Card Collections Roundtable Meeting Report

Nashville, TN

June 12 – 13, 2018

AURIEMMA CONSULTING GROUP
NEW YORK · LONDON

Table of Contents

1ST FINANCIAL BANK USA
Ms. Irma Barrington
Senior Vice President
ibarrington@1fbusa.com
(605) 232-3058

ALLIANCE DATA
Ms. Tammy McConnaughey
SVP, Chief Credit Risk Officer
tammy.mcconnaughey@alliancedata.com
(614) 729-5232

AMERICAN EXPRESS
Mr. Philip Thomas
Director, US Credit & Collections Strategy
philip.g.thomas@aexp.com
(212) 640-0223

BANK OF AMERICA
Mr. Dave Meyers
Senior Vice President
dave.meyers@bankofamerica.com
(302) 266-5222

BARCLAYCARD US
Mr. John Graser
Director, Collections Strategy
jgraser@barclaycardus.com
(302) 255-8596

BLUESTEM BRANDS, INC.
Mr. Gavin Forrette
Director, Collections & Recovery
gavin.forrette@bluestembrands.com
(952) 656-4989

CAPITAL ONE
Mr. Dan Johnson
Senior Director
daniel.johnson2@capitalone.com

CARDWORKS SERVICING
Mr. Harold Baldauf
Chief Operating Officer
hbaldauf@cardworks.com
(516) 576-0404 x 2323

CHASE
Mr. Christian Canga
Senior Risk Manager
christian.canga@chase.com
(847) 488-5575

CITI CARDS
Mr. Steven Dasch
Recovery Director, Vendor Management
steven.dasch@citi.com
(859) 283-3892

DELL FINANCIAL SERVICES
Mr. Steve Snyder
Senior Manager, Transactional Collections
steve_snyder@dell.com
(512) 728-5133

DISCOVER FINANCIAL SERVICES
Mr. Seth Johnson
Director
sethjohnson@discover.com
(224) 405-0242

FIFTH THIRD BANK
Mr. Paul Ray
Senior Manager
paul.ray@53.com
(513) 358-4869

FIRST NATIONAL BANK OF OMAHA
Mr. Chris King
Vice President Collections Management
cking@fnni.com
(605) 668-5302

GOLDMAN SACHS
Mr. David Stark
Managing Director, Chief Risk Officer
david.stark@ny.email.gs.com
(212) 357-7646

Participants

HUNTINGTON NATIONAL BANK
Mr. David Mortenson
VP, Portfolio Risk Manager
dave.mortenson@huntington.com
(216) 515-6332

KEYBANK
Mr. Frank Conti
Senior Vice President
frank_j_conti@keybank.com
(216) 689-4367

LENDING CLUB
Mr. Scott Grayson
Credit Risk Manager
sgrayson@lendingclub.com
(415) 632-4629

MACY'S
Mr. Anthony Perkins
Vice President Collections & Fraud
tony.m.perkins@macys.com
(513) 573-2831

NAVY FEDERAL CREDIT UNION
Mr. Bob Berger
Senior Vice President
bob_berger@navyfederal.org
(703) 206-3015

NORDSTROM CARD
Mr. James B. Gale
Nordstrom Account Services Director
james.b.gale@nordstrom.com
(303) 397-4489

PAYPAL
Mr. Shashank Rajadhyaksha
Senior Manager, Collection Strategy
srajadhyaksha@paypal.com
(804) 291-6122

PNC BANK
Mr. John Bresnahan
Senior Vice President, Collections
john.bresnahan@pnc.com
(269) 973-1783

REGIONS FIANCIAL CORPORATION
Mr. Kenny Ceresnik
Vice President, Recovery Manager
kenny.ceresnik@regions.com
(205) 560-3547

ROYAL BANK OF CANADA
Mr. Jeff Bennett
Managing Director, Collections
jeff.bennett@rbc.com
(416) 348-6750

SYNCHRONY FINANCIAL
Mr. Steven Messerly
Strategy and Analytics Leader
steven.messerly@ge.com
(937) 231-7246

TARGET FINANCIAL SERVICES
Mr. Ray Moore
Senior Group Manager, Collections
ray.moore@target.com
(612) 696-0497

TD BANK
Mr. Gerry Fokas
SVP, Collections & Fraud Strategies Program Manager
gerry.fokas@td.com
(612) 252-2222

TSYS MANAGED SERVICES
Mr. David Simmons
Associate Director, Collections
dsimmons@tsys.com
(706) 649-2029

US BANK

Mr. Wil Wachs
Senior Vice President
william.wachs@usbank.com
(215) 293-2226

USAA FEDERAL SAVINGS BANK

Mr. Troy Withers
Executive Director, Member Debt Solutions
troy.withers@usaa.com
(210) 443-6100

WELLS FARGO

Mr. Larry Tewell
Senior Vice President
larry.tewell@wellsfargo.com
(515) 222-8184

1ST FINANCIAL BANK USA
Ms. Amanda Tieszen
SVP, Collections
atieszen@1fbusa.com
(605) 988-5123

AFFIRM
Mr. Hai Truong
Senior Director Strategy & Analytics
hai.truong@affirm.com
(415) 813-9289

ALLIANCE DATA
Mr. Dan Gervais
Senior Manager, Strategy Analystics
daniel.gervais@alliancedata.com
(614) 729-5317

AMERICAN EXPRESS
Mr. Chris Maloney
Director, US Credit Strategy
christopher.maloney@aexp.com
(954) 503-1115

Mr. Michael McCutcheon
Vice President
michael.w.mccutcheon@aexp.com

BANK OF AMERICA
Mr. Ryan Rzucidlo
SVP, Consumer Products Strategy Executive
ryan.rzucidlo@bankofamerica.com
(302) 266-5196

