

5 YEARS IN THE *LIFE* OF A DEBT PORTFOLIO



**IMPROVED
PORTFOLIO
MANAGEMENT**



**ENHANCED ROI
PROJECTIONS**



R·D·S
RECOVERY DECISION SCIENCE

INTRODUCTION

One of the biggest challenges in the debt management and collection industry is effective assessment of projected returns on a debt portfolio. What are the variables that go into the decision to litigate? How do you determine the true value of a portfolio with regard to the return you are likely to realize if you move forward with litigation? And, anyone who has been in this industry for an extended time knows that a fair amount of questionable (outdated or inaccurate) data is often used to guide multi-million dollar decisions.

Paymetrix AD and AI are now featured within the portfolio of financial analysis products offered by LexisNexis Risk Solutions.

To learn more visit:

lexisnexis.com/risk/receivables-management

Several years ago, Unifund created

Recovery Decision Science, with a simple goal: provide debt portfolio managers with a data-driven model to guide the portfolio management process and maximize the return on their treatment decisions. RDS developed two proprietary analytics models that have begun to pay dividends for our clients:

1. Paymetrix AD: identifies and prioritizes legal collection decisions
2. Paymetrix AI: gives portfolio managers the power to identify previously undiscovered consumer assets.

This white paper was created to illustrate how the Paymetrix suite of analytic products can be used at every stage of managing a debt portfolio. The examples you will see in the following pages are composites of actual portfolio cases from the RDS files. Again, our purpose is to help you better manage your portfolios, with a focus on enhanced evaluation and ROI projections.



SECTION I PORTFOLIO EVALUATION

PURPOSE OF EVALUATION

Evaluating the portfolio allows us to estimate its future value based on its characteristics. Specifically, it gives us the basis we need to measure success, whether looking at return on investment (ROI), internal rate of return (IRR), or another indicator. For purposes of this series, we will use ROI to measure the return on our portfolio. To do this we will need to answer some basic questions, such as:

How many accounts do we estimate will pay?

How many accounts qualify for litigation?

How many accounts should be placed for non-litigation collection?

These questions help us to determine the ROI that we should expect on the portfolio.

Ability to Pay	High Ability Low Willingness	High Ability High Willingness
	Low Ability Low Willingness	Low Ability High Willingness
Willingness to Pay		

ACCOUNT TYPES

Each account can be categorized based on its consumer's willingness and ability to pay, as follows: Ideally, the consumer will begin to pay voluntarily once you make the next collection attempt, which saves you both the time and additional costs of pursuing further collection efforts. But most often when dealing with accounts for which previous agencies have made multiple collection efforts, consumers do not pay voluntarily and they stop responding to collection attempts. The more prior collection efforts that have been made, the lower the likelihood of a consumer paying voluntarily.

Eventually, an account reaches a point where collection attempts have been exhausted and the last remaining avenue is litigation.

SUIT-DECISION PROCESS

One difference between older, outdated approaches and newer, innovative approaches is how we choose which account to litigate. In the past, it was difficult for collectors to know which consumers had high versus low ability to pay, primarily due to insufficient technology and data. This situation left collectors guessing blindly as they targeted a percentage of the portfolio for litigation without knowing if those accounts selected were the best candidates for suit. This is commonly referred to as a “suit-rate” and is not an optimal solution. Every account that is litigated costs time and money. Court costs and attorney’s fees are costly and require an up-front investment with no guarantee of recovery. Spending valuable resources litigating the wrong account results in not only a loss of the related costs but also a missed opportunity to litigate another, more suitable account. It is crucial to choose the right accounts for litigation and to assign the rest to receive other, appropriate treatments

THE PAYMETRIX AD SOLUTION

Recovery Decision Science developed Paymetrix AD (Account Decisioning) by analyzing, testing, and transforming years of collection data into a decision-to-suit model. Our model uses 76 account variables to assign a Profitability Index to every account, which is the present value of cash inflow divided by the present value of cash outflow

$$\frac{\text{Probability Adjusted NPV}}{\text{Court Cost} + \text{Information Cost}} = \frac{\$1,900}{\$276 + \$175} = 4.2 \text{ Profitability}$$

Experienced analysts work with this information to separate the accounts into appropriate treatment tracks, primarily:

