there will have to be a provision like this that makes it into the mainstream. Because if this does in fact run for an extended period of time, if there are recurring events or if there are hot spots that break out for 12 months, then we're going to have to have a way for banks to differentiate that treatment and, if that requires or invokes HIPAA, I think that that is scary, to what my colleague John said, but I think that for a COVID-19-specific impacts, if that's how you're assessing it, I think that they're going to provide a provision where it's not necessarily a violation of HIPAA in its pure form, as long as you're not asking for other things, like why is there an underlying problem or something like that.

Still too early to tell, but we are all hopeful that it doesn't springboard into an even more manic information control scenario.

Amy Perkins

Yes, certainly. All right, good stuff. I think that brings us right up to the hour and that was our last question. So, I'm going to bring us home and just say thank you again to Andrew, John, and Mike for being here. As I mentioned, I was counting on this having a lot of substance and you guys delivered, as always.

I will say to the audience, there's been a couple of offers, the spreadsheet and a calculator. I want to make sure you know how to get that, so I would just ask, if you have any questions or you're interested in more information from Bridgeforce, you can email me: amy@insideARM.com, pretty straightforward, and I'll help coordinate with their team to make sure if anybody wants some follow-up information that we get that to you guys.

And then I would just like to say again thanks to LiveVox and RevSpring for their sponsorship of this series. And I can't wait, guys, to hear more on these topics in July when we meet again at the Strategy & Tech Conference. So, again, thank you all of your time and thanks to our attendees for joining. I think that's a wrap for us. Everybody can safely disconnect and have a great rest of the day.

Andrew Domino

Thanks, Amy. Look forward to it, as well.

[more goodbyes]

[End of audio]