BLUESTEM BRANDS
Mr. Mark Bursey
Director of Operations
mark.bursey@bluestembrands.com
(952) 656-4087

CARDWORKS SERVICING
Mr. Sheldon Stewart
VP, Collections
donald.jackson@cardworks.com
(412) 291-5073

Mr. Mike Nowell
SVP Collections Strategy
michael.nowell@cardworks.com
(972) 387-8983

CHASE
Mr. Tom Chubb
Operations Leader
thomas.d.chubb@chase.com
(813) 432-3958

CITI CARDS
Ms. Pat Might
SVP, Risk Management
pat.might@citi.com
(859) 283-3903

Mr. David Allen
SVP, Collections Group Manager
david2.allen@citi.com
(904) 954-3023

Mr. Chris Rathsack
Director
christopher.rathsack@citi.com
(202) 879-6880

DELL FINANCIAL SERVICES
Mr. Richard Mutai
Regulatory Compliance
richard_mutai@dell.com
(512) 294-0128

DISCOVER FINANCIAL SERVICES
Mr. Anthony Blazer
Senior Manager
anthonyblazer@discover.com
(614) 283-1039

FIRST NATIONAL BANK OF OMAHA
Mr. Paul Osborne
Director, Collection Administration & Recovery
posborne@fnni.com
(402) 602-2367

GOLDMAN SACHS
Mr. Chris Eastman
VP/Head of Collections & Recoveries Strategy
chris.eastman@ny.email.gs.com
(801) 884-4327

Mr. Abhi Khawarey
Senior Business Manager
abhi.khawarey@capitalone.com
(972) 796-4283

KEY BANK
Mr. Frank Conti
SVP/ Manager, Credit Card & Acquisitions
frank_j_conti@keybank.com
(216) 689-4367

LENDING CLUB
Mr. Steve Bellone
Head of Collections Strategy
sbellone@lendingclub.com
(415) 872-8810

Mr. Anthony Spinazza
Director, Payment Solutions
aspinazza@lendingclub.com
(208) 794-9104

MACY'S
Mr. Anthony Perkins
Vice President Collections & Fraud
tony.m.perkins@macys.com
(513) 573-2831

NAVY FEDERAL CREDIT UNION
Mr. Bob Berger
Senior Vice President
bob_berger@navyfederal.org
(703) 206-3015

Mr. David Napolitano
AVP Collections
david_napolitano@navyfederal.org
(850) 473-4646

NORDSTROM FSB
Mr. Jim Gale
Nordstrom Account Services Director
james.b.gale@nordstrom.com
(719) 491-6930

PAYPAL
Ms. Orlaith Crowley
Sr. Group Leader, Collections Operations, WFM and Dialer
ocrowley@paypal.com
(480) 238-9016

Mr. Rob Davison
Sr. Manager, Training and QA
robdavison@paypal.com
(480) 479-8307

PNC BANK
Mr. John Bresnahan
Vice President
john.bresnahan@pnc.com
(269) 973-1783

Mr. Jon Sipes
Vice President
jon.sipes@pnc.com
(269) 973-1788

ROYAL BANK OF CANADA
Mr. Darren Bahr
Senior Director
darren.bahr@rbc.com
(416) 974-8750

SUNTRUST BANK
Mr. David Adams
Product Development Manager
david.adams@suntrust.com
(404) 661-6543

Mr. Craig Belanoff
Group Vice President, Collections/Recovery Manager
craig.belanoff@suntrust.com
(407) 762-7786

SYNCHRONY FINANCIAL

Mr. Bill Duffy
SVP, Collections and Recovery Strategy
bill.duffy@syf.com
(980) 233-2669

Mr. Kathy Stanton
SVP, Collections
kathryn.stanton@synchronyfinancial.com
(330) 433-5819

TARGET FINANCIAL SERVICES

Mr. Ray Moore
Group Manager, Collections
ray.moore@target.com
(612) 307-5685

TD BANK

Mr. Cris Bennighoff
Head of US Card Collections and Personal Lending Collection Strategies and Oversight
cris.bennighoff@td.com
(302) 351-7989

Mr. Kevin Glidden
Collections Product Strategy Manager
kevin.glidden@td.com
(201) 749-2727

US BANK

Mr. Eian Clinkscale
VP, Collections & Recovery Group Manager
eian.clinkscale@usbank.com
(314) 216-4451

USAA FEDERAL SAVINGS BANK

Mr. Carl Banaszynski
Director
carl.banaszynski@usaa.com
(623) 715-9259

Ms. Camille Diaz
Process Engineer
camille.diaz@ussa.com
(210) 721-1341

Ms. Raquel Martinez
Director Loss Mitigation
raquel.martinez1@usaa.com
(623) 715-9098

WELLS FARGO

Mr. CJ Hamilton
VP/Collections Manager
carl.hamilton@wellsfargo.com
(515) 327-4077

Ms. Michelle Nathan
Vice President
michelle.nathan@wellsfargo.com
(925) 483-9580

AURIEMMA CONSULTING GROUP

Mr. Ed Falco
Senior Director
ed.falco@acg.net
(212) 323-7000

Mr. Frank Valentino
Senior Associate
frank.valentino@acg.net
(212) 323-7000

Mr. Joseph Palasits
Associate
joseph.palasits@acg.net
(212) 323-7000

OPENING COMMENTS

Auriemma Consulting Group reminded participants of our commitment to comply with antitrust laws. Participants were informed that the purpose of our gathering is to discuss best practices and that the information shared is not to be used in collusion. Participants were reminded that topics considered sensitive include specific customer prices, pricing paid to specific vendors, and the values of compensation paid to employees.