- Non-Litigation
- Litigation
- Other

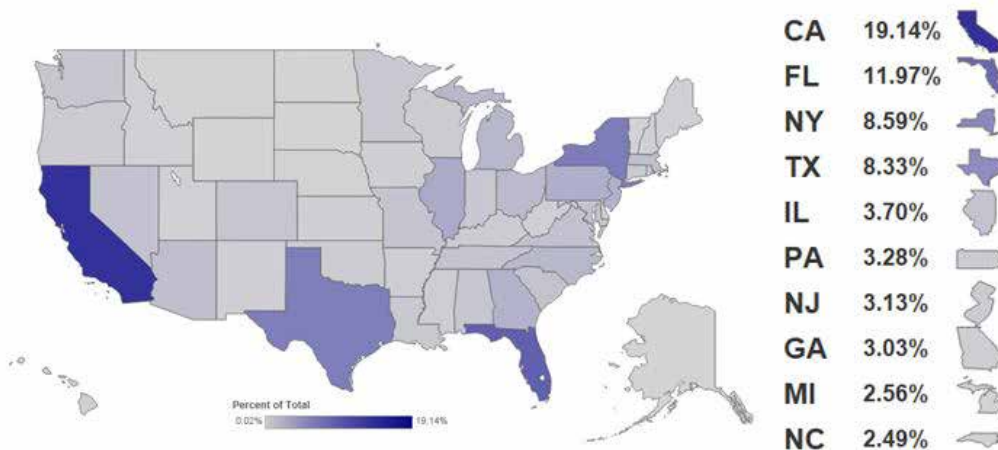
Non-Litigation treatments are designed to handle accounts with a low Profitability Index. While these accounts might still be within the statute of limitations and otherwise appear on the surface to qualify for Litigation, Paymetrix AD tells us that Litigation is not predicted to be cost-effective. Knowing this information prior to Litigation saves you from wasting court costs and time that you could more profitably invest elsewhere. Instead, you can use those resources to pursue legal collections for those eligible accounts that have a high Profitability Index. Lastly, the Other treatments are designed to handle accounts that are ineligible for Litigation/Non-Litigation treatments. We will discuss different

treatments more in our next blog post. When evaluating a portfolio, we will make projections of ROI for each treatment track. However, for the purpose of this blog series we will focus on managing the Litigation track.

PORTFOLIO SUMMARY

Now that we have given a quick summary of the purpose of an evaluation, account types, account treatments and suit-decisioning using Paymetrix AD, we turn to the summary of the portfolio. Once our client has uploaded the file to our Secure FTP site, our team performs and summarizes the evaluation. In this example, we are using a portfolio with the following characteristics:

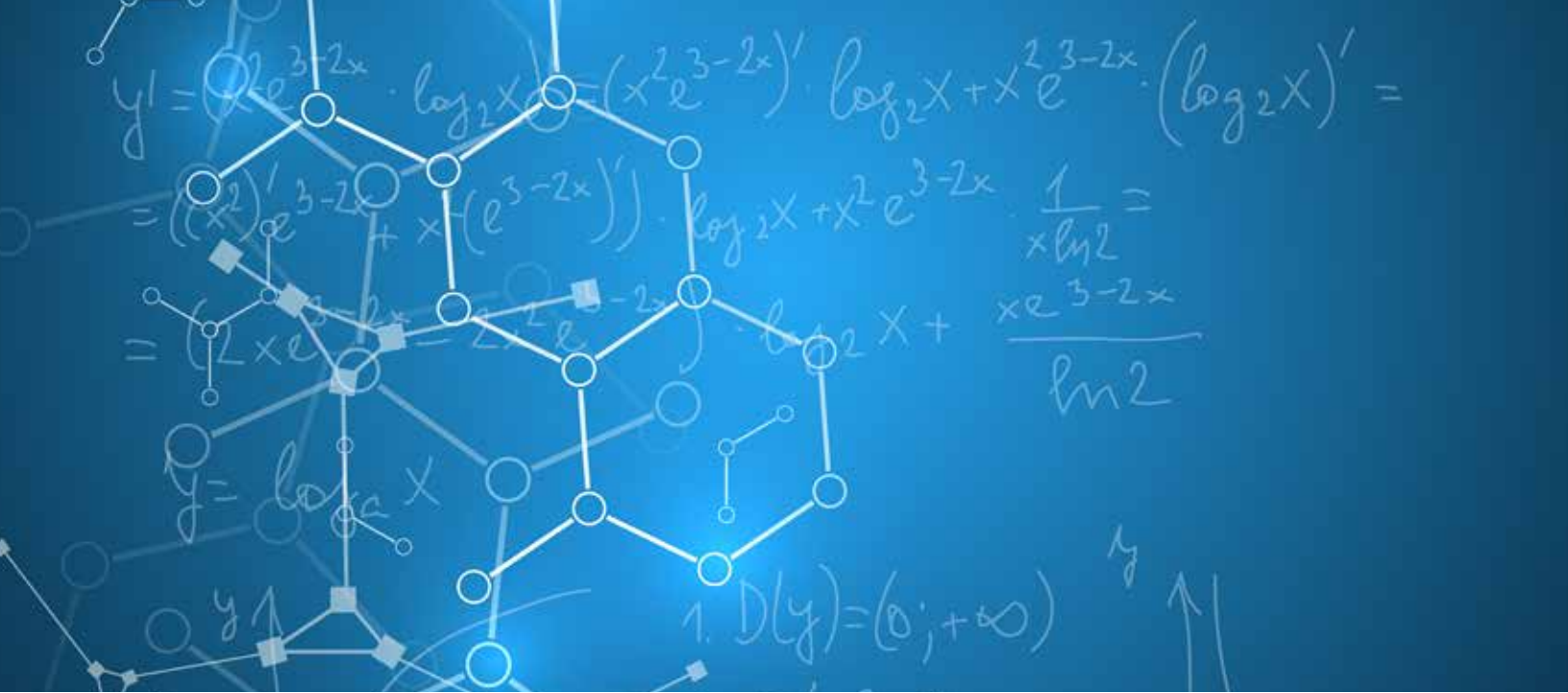
- Total Face Value: \$100 M
- Total # of Accounts: 14,200
- Average Balance per Account: \$7,042
- State Breakdown
- Top 10 States



