Les Mitchell

Sub-prime Recall

We see it, we hear it and we read it. Why does everyone keep dancing around it? People everywhere are over extended on their credit! All just to have everything they cannot afford. After all, what did we expect to see? It used to be credit had to be earned and respected. This rule does not appear to apply in any simple form. It used to mean something when you bought your first house, or the neighbour came home with a new car. Now we have houses with 100 percent financing along with the good credit, bad credit, and no credit loans. Really, can we blame the consumer? We are the ones teaching them that if you mess up, just drop down a level or two, pay a little more and you still receive what you really cannot afford.

Right now we see layoffs, downsizing and property values appear to be all over the board. Stocks, bonds, mutual funds and currency 'stability' do not appear to be words used in most marketplaces. We can see how many manufacturers are reacting to this less than fruitful market. It appears few places are exempt from the effects of over extending credit. It is clear many may overreact and some may fail to react at all. It may be time to simply review, rethink and raise the bar to ensure less exposure. Understand that it may be true that your first loss is in fact your best loss. Lowering sales quotas and raising the acceptance for approved loans would certainly help reduce the risk of exposure to defaulted loans.

It may be time to review your account-aging policies and retract to a more acceptable range, prior to your asset losing more value than you are willing to risk. Poor underwriting decisions could result in less than profitable outcomes. It can take time for problems to surface, but we need to review our current policies related to our approval process and accounts receivable management. Sub-prime financing can still be a lucrative market if managed in a controlled environment. Ensure you have procedures in place to recover defaults sooner than later to minimize loss. Extensions on defaulted payments often only ensure the problem expands as the asset tends to depreciate more quickly than the payments are received.

Now is the time to ensure protective measures are in place, starting with your credit approval process. Ensure that proof of income has been validated at the time of the loan. Ask for proof of residence, check references and verify the customer's information is accurate. When loans are approved without a completed procedure to confirm the validly of the information provided, this can increase the exposure to potential fraudulent loans. Keeping in touch with your clients is just as important to having a proactive approach as opposed to a reactive loss. Allowing customers to extend beyond a reasonable defaulted amount owed will most certainly result in a larger loss plus increase costs related to securing your asset.

"Why does everyone keep dancing around it?"

Along with policies and procedures comes technology. If you truly want to take a proactive approach to reduce defaulted loans and secure your asset with less risk, try looking toward improved software to manage your accounts receivable. This will provide the tools needed to keep in touch with your clients and may allow you to increase potential sales leads. Default payment notification systems installed into vehicles also ensure you have regular contact with your clients, thus keeping you informed of any potential defaults. The use of GPS recovery equipment will provide you with faster recovery and generally reduces related costs. You can also alert clients to contact your office now with GPS Systems and utilize GEO fence units to protect you from assets leaving the country.

Les Mitchell is vice president of Wolfco.Bailiffs, which specializes in a wide range of solutions that assist with locating and recovering assets or funds. Mitchell has been in the repossession and collection industry since 1991 and possesses a wide scope of experience in this field.

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