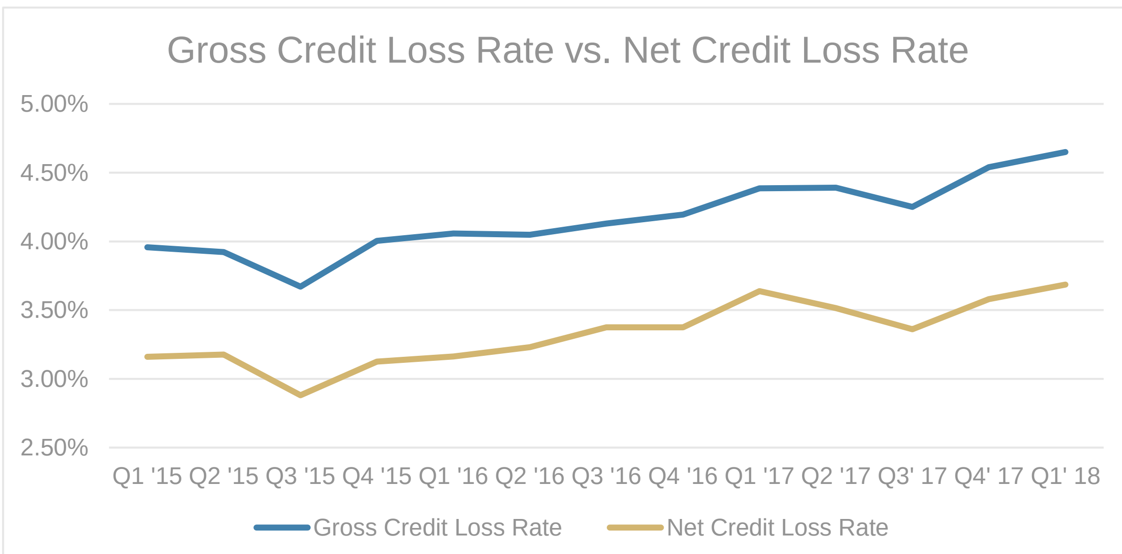
ECONOMIC AND PORTFOLIO/CREDIT ENVIRONMENT

Relatively strong economic conditions, inclusive of low unemployment, and slightly improved entry rates overall have resulted in general portfolio performance that is basically in line with expectations. Increasing loss rates are primarily attributed to portfolio growth and the seasoning of vintages, which were built into issuers' projections and expectations.

Roundtable members discussed general portfolio KPIs, fraud in today's environment, as well as different macroeconomic drivers that could impact the customer's ability to pay.

Loss Rates

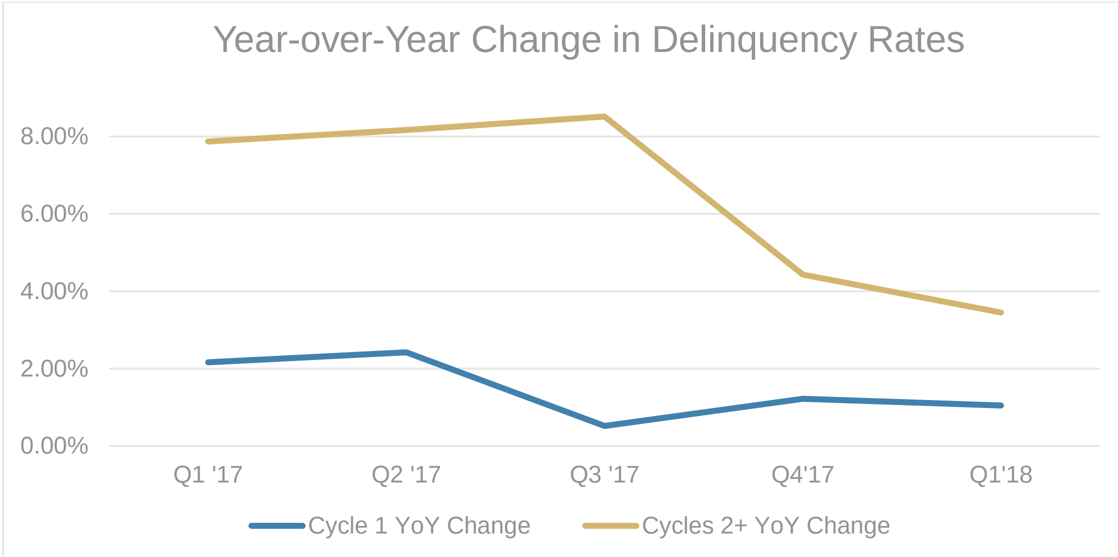
Industry gross and net credit losses continued to follow seasonal trends, equaling a roughly 5% increase from Q4 2017.



These directional trends and order of magnitude closely matched the expectations of the group, as members anticipated the seasonal changes along with loss movement within their respective portfolios. Several participants observed a slight decrease, if any, in the number of delinquent accounts within their organizations, with slightly elevated average account balances.