Next, our experienced analysts apply Paymetrix AD to the portfolio data and determine the following projections with each treatment track for our sample portfolio:

- Non-Litigation: 65% of accounts predicted to return \$3M
- Litigation: 30% of accounts predicted to return \$8.3M
- Other: 5% of accounts predicted to return \$100K

Projections from any forecasting model are not 100% accurate. We have found, however, that Paymetrix AD projections have proven very accurate over time and provide a successful placement guide to optimize recovery.



SECTION II

ACCOUNT LEVEL TREATMENTS

TREATMENTS

In Section I on Portfolio Evaluation, we reviewed the importance of identifying the appropriate treatment for accounts that have not paid voluntarily. The first step in RDS's proprietary rainfall model, Paymetrix AD, analyzes each account to determine its eligibility for Litigation or Non-Litigation treatments. Ineligible accounts (deceased or bankrupt consumers for example), will receive other treatments.

A Profitability Index, as referenced in that section, is then assigned to all eligible accounts to determine the most appropriate and cost-effective treatment. Litigation is assigned to accounts with a high expectation of recovering the up-front costs. Those accounts with a low Profitability Index receive Non-Litigation treatments.

The projected returns on our mock portfolio reflect Paymetrix AD's ROI according to the variable information within the portfolio provided by the client. However, what if a variable changes over time? What if the information initially provided was inaccurate? We must control for inevitable changes in the data to maintain the accuracy of our projections and make any necessary adjustments to Account Level Treatments.

THE PAYMETRIX AI SOLUTION

Paymetrix AI optimizes asset searching costs by leveraging our lengthy experience with data vendors. This experience has shown, time and again, that you get what you pay for. If a vendor is advertising asset hits for \$1, there is a good chance that the data is either inaccurate or out of date. Paying for invalid data is wasting more than just \$1; it's wasting the time, effort and additional costs that were spent pursuing an invalid asset.

Just like the "suit-rate" strategies that some collectors use to make a best guess at which accounts should be litigated, shopping for asset hits by cost alone is a misguided strategy. Combining Paymetrix AD and Paymetrix AI, we maximize recovery and minimize waste throughout the account's life.

RENEWED PORTFOLIO PROJECTIONS

After applying the Paymetrix AI solution, Paymetrix AD determines the following:

- Non-Litigation 66% total estimated collections = \$3.1 M
- Litigation 28% total estimated collections = \$8M
- Other 6% total estimated collections = \$115K



SECTION III

ACCOUNT PLACEMENTS AND TRACKING

PLACEMENTS

As discussed in Section II, RDS used our account decisioning tool, Paymetrix AD, to segment the portfolio into different treatment channels. Paymetrix AI was then applied to the portfolio to search for assets and the following treatments and projections were reached:

OTHER TREATMENTS

6% of the portfolio, 100K estimated collections

6% of the portfolio has been projected to receive other treatments. These accounts (bankruptcy or deceased, for example) must receive special handling according to federal law and regulations that are governed by the jurisdiction in which the consumer resides. The client makes the decision to process these accounts using their own methods.

NON-LITIGATION TREATMENTS

66% of the portfolio, 3M estimated collections

66% of the portfolio has been projected to receive Non-Litigation treatments. Our rainfall model shows that treating these accounts with Litigation would not be cost-effective. The client will utilize an

in-house call center and third-party collection agencies to work the accounts.

