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Kinder, Gentler COVID-Era Debt Collection Protocols Proliferate

Payment flexibility focuses on positive outcomes versus enforcement

BY SHAUN W. O'NEILL

As hopes and aspirations trend upward among consumers as well as owners and originators of consumer receivables, collections policies instituted during COVID-19 to provide payment relief also continue.

Hard-line collections attitudes emphasizing enforcement have given way to a "kinder, gentler" approach that takes into account consumer circumstances while accounting for continuing cash flow requirements. Lenders, developers, and managers all are finding that leniency — within reason — is ultimately driving better portfolio performance than harsh steps to collect money.

From deferments and payment plans to conciliatory waiving of late fees and reduction in obligations, creditors are more accepting that economic hardships beyond a customer's control — including impacts of the pandemic and natural disasters — merit special consideration. Also on the docket are incentive plans to encourage payment within a certain timeframe, and willingness to extend payment deadlines where needed.

Loan servicers, therefore, have needed to evolve collection practices to align with creditors' willingness to achieve a win-win with customers. In addition, federal, state, and local regulations mandating more leniency have played a major role in debt collection policy and technology changes.

In some cases, loan servicers are taking the lead with their clients to help establish protocols that encourage these kinder and gentler steps and adhere to regulatory compliance — which can be complicated and tricky. The loan-servicing industry has had to pivot rapidly and correctly to address a whole host of regulations that differ from state to state.

Both the pandemic and a series of natural disasters during the last year have necessitated getting up to speed on a variety of collection practices to help customers hit, in some cases, by multiple maladies. Among the questions that need to be answered:

How will changes put into place during COVID evolve as we emerge from the pandemic? Pandemic-inspired collections practices are here to stay. Just as corporate America is increasingly discovering that dedicated customer service drives profits, creditors are seeing these customer-supportive policies ultimately enhance portfolio performance. Treating collections as a helpful, collaborative customer-service effort makes good business sense, as it turns out. Consumers are grateful for the benign collections procedures being adopted — and show it, in large part, by redoubling efforts to make good on their commitments when due.

Some need a reminder that the inability to use their timeshare properties near-term isn't forever, and that maintaining ownership is an investment that will pay off over the long term. In the interim, debt collectors are pointing out that consumers can leverage exchanges for many flexible timeshare uses — including rental cars, airfare, and hotel rooms.

At the same time, creditors need to meet their obligations — meaning dollars must come in — and find the sweet spot between bending rules to enable folks to get over the hump, while maintaining (or even improving) healthy portfolio performance.

How permanent will these changes prove to be, and how can timeshare companies best structure and manage collections processes going forward to maximize positive outcomes? Collaborative collections will become an enduring feature of the debt collection world. Undoubtedly, some debt collectors will revert to more draconian practices as regulatory restrictions are lifted, but these will be fewer and farther between. The new-normal model will focus on rewarding positive customer performance versus arbitrarily punishing late-payers.

Respect, empathy, and helping customers to prioritize paying these bills over others will help drive positive experiences.

How can services best set expectations and strategies for the developer/lender? Loan servicers with extensive experience and deep knowledge about collections can help guide developers and lenders on realistic expectations for debt recovery and the best strategies with customers to optimize outcomes. Factoring substantially into these expectations are near-term restrictions resulting both from the pandemic and, in some cases, natural disasters. A loan servicer able to pivot quickly to all the latest compliance requirements at all governmental levels — and apply the best technology to facilitate communications and payments — will help ensure that plans address legal, customer service, and portfolio performance issues. ■