Delinquency Rates

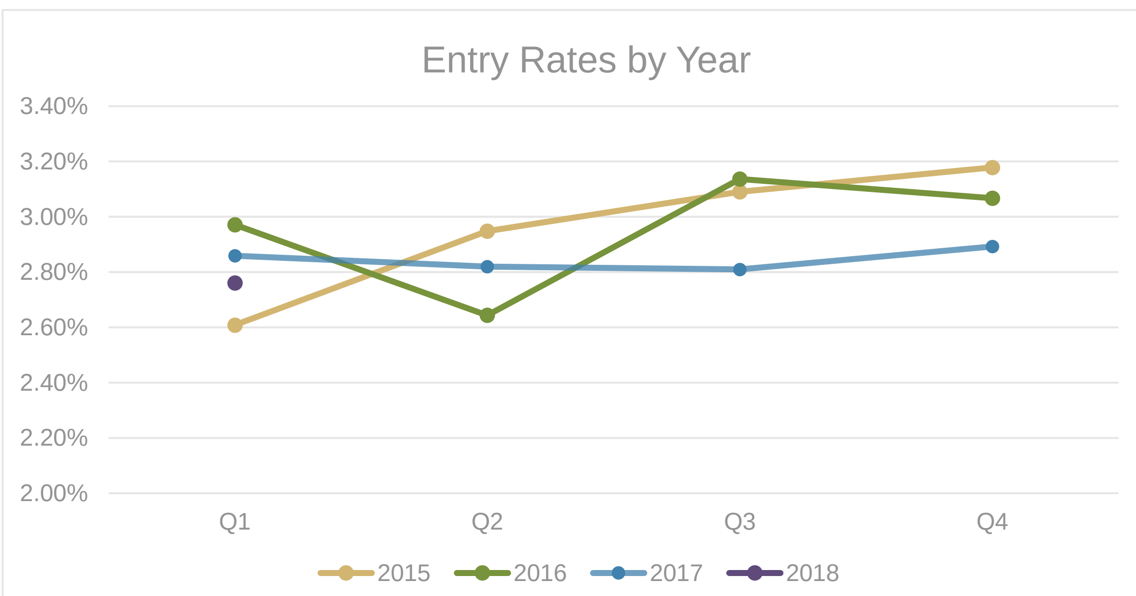
Delinquency rates, unlike loss rates which performed as expected, have contributed to the largest surprises among industry participants. Many issuers observed a significant difference between 2017 and 2018 30+ delinquency rates, which is depicted in the chart below.



Year-over-year delta values in delinquency rates for Cycles 2+ experienced a significant decline. This proves to be beneficial as Cycle 1 growth remains relatively stable. Roundtable members attribute the improvement to the performance in Cycles 2+ to several variables: revised calling strategies, the vintage mix, and the utilization of alternate channels.

Entry Rates

Many issuers experienced either a stabilization or decrease in entry rates during the early months of 2018. According to one participant, the improvement may be due to selective credit tightening and tax cuts. The year-by-year breakdown of entry rates below depicts the uncharacteristically positive performance of the industry's portfolios throughout the first quarter.



Future Outlook

The positive performance within portfolios throughout the industry has positioned issuers well for 2018. Assuming that roll rates perform consistently with the recent past, issuers are almost ensured to achieve anticipated 2018 loss levels.

Several issuers expressed concern that customers may not have full line of sight into their tax obligations under the new law and may find themselves owing money during next year's tax cycle. This situation may create less predictable implications for collections and portfolio performance during the 2019 tax season.

Synthetic ID Fraud

While synthetic ID fraud continues to drive internal conversations, it seems to have been a more dominant topic throughout the industry in 2017. Synthetic fraud identification still remains a primarily reactive process, even though issuers continue to develop processes to identify fraud before the losses occur. Analytics are the main source of identification, where modeling can help uncover patterns that recognize possible synthetic fraud accounts. Collections main role in this process is to flag those accounts and provide a feedback loop to help fraud prevention at account booking. Identification proves difficult in some cases though, as there is overlap between synthetic ID fraud and malicious intent. All issuers continue to include synthetic fraud as credit losses, and not fraud losses.

Several participants, including Citigroup and First National Bank of Omaha (FNBO), have developed processes for identification of such accounts using external data sources (e.g., Experian, FICO). Citi is using Operations to triage the accounts and Alliance Data is routing them to de-prioritized collections queues and actively mitigating time spent on the collections effort.

COLLECTION STRATEGY

Organizations continue to refine aspects of their collections strategies, as well as re-assess them, given the current environment. Members discussed their predelinquency strategies, the integration of advanced technologies into their predictive models, and driving customers to use for more self-service options.

Predelinquency Strategies

Several issuers tested and/or adopted predelinquency strategies in 2017 as a response to rising entry rates. The improvements in those rates throughout the initial months of 2018 has resulted in fewer participants executing these strategies. The members that are currently testing and executing predelinquency campaigns described their processes.

- Citigroup executes payment reminders outside of Collections, but the bank has experienced more success by using "smarter" language within its communications. For example, instead of the message to the customer stating, "Your payment is due in 5 days," the bank's reminder would be "Your payment is due in 5 days and you do not have one scheduled." It is currently undergoing internal discussions to form an agreement on the ideal verbiage to use within its reminders.
- FNBO is testing an email campaign on high-risk accounts, with customers segmented into this category using the bank's internal risk scoring. This is a shift from the bank's previous dialing predelinquency strategy, which the bank ended due to the amount of complaints it was receiving from customers. The catalyst behind this strategy was a desire to lower the bank's 5-day entry rate. The test launched two months ago on a 10% control group and utilizes an

ISSUERS THAT EXECUTE A PREDELINQUENCY STRATEGY

- 1FBUSA
- Alliance Data
- Cardworks
- FNBO
- Lending Club
- USAA

email generated by the bank's Collections team. The message is worded as a reminder – there is no verbiage within the email that refers to an attempt to collect a debt.

The bank noted several benefits to this strategy: Email campaigns are low cost and have proven to be effective. It also acts as a workaround to current customers who are DNC – since the email is a servicing email, the risk of contacting these customers is mitigated.