LITIGATION TREATMENTS

28% of the portfolio, 8M estimated collections

The remaining 28% of the portfolio has been projected for Litigation, which is projected to be cost-effective for these accounts, despite the additional costs necessary for filing suit. Our focus now turns to tracking these accounts throughout the life of the Litigation process.

ATTORNEY NETWORK AND LIAISON TEAM

Litigation accounts are placed with our nation-wide Attorney Network. An internal Liaison Team with more than a decade of experience communicates with the network attorneys to help address their needs and ensure each account progresses through the various phases of Litigation. The attorneys and liaisons work together to retrieve account documents, answer account level questions, address account changes, prepare documents, establish payment plans, locate consumers, domesticate judgments, and much more. The team also ensures that the attorneys are moving forward with asset execution and facilitates feedback if an asset cannot be executed upon.



SECTION IV

LITIGATION PATH AND JUDGMENT MAINTENANCE

LITIGATION MONITORING

Litigation accounts are continuously monitored to ensure they are advancing through the Litigation processes as expected using a tool called Legal Inventory Management (LIM). LIM provides a snapshot of the accounts by phase as they pass from filing of the initial lawsuit to post judgment. LIM leverages a 25+ year history of account level data to determine the length of time, by jurisdiction, an account should typically spend in each phase of Litigation.

The Liaison Team uses this information to identify pockets of inventory that are delayed and either keep those accounts moving forward or cure whatever deficiencies have caused the accounts to stall. Those deficiencies may reflect changes or delays at the jurisdictional level (for example, a court system that is experiencing delays in entering judgments), or a performance issue with an individual law firm.

JUDGMENT MAINTENANCE

Monitoring is just as crucial for accounts once they reach judgment and post-judgment collection efforts begin. In this phase, our Liaison Team works closely with the Attorney Network to track each judgment. For example, if state laws allow a judgment to be collected through wage garnishment, the Liaison Team may need to track the process through issuance of the garnishment, service of the garnishment upon the employer and consumer, and regular receipt of garnishment payments. Delays may arise through difficulties in effecting service, or regulatory limits on the garnishment itself (for example, the consumer may have another garnishment that must be satisfied first). This attention to detail in each phase of collection activity protects the investment of the higher up-front costs needed to pursue the Litigation treatment.



SECTION V FINAL RESULTS

Let's summarize what was covered in the first four sections:

SECTION I: PORTFOLIO EVALUATION

To recap, a client approached Recovery Decision Science (RDS) requesting both our analytical and managing services. The first service, Paymetrix Account Decisioning (AD), evaluated the portfolio and proposed the following three Account Level Treatments and corresponding return on investment (ROI):

- Non-Litigation: 65% of accounts predicted to return \$3M
- Litigation: 30% of accounts predicted to return \$8.3M
- Other: 5% of accounts predicted to return \$100K

SECTION II: ACCOUNT LEVEL TREATMENTS

The client elected to work accounts in the Non-Litigation and Other treatment buckets in-house. RDS then focused efforts on the accounts targeted for Litigation using Paymetrix Asset Identification (AI). Once asset searching was complete, Paymetrix AD revised its projections:

- Non-Litigation: 66% of accounts predicted to return \$3.1M
- Litigation: 28% of accounts predicted to return \$8.0M
- Other: 6% of accounts predicted to return \$115K

SECTION III: ACCOUNT PLACEMENT

Next, Litigation accounts were placed with our nation-wide Attorney Network and our internal Liaison Team worked with the network to address attorney requests and ensure timely progression of the accounts through the various phases of Litigation.

SECTION IV: LITIGATION AND JUDGMENT MAINTENANCE

The Liaison Team tracked the accounts from pre-judgment through post judgment asset execution. Our proprietary Legal Inventory Management (LIM) system allows the Liaison Team to identify accounts that have fallen outside of expected timing buckets so that they can take proactive measures with the Attorney Network to keep accounts moving forward.

