

# Collection Process and Responsibilities

## General Policy Statement:

The tools of collection should be applied in a logical, progressive sequence: reminder notices, telephone call, letter, follow-up action, work-out plans, repossession, and litigation. The Credit Union will have procedures in place for the collection process that are compliant with Federal and state law. In addition to the policy guidelines, the Credit Union's procedures will include action permitted and taken, outlined in the respective contractual agreements with the member. A collector's responsibilities include being professional in collections.

## STAFF ASSIGNMENTS:

1. **VP of Operations:** The VP of Operations oversees and is responsible for all collection department activity and has direct responsibility for decision-making regarding all legal action, repossessed assets, and any account referrals. The VP of Operations also handles all bankruptcy processes and collection of real estate accounts.
2. **Special Services Officer:** The Special Services Officer is directly accountable to the VP of Operations and responsible for his/her section of delinquent accounts, filing credit disability claims and assisting in the recovery, documentation, marketing and liquidation of repossessed assets.
3. **Special Services Clerk:** The Special Services Clerk is directly accountable to the VP of Operations and responsible for his/her section of delinquent accounts and other collections activity as assigned by the VP of Operations.

Depending upon staffing, the Special Services Officer and the Special Services Clerk positions may be held by one person.

**COLLECTOR RESPONSIBILITIES:** Collection results affect the Credit Union profits and collection approaches can significantly impact member relations. A collector's responsibility is to collect from members who are not making timely payments.

1. **Objectives.** A collector has two main sets of objectives.
  - A. The first set involves the collection process which includes: exhausting all appropriate means of contacting every delinquent member, determining why the member has not paid on time, resolving the problem, gaining a commitment from the member to make payments by a specific date, taking careful and accurate notes which will document every commitment, date and promise made by each member and finally referring cases to the VP of Operations when there is a doubt as to the proper course of action.
  - B. The second set of objectives concerns public relations responsibilities. As a Credit Union representative, a collector must be firm but fair with delinquent members, provide them with assistance in handling their financial responsibilities, display

empathy but not necessarily sympathy with their financial difficulties, and finally, maintain strong member relations and a professional image.

**2. General Responsibilities.** Collectors are generally responsible for the collection efforts of many individual loans. They are responsible for documenting their collection work, sending letters, following their accounts according to review cycles established by the Credit Union, quoting the correct payoffs, recommending assignment of accounts for repossessions when appropriate, recommending liquidation of collateral, reviewing expenses, and making sure the collateral is delivered to its appropriate location. They are also responsible for updating non-financial data on the system.

**3. Specific Responsibilities.**

- A. Exhausting all possible means of contacting every assigned delinquent member.
- B. Completing each member contact with a definite understanding and payment commitment.
- C. Following up promptly and decisively on every member promise of payment.
- D. Noting all information that will be future use in handling the account, i.e., new address, phone numbers, place of employment, etc.

**4. Professionalism in Collections**

- A. Under no circumstances should a collector use foul, abusive, or questionable language, either on the telephone or in person. Collectors must never represent themselves as employees of any branch or agency of the federal, State, county, or city government.
- B. Collectors must never discuss the debt with anyone other than the debtor.
- C. The Credit Union expressly forbids the practice of harassing members with repeated telephone calls. Collectors will never call debtors on Sundays or federal holidays or during the week after 9:00 p.m. or before 8:00 a.m. It is the responsibility of each collector to be aware of the Federal Trade Commission Guidelines on Collection Practices and the Fair Debt Collection Practices Act and to comply with these laws in the collection of accounts.
- D. Under no circumstances should the collector discuss legal action that is not actually being pursued, indicate or insinuate that the Credit Union provides credit "repair" services, or discuss the effect of delinquency or repayment on the member's credit rating.

**TRAINING/EDUCATION.** Collection staff will receive regular training that is tailored to the relevant employee and the specific responsibilities of their role.

**DISCIPLINARY ACTION.** Collection staff violating the guidelines outlined in this policy and other applicable procedures will be handled in accordance with the Credit Union's personnel policy.

## COLLECTION GUIDELINES:

1. **Mortgage Servicing Requirements.** Altamaha Federal Credit Union will follow all requirements of the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau and the requirements, as they apply to the Credit Union.
2. **Telephone Calls.** The Credit Union's policy is to contact the borrower when it first becomes necessary. The timing of the call is determined by the collector's reasonable business judgment. As a general rule, loans with greater risk exposure, narrower margins, and/or troubled payment history warrant a quick response, and personal contact would be prudent as early as first day of delinquency. The circumstances surrounding other loans may justify delaying personal contact until the 20th to 35th day of delinquency. An effective collection call involves two basic steps:
  - A. State reason for the call and ask fact-finding questions;
  - B. Present proposal based on an analysis of the member's delinquency and obtain commitment from member.
3. **Reminder Notices & Letters.** Reminder notices or collection letters may be sent either manually or by computer in addition to telephone calls. These communications will describe potential impact to members credit bureau information, contain potential legal action that the Credit Union plans to take as a result of delinquency and are compliant with applicable Federal and state laws. Communications will refrain from utilizing language that implies an impact on the member's credit or credit reputation. Collections management will send the following letters when applicable:
  - A. **First Notice.** The Credit Union will send a letter to the member and co-signer when his/her loan is 8 days past due.
  - B. **Second Notice.** The Credit Union will send a second letter to the member and co-signer when his/her loan is 30 days past due.
  - C. **Final Notice.** The Credit Union will send a final notice by regular mail when unsecured loans and loans secured by consumer goods are 60 days past due. Follow-up action should be carried out within 10 days.
4. **ACCOUNT RESTRICTIONS.** Any Credit Union procedure to limit access to products and services will include an analysis of the impact specific to that member and will be compliant with applicable laws. The Credit Union's procedures will also provide for adequate member notification.
5. **FOLLOW UP ACTION.** Effective follow-up requires constant attention; collectors will closely monitor accounts to verify that payments are made as promised.
6. **WORK-OUT PLANS.** Occasionally it is in the best interest of the Credit Union to work out special arrangements with troubled borrowers, including extensions, modifications, and refinancing. Work-out plans require approval of the VP of Operations or the CEO. In certain instances, such plans may require Board approval.