Machine Learning Integration into Model Development

The accelerated utilization of alternate channels within collections strategies has led to participating issuers discussing the integration of these channels into the development of their predictive models. Machine learning and artificial intelligence are considered among members to be the most effective tools to perform that task, but most have yet to embark down that path.

Wells Fargo's Collections team is working with the bank's Modeling team to attempt and create strategies around machine learning. The bank wants to use it to score consumer responsiveness to alternate channels, and then include that score to drive its collections strategies. Wells Fargo has formalized its approach to this disciple – it has a full team dedicated to artificial intelligence (AI) within the bank that has become the center of excellence (COE). The COE is developing the model, while the Collections team provides them the source data for its development.

Although most institutions have not progressed as far as Wells Fargo, others have started their processes internally to begin working on their own solutions. of the Royal Bank of Canada (RBC) is closely analyzing the potential use of these advanced technologies with its Risk group. It plans to utilize its Data Scientist COE for this project in combination with a potential partnership with a startup that specializes in AI. Other issuers have begun to test third party tools, such as Zenarate, to utilize AI technology to boost collector effectiveness.

Driving Self-Service

The preferences of the newest generation of customers within the industry combined with the impacts that technology has made on consumer behavior in general has led issuers to agree that the most effective strategy for any Collections team would be to eliminate unnecessary human interaction from the collections process. This has caused each organization to re-consider its strategies in an attempt to drive customers to self-service their accounts. The following list describes the methods in which several members are attempting to achieve that goal.

- Alliance Data has developed SMS models to reduce call volume/touchpoints, and service customers via text and email. It has been utilizing Nuance to assist in identifying the text-only and digital-only populations within its consumer population.
- Bank of America has been recently conducting a small digital-only test to quantify its impact.
- Cardworks recently completed a two-year test on SMS-only and discovered that the performance in the test group was not different than its customers who received the servicer's normal treatment. Its initial test only included a message that directed customers to call a collections number. Cardworks is now working with Nuance to better identify where customers could self-serve. It will be launching a test this month that will now include a URL in its message that will drive the customer to a landing page where they can make a payment.

DEBT SETTLEMENT COMPANIES

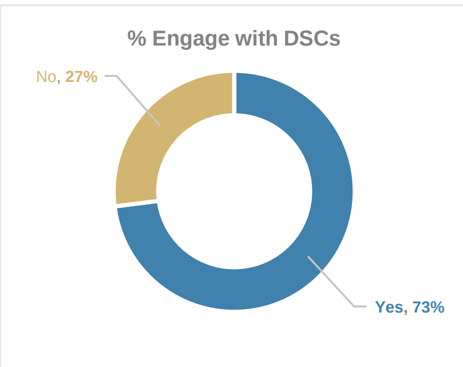
Debt settlement companies (DSCs) continue to significantly impact the delinquency behavior of customers and have become the primary channel for settlements throughout many of the attending organizations. Participants discussed improvements in monitoring and identifying the accounts that are working with DSCs, as well as the size of the impact that DSCs are making on each portfolio.

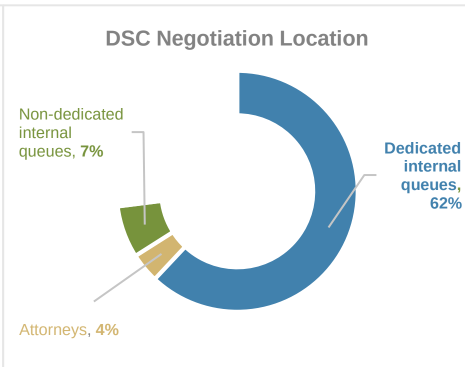
Identification

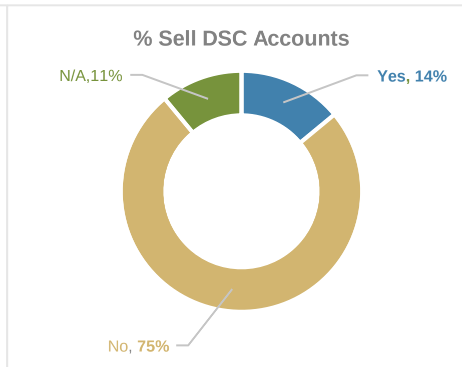
The identification of DSC accounts continues to remain a predominately reactive process. This proves difficult in mitigating the risk of the DSC impact as issuers agree that customers are more likely to work directly with issuers throughout their early stages in the DSC life cycle. American Express (Amex) focuses on this time period, contacting customers before receiving the Power of Attorney notification that pass control to the account over to the DSCs. Its messaging focuses on the long-term impacts that working with DSCs can make, especially with their credit reports. Amex has discovered that many of its customers do not fully comprehend the personal impact this decision causes them and has experienced success from its campaign.

Interactions with DSCs and Settlements

Most issuers share the same observation as Amex – the quicker that issuers can contact customers after they begin their relationships with DSCs, the better the overall collections outcome is for the issuer. The development of effective methods to proactively identify these customers, however, cannot be done quick enough given the volume of customers that now reside in this category. This has led issuers to make firm decisions on how they interact with DSCs, and the methods in which they can operate most efficiently given the amount of settlement requests that they receive.







73% of Roundtable attendees engage and negotiate with DSCs pre-charge off, a level that has been growing consistently over the past year. Although the majority of members have created dedicated internal queues to handle the workload received from DSC accounts, several participants have created ways in which to increase that efficiency. Examples of how participating organizations are handling these accounts can be viewed in the list below.