FINAL RESULTS – 5 YEARS LATER

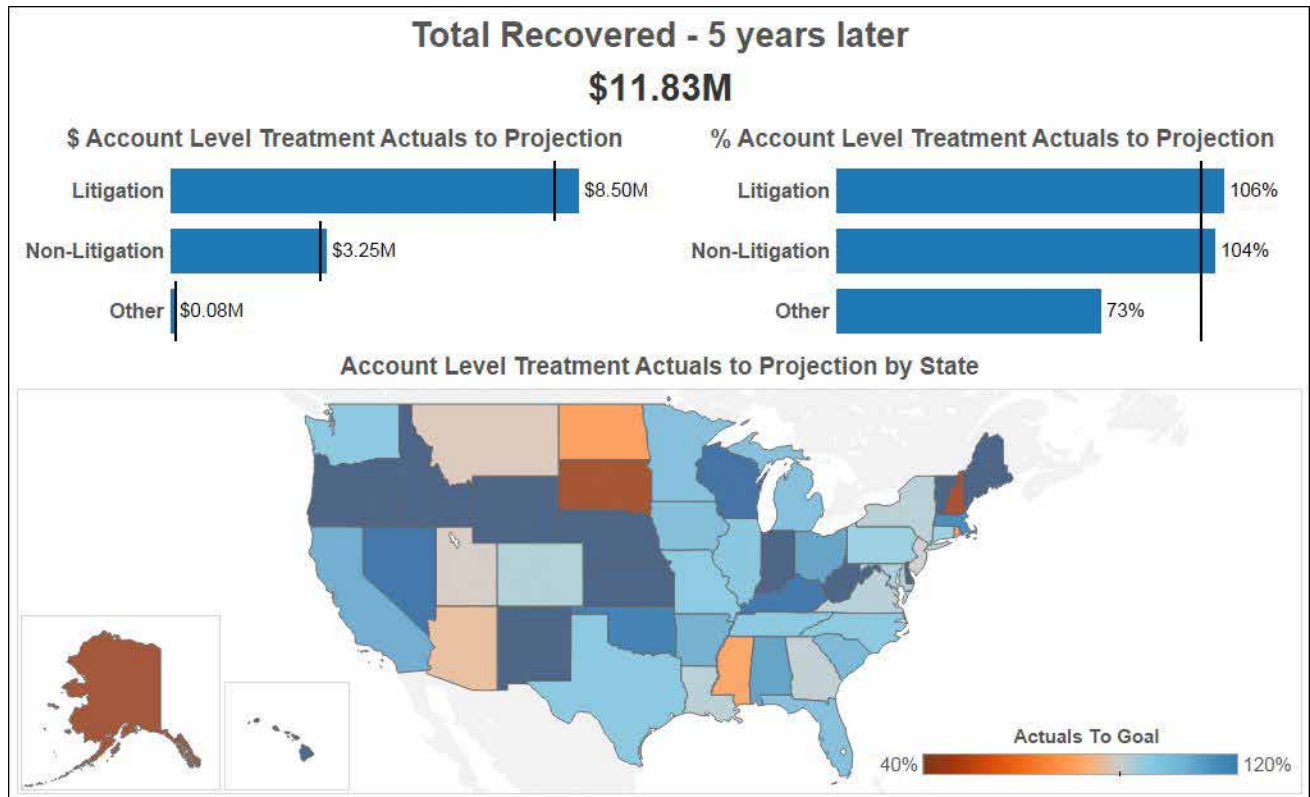
Let's fast-forward five years and review the performance of this portfolio:

- Non-Litigation returned \$3.25M
- Litigation returned \$8.5M
- Other returned \$80K

Back in the Section I we explained the purpose of evaluating a portfolio to determine its future value and the ROI we should expect using various account treatments. The results above show that the RDS projections were within range and actually above goal for the Litigation and Non-Litigation treatments. How do we provide this level of accuracy? Simply put, RDS has decades of collection and litigation data to draw upon. This data, paired with our experienced analytics team, gives you a level of insight unsurpassed in the industry.

The processes we've outlined in this paper are not just a one and done activity. Portfolios are tracked and held accountable for their performance down to the single account level. We do not leave stones unturned. If an account isn't performing or a source of assets is not providing the desired results, we work to find a new asset or a better source of asset information. We have a culture of continuous improvement.

The visualization below summarizes Paymetrix AD projections versus the actual results for each Account Level Treatment.



\$ ACCOUNT LEVEL TREATMENT ACTUALS TO PROJECTION

This graph shows projections versus actuals for each Account Level Treatment. The black line represents the Paymetrix AD projection and the colored bar represents the actual ROI.

% ACCOUNT LEVEL TREATMENT ACTUALS TO PROJECTION

This graph shows the projections to actuals as a percentage.

ACCOUNT LEVEL TREATMENT ACTUALS TO PROJECTION BY STATE

This map shows actuals to projections by state. See the scale in the map window. The darker blue states had the most accurate projections, while the orange states were the least accurate.



TO LEARN MORE ABOUT RECOVERY DECISION SCIENCE:

Call Brandy Reardon at **513.615.9990**
or visit **RecoveryDecisionScience.com**