

# Reducing Credit Card Delinquencies at U.S. Financial Institutions

A PSCU Case Study  
of HEW Federal Credit Union



## The Problem

HEW Federal Credit Union ([www.hewfcu.org](http://www.hewfcu.org)), headquartered in Alexandria, Virginia, serves more than 20,000 employees of the U.S. Department of Health and Human Services (HHS), the U.S. Department of Education (ED), and the family members of these federal workers.

Like many other U.S. financial institutions that extend consumer credit through various monetary instruments, HEW Federal Credit Union (HEW) has faced a difficult collections environment since the financial crisis began in the fall of 2008. Recognizing the protracted effects of the recent recession on HEW members' ability to make timely payments on credit cards it had issued and acknowledging the organization's limited internal success at effectively converting those unpaid receivables into cash, HEW sought a custom-fit, cost-effective solution to reduce its unacceptably high credit card delinquency rates.

## The Background

A widely held misconception about recessionary periods is that they are a boon to debt collection activities. The common belief is that when the U.S. economy heads south, consumers stop paying their bills and an abundance of money is simply waiting to be reclaimed by credit grantors and private debt collectors working on their behalf. The reality, however, is somewhat more complicated because the hypothesis assumes that consumers' *willingness* to pay and their *ability* to pay are one and the same.

The current economic climate is arguably the most severe since the Great Depression, and sustained high unemployment, which is perhaps the greatest obstacle to economic recovery, is also the most significant deterrent to American consumers' ability to meet their financial obligations. Although the official national unemployment rate held at 9.1 percent in August 2011, other assessments of the U.S. labor picture are less than encouraging. An article published

in *Mother Jones* over the Labor Day weekend this year cited a staggering figure based on the U.S. Bureau of Labor Statistics' alternative measures of employment data. It noted that the "true size of the unemployment crisis" is more than 25 million Americans out of work, working intermittently, or voluntarily removing themselves from the job market. The story also noted that more than 6 million workers haven't earned steady pay in more than half a year, and there are fewer than 0.22 available job vacancies for each unemployed job seeker in the country.

What does this mean to financial institutions looking to recover overdue receivables? A lot of Americans are out of work—and have been so for an extended period of time. And they aren't likely to find jobs anytime soon.

It should come as little surprise then that 41 percent of collection agencies surveyed by InsideARM.com reported finding it harder to collect in the second quarter of 2011 than during the same interval a year earlier. And if third-party debt collection agencies are experiencing increased difficulty in performing their primary business objective, card issuers like HEW and other financial institutions are reasonably assured to confront even greater recovery challenges precisely because debt collection is not a core competency for creditor organizations.

## The Solution

HEW engaged PSCU, the nation's largest credit union service organization (CUSO), to evaluate its delinquent credit card portfolio, assess the credit union's internal collection processes, and deploy CUCollect™ to reduce its 3-cycle-plus delinquencies.

The project tackled HEW's collection challenges from at least three distinct angles: those attributed to instability in the broader U.S. economy, technological inexperience or deficiencies, and limited availability or inadequate allocation of internal resources to accomplish stated objectives. During the audit phase of

the engagement, PSCU identified several key impediments to HEW's success:

- An overwhelming increase in the number of past-due credit card accounts
- Lower than average productivity due to manual dialing of accounts
- Lack of familiarity with current collection software and inexperience with existing dialer
- Insufficient staff to place weekly, let alone daily, collection calls
- Outdated customer contact information due to indirect lending and balance transfer campaigns
- No dedicated skiptracing solutions
- Inability to call requisite accounts in all U.S. time zones due to established hours of operation
- Too little internal account volume to create a stand-alone, scalable, and cost-effective payment system

## The Results

By leveraging the diverse functionality of CUCollect™ PSCU was able to reduce HEW's 3-cycle-plus credit card delinquencies by 45 percent or 350 basis points. In the process of achieving those results, PSCU provided HEW with:

- An outbound calling capability of up to three calls per day between 8am and 9pm
- The ability to accept free urgency payments via phone
- A 70 percent right party contact ratio
- The option to touch member cardholders as many as 20 times per month
- The flexibility to define targets from day 5 to 180 days of delinquency

- A staff of professional operators to take inbound calls from members
- Quality call monitoring systems and complete documentation of account updates

## In HEW's Words

"We partnered with CUCollect™ during a period of major transition in our collections area. The experience was the smoothest and quickest of any we have ever encountered in outsourcing a major function of our credit union to a third-party. Since that time we have experienced a significant decrease in our 3-cycle-plus credit card delinquency rates. High penetration ratios, extended hours of operation, and a high number of right party connects are a just a few of the many contributing factors that played a direct role in overcoming our collection challenges and reducing our delinquency rates to an acceptable level. Communication between the CUCollect™ staff and my organization is always positive and proactive. We work together to tackle any collection challenge. PSCU's Collection staff has been supportive, helping with training and questions whenever needed. I recommend PSCU as an effective partner in the ever critical area of credit card collections."

### Jeff Goff

Vice President for Administration  
HEW Federal Credit Union

## Conclusion

Many credit unions and other financial institutions across the country are faced with receivables management challenges not unlike those of HEW. If your company has identified similar barriers to success with its internal credit card (or other asset class) collection practices and is looking to improve its bottom line with an efficient, cost-effective, and customer-centric approach, perhaps it's time to ask whether a partner-based approach to protecting your revenue and supporting your members' loyalty to your organization.



## About HEW Federal Credit Union

HEW Federal Credit Union serves employees of the Department of Health and Human Services, the Department of Education, and their families. The credit union has over \$149 million in assets and more than 20,000 members. For more information, please visit [www.hewfcu.org](http://www.hewfcu.org).



## About PSCU

Based in St. Petersburg, Florida, PSCU is the nation's largest credit union service organization (CUSO) and serves more than 1,500 financial institutions nationwide. As a non-profit cooperative, the company is owned by more than 680 member credit unions representing 16 million credit, debit, prepaid, online bill payment and electronic banking accounts. Its Contact Centers handle more than 18 million inquiries a year.

PSCU offers 24/7 member support through four Contact Centers: its Eastern operations center in St. Petersburg, FL; a Western operations center based in Phoenix, AZ; and two call centers in Detroit, MI. These Contact Centers perform member servicing and new member acquisition, cross-selling and automated lending solutions as well as support for debit/credit/prepaid cardholders, online bill payment and electronic banking subscribers.

Established in 1977, PSCU offers its members a full range of processing options, any combination from full service to in-house pass through processing for credit, debit and ATM transactions. As a leader in the credit union movement, the company offers gateway access to national and regional networks. It also provides full function ATM terminal driving services. For more information, visit PSCU's website at [www.pscu.com](http://www.pscu.com).