- Bank of America is conducting a simple file share with DSCs - the DSCs sends the bank a list of their customers, allowing the bank to perform an analysis on those customers and then potentially go into negotiations from that point. The bank has experienced an efficiency lift from this process.
- CardWorks Servicing (CardWorks) is trying to influence better performance on DSC accounts, but the volume of calls is posing operational challenges – roughly 70% of the servicer’s specialty collections volume is from DSC accounts. CardWorks began discussions with several of the major DSCs within the past year after volumes reached its peak one day when it was required to turn off its phone lines due to the amount of faxes and calls that the issuer was receiving. The DSCs had introduced the company to a process that would give CardWorks the capability to handle their requests electronically, allowing the DSCs to send settlement accounts where credit card companies could respond through an electronic interface. CardWorks has not implemented that technology as of yet, and is still operating through its normal processes.
- FNBO implemented an ACH batch file process with Freedom Debt Solutions, and the bank is currently in conversations about setting the process up electronically. The bank is proceeding cautiously, wanting to ensure successful deployment and risk mitigation.

Roundtable members that engage with the DSCs estimating that they account for roughly 50% to 70% of pre-charge off settlements, with the level generally increasing as more issuers centralize the management of the process and invest to work with them. The percentage of accounts that have enrolled with DSCs, however, is finally flattening out as the first wave of growth for the DSCs has subsided. The growth has stabilized for now, and participating organizations now have to improve their internal operations to better handle the volume that they plan to experience for the near-future.

COLLECTIONS OPERATIONS

Roundtable members discussed several different areas of their collections operations in the industry's ever-changing landscape. Participants debated on-shore versus offshore operations, phone contact observations, and contactability trends.

On-Shore vs. Offshore – Captive vs. Vendor

The tradeoff between the operational cost benefit in relation to overall consumer experience continues to be the dominant factor when assessing overall offshore collections impact. There have been several shifts in strategies over the past year, of which several are described below.

- Alliance Data is intentionally shifting towards external operations. It has utilized offshore vendors for additional staffing during peak times in the past and is now trying to shift more of its low priority work offshore as well.
- KeyBank work early-stage delinquency activities offshore, and then keeps late-stage operations in-house.
- Synchrony Financial is shifting away from outsourcing and is building more centers. The issuer is shifting its strategy so that it may obtain more control over its processes, as well as gain an anticipated lift in both its performance and the customer's experience.
- USAA is bringing more processes in to be worked internally. The bank's collection activity is shifting from 70% of its work being executed offshore to a 50/50 split. The driver behind this change is because of the bank's observation of a shift in industry practices. It is experiencing a lift in collector effectiveness and decrease in complaints.

Phone Contact

The utilization of alternate channels combined with the current regulatory and delinquency environments have resulted in intensity and call caps remaining stable throughout the industry. There has been some refinement of recall hold-out strategies, which are described in the chart below.

COMPANY NAME	RECALL HOLD-OUT STRATEGY (IN DAYS)
American Express	7
Bluestem Brands	7
Citigroup	4
Dell Financial Services	3

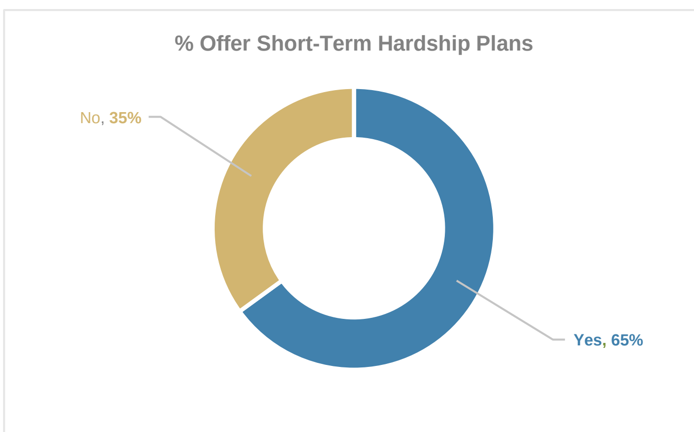
COMPANY NAME	RECALL HOLD-OUT STRATEGY (IN DAYS)
Discover Financial Services	7
First National Bank of Omaha	7
PNC Bank	7
SunTrust Bank	3
Synchrony Financial	4
Wells Fargo	5

LOSS MITIGATION MANAGEMENT

The refinement of internal policies regarding loss mitigation has continued as compliance with regulatory guidance, especially related to short term programs, remains challenging. Roundtable participants discussed the usefulness of short-term hardship programs, recent changes to their internal policies, and the use of self service options technology to allow customers to enroll in settlements and hardship programs online.

Short-Term Hardship Programs

The number of participants who have removed short-term hardship plans from their loss mitigation strategy continues to grow, as now over 33% of participants no longer offer that option to customers.



The lack of clarity and safe harbor rules surrounding OCC regulations, combined with the questionable impact that these programs have, caused Roundtable members to debate the potential incremental benefits of offering short-term programs in the current environment. Most participants in favor of short-term programs describe that the benefit is a lower minimum payment for the customer, which is 1% of balance plus fees and finance charges, and that short-term programs allow the customer to maintain charging privileges after the hardship is completed (for some issuers). The participating organizations who take the opposed stance believe short-term programs tend to not deal with the underlying long-term outlook of the customer's financial situation - they profess that long-term programs provide a better benefit to the customer. The continued regulatory scrutiny that is being placing on them is another material cited for their elimination. The OCC has been focusing on the absolute risk level of the population after hardship programs, and recidivism rates tend to be too high to justify short-term programs for OCC-regulated banks.

➢ See the sidebar entitled *'ISSUERS THAT DO NOT OFFER SHORT-TERM HARDSHIP PLANS'*.