**7. REPOSSESSION, FORECLOSURE OR ABANDONMENT.** Collectors will give members reasonable opportunities to cure deficiencies before recommending repossession. The collector has two choices when collection efforts fail: taking and selling collateral or abandoning the collateral and suing the debtor for a monetary judgment. Sometimes the collector can do both. For example, in the case of a loan secured by an automobile, the collector can repossess the automobile, sell it at a private or public sale, and then sue for the deficiency.

A. **Repossession.** Voluntary surrenders may be handled by the collection staff with management's approval. Involuntary repossessions require approval by the VP of Operations or CEO and must be executed by reputable agencies who are willing and able to proceed in a professional and cost-effective manner. All agencies must be bonded, licensed, and insured in the event of damage or liability resulting from agency action. Repossession procedures shall adhere to accepted financial institution practices, including appropriate notice, inspection, and resale.

i. **Items to Consider Before Repossessing Collateral.** Prior to repossessing collateral, the Credit Union will ensure the following:

1. The Credit Union possesses a valid, enforceable security interest. (For covered borrowers under the Military Lending Act, the Credit Union will only take a security interest in funds deposited after the credit transaction and in an account established in connection with that credit transaction.)
2. The account is in default (i.e., that the Credit Union has not previously accepted late payments without any action or has made a deal with the debtor).
3. The debtor has not filed for bankruptcy. In cases where the debtor threatens to file or has filed, either before or after repossession, the Credit Union will consult with its attorney.
4. The debtor did not sign the loan agreement prior to active-duty military service. In these cases, the Credit Union will consult with its attorney.

ii. **Use of Repossessed Property.** Credit Union employees may not in any way use the repossessed property for their own personal use, or for Credit Union business. To do so will generally result in forfeiture of the deficiency and can lead to additional damages.

iii. **Notice.** The Credit Union will ensure that its repossession and sale notices are accurate and consistent (i.e., the sale method (public or private) will be carried out as originally disclosed). If there is a change in the way a sale is handled, a new notice will be sent to the debtor.

iv. **Sale of Repossessed Property to Insiders.** The Credit Union will ensure that all sales to insiders will be set at the most current price listed on the repossessed collateral and will require approval of the VP of Operations and CEO.

B. **Foreclosure.** Foreclosures on security interests in real estate will commence only after the member receives proper notice and the Credit Union has first evaluated the feasibility of a loan modification. All foreclosures will be handled by Credit Union legal counsel in accordance with applicable laws and regulations. With respect to the foreclosure process, the Credit Union will ensure the following:

i. The Credit Union has properly documented and recorded the mortgage;

ii. The facts supporting a foreclosure action exists;

iii. The Credit Union exercises appropriate due diligence over its law firm(s) that handle its foreclosures; and

iv. Regular reports are made to the Board regarding the number and volume of foreclosure actions, and the financial impact on the Credit Union.

C. **Abandonment.** The decision to abandon collateral must be approved by the VP of operations or the CEO. Situations that may justify abandonment include:

i. Unable to locate collateral.

ii. Collateral has little or no value.

iii. Cost of taking, storing and selling is equal to or greater than potential sales price.

iv. A lien has been placed on the collateral that equals or exceeds the collateral value and the collateral has no insurance.

8. **BANKRUPTCY.** When the Credit Union receives notice of bankruptcy, the Credit Union will do the following:

A. Bring an immediate halt to any and all collection procedures already underway.

B. Stop any foreclosure or legal action.

C. Complete all necessary forms and forward these forms along with the bankruptcy notice to the appropriate court or to any assigned credit Union attorney for possible claim.

9. **LEGAL ACTION.** In general, legal action against a member will only occur after all other avenues of collection have been explored and the potential for counterclaims has been examined. No suit shall be initiated without first advising the member of the Credit Union's intention to do so, by regular mail. The Credit Union will not utilize this

communication to deceive the member with false action. The Credit Union will only use this communication when pursuing actual legal action against the member. All legal actions will be authorized by the VP of Operations or the CEO. When legal action is taken, the Credit Union will do the following:

- A. After receiving a judgment, the Collection Department will be responsible for changing data on the interest rates when and where applicable.
- B. If payment on the judgment does not occur within 30 days, the VP of Operations or CEO will determine the best next steps, including but not limited to, garnishments, attachments of assets, or a discovery hearing.
- C. A judgment will not be deemed satisfied until such time that the outstanding balance, all of the interest due to date, and the cost of all legal fees (if allowed by the court) have been paid by the Member/Defendant, unless otherwise decided by the VP of Operations or CEO.
- D. All information regarding legal action and the reasons for its use will be duly noted in the collection notes.