Recent Policy Changes by Organization

Participants continue to alter their internal policies as audit feedback, anecdotal comments, and data analysis provide more context around the benefit to both the customer and the issuer in terms of hardship plans. Recent changes to policy are listed below by issuer.

- Bank of America's absolute volume could not reach a critical mass sufficient enough (given volume and approval rate) to justify continuing its short-term program.
- FNBO recently altered the qualification requirements of its short-term program. The bank was not allowing customers who were over their credit limit to enroll in short-term hardship plans, but its Customer Care, Credit Risk, and Collections teams thought that this caused the bank to exclude customers who could benefit by a 12-month program. FNBO allows current and cycle 1 customers to enroll, and over-limit accounts are now included. However, the over limit amount is not required to be repaid within the program duration.
- TD Bank ended its short-term program in the past year. It previously offered 6-, 9-, and 12-month hardship programs.

ISSUERS THAT DO NOT OFFER SHORT-TERM HARDSHIP PLANS

- Bank of America
- Citigroup
- KeyBank
- Macy's
- Navy Federal Credit Union
- Synchrony Financial

Online Loss Mitigation Enrollment

The constant expansion of digital capabilities for collections has caused some issuers to present loss-mitigation offers and enrollment options via online channels. Examples of such advancements are listed below.

- 1st Financial Bank USA (1FBUSA) is launching its online enrollment into loss mitigation programs in the coming weeks, however there will be a back-end review of the approvals and terms during the initial launch.
- CardWorks has end-to-end enrollment capabilities for programs online. It requires sufficient information to determine debt-to-income (DTI) levels and has established criteria that must be met in order to be approved. Customers remain in the program as long as they are making payments. If not, their account is placed into a specialized queue for a hold-out period before being defaulted from the program. CardWorks has protections in its systems to prevent customers from entering refined information upon a decline, in the hope of being subsequently approved.
- Wells Fargo's online hardship enrollment process is based on an "application" that requires customers to answer a series of questions correctly. Each customer needs to prove source of funds and a willingness to make payments during the questionnaire. The bank does not ask its customers for any specific values (e.g., amount of income) – only drop-down selections are available, and no documentation is required.

SPECIALTY COLLECTIONS

Roundtable participants discussed several aspects of specialty collections, including legal treatments and skip tracing, and how they may improve on the processes that have already been implemented within their institutions.

Legal Treatments

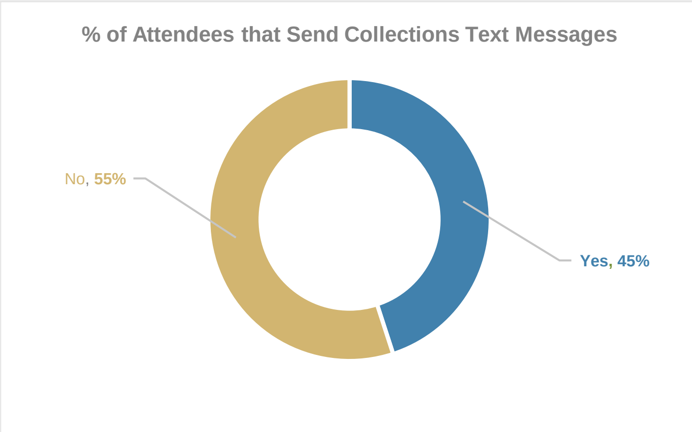
The success of legal strategies as part of the Collections and Recovery effort has caused their usage to increase among Issuers. Several participating members discussed their approaches to pre-charge off legal treatment, of which several examples are listed below.

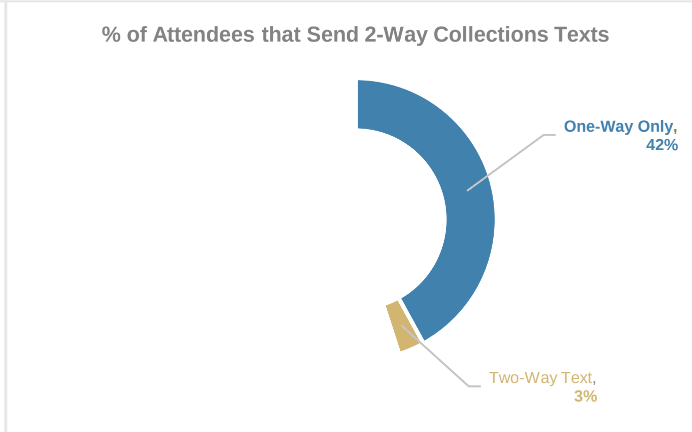
- American Express sends a letter pre-charge off and then accelerate account placements into its legal stream based on different account characteristics (e.g., high balance, high risk accounts).
- Bank of America identifies accounts pre-charge off that would qualify for legal action. This provides the bank a three-month window to engage with the customers pre-charge off. Accounts are sent immediately to suit after charge off. Bank of America is considering outsourcing this process.
- Cardworks employs a legal strategy is triggered when a customer has 5 NSFs in 6 months.
- Navy Federal Credit Union (NFCU) is in the process of altering its requirements for an account to be placed in its legal process so that it may sue more accounts. It is doing this by lowering its required balance threshold from $20,000 to $1,000.
- Target Financial Retail Services (Target FRS) is looking at altering its legal strategy by changing its balance criteria based on the state of the customer, due to varying court costs throughout the country. Discover Financial Services (Discover FS) and FNBO have already made that change to their strategies.
- Wells Fargo is performing a test in which it selects accounts to be placed in its legal stream in bucket 3, and the accounts are then placed with attorneys pre-charge off. The contractual charge off rates are higher in the test group, but the bank has experienced an improvement in long-term liquidation.

Skip Tracing

The debate surrounding the value of skip tracing continues throughout the industry, as some issuers remain skeptical of the net value of the function. That said, all but one organization in attendance (Target FRS) continue to invest resources Skip Tracing. PNC Bank’s collectors are spending a significant amount of time on skipping without any guarantee of getting a contactable number. Furthermore, if the agents are able to achieve a RPC, the payment probability on that customer is still very low. PNC’s concerns are why participants like Cardworks and TD Bank utilize a third party to do batch skip traces.

EVOLUTION OF TEXT MESSAGING





Texting continues to be an integral part of collections strategies as more organizations discover that their customers prefer non-voice channels. 45% of participants currently utilize one form of text messaging in their Collections strategy, and only one of those participants has advanced to deploying a two-way text messaging system.

- See the sidebar entitled *'ISSUERS THAT SEND COLLECTIONS TEXT MESSAGES'*.

Many participants are using text messaging supplemental to their other channel strategies, and most do not call and text within the same day.

2-Way Text Messaging

Bluestem Brands has implemented a predelinquency 2-way text messaging test. It started at the beginning of last year and yielded an improvement in entry rates. It is discovered that predelinquency payment reminders are much more effective than those customers who have already entered delinquency. These predelinquency text messages typically consist of a payment reminder, including the due date of their payment, an option to pay, and an option to stop receiving texts. If the customer responds with "PAY", a back-and-forth conversation is initiated between Bluestem and the customer. If the customer responds with "STOP", the customer will no longer receive text messages from the issuer – it is not treated as a complete revocation of consent.

Revocation of Consent

The lack of regulatory guidance surrounding the revocation of consent has led to issuers responding differently to "STOP" text messages. Most issuers just stop texting when receiving a STOP message, however several issuers are more conservative.

- Cardworks pulls the number off of the account and treats it like a DNC number. This conservative approach to STOP messages was an executive decision based upon the fact that if Cardworks cannot text a customer, there is most likely no value in calling that number either.
- Citigroup considers a STOP message as a complete revocation of consent for that number. The number is removed from all autodial queues and is restricted to manual dialing.

ISSUERS THAT SEND COLLECTIONS TEXT MESSAGES

- 1FBUSA
- Alliance Data
- American Express
- Bluestem Brands*
- Cardworks
- Citigroup
- FNBO
- Lending Club
- NFCU
- PayPal
- RBC
- Synchrony Financial
- Wells Fargo

** denotes the utilization of 2-way text messaging.*

Effectiveness of Text

Most Roundtable participants have experienced large lifts to their portfolio performances due to the implementation of text messaging, especially compared to other alternative channels. Several of the members explained the effectiveness that they have experienced with their text messaging campaigns, and several examples are listed below.

- Bank of America mentioned that it has observed a large lift from texting. It has made alterations to its messages since its initial implementation, including the addition of a URL in its messages which has proven to be successful. The URL allows customers to immediately make payments from the text.
  - Alliance Data, Amex, Cardworks, Lending Club, Synchrony Financial, and Wells Fargo also include URLs in their Collections text messages.
- FNBO began its text messaging test three months ago and has already seen improvements. It judges the effectiveness of its campaign by monitoring the amount of inbound calls that it receives, typically 15 and 30 minutes after the text, to the unique number that is only distributed through its text campaign.

Text Frequency

The frequency of text messages typically ranges from once per week to once per month among companies within the industry. Many participants, through testing and experimentation, have discovered a threshold of text messaging frequency, of which surpassing that threshold would result in a dramatic increase in opt-out percentages. Roundtable participants believe that threshold is at 3 texts per week.

FRONT LINE ADMINSTRATION

Incentives

The regulatory scrutiny throughout the past few years surrounding incentives has caused several participants to remove them completely. SunTrust, USAA, and Wells Fargo, among others, have all removed incentives. Performance based salary adjustments tended to be made as an offset to the program being discontinued. The time-period for which their performance was based upon varies between issuers, some based the increase in salary on the previous year's performance, and others did 3-year lookbacks, increasing salary based on the best year out of those three.

Issuers who have not removed incentives have one major concern – turnover of their best collectors. Actual results were quite the opposite – attrition dramatically decreased, in some cases cut in half, at the companies that ended their incentive programs.

The participants who have removed incentives have also noted a decrease in administrative issues and an improvement in morale. The largest changes that were needed were on the management level, as managers had to motivate their collectors without incentives. Wells Fargo experienced success by developing a 9-course training model that taught managers how to lead their teams in a non-incentive environment.

Training

Roundtable participants discussed the training of new collectors, specifically the time new employees spend in the classroom compared to being on the phone with other collectors.

COMPANY NAME	TIME IN CLASSROOM (IN WEEKS)	TIME ON PHONE (IN WEEKS)
American Express	4	12
Citigroup	4	2
PayPal	3	2
SunTrust Bank	3	2
Wells Fargo	4	2

Work at Home

Issuers continue to experience success when allowing employees to remotely. Several issuers still require employees to work for the company for a specific amount of time and/or live close enough to a site for visits. The following list describes several hiring strategies that have been implemented by participating organizations.

- Alliance Data now has roughly 33% of its staff working remotely. It is now hiring into work-at-home and has noticed that the applicant pool dramatically increases when the job is posted as remote. The issuer still requires applicants to live near a site in order to qualify for the job.
- Amex is now hiring work-at-home collectors and has a nationwide pool of applicants. The issuer does not visit the employees for site audits and hosts its entire training program online for the new hires.

ISSUERS THAT PERMIT EMPLOYEES TO WORK AT HOME

- Alliance Data
- American Express
- Synchrony Financial
- USAA
- Wells Fargo