The Value of Educating Credit Customers
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Helping consumers become more financially literate about credit and debt issues can be difficult, especially when delinquency and collections come into play. Ideally, consumer finance education can be a powerful tool for increasing receivables, reducing compliance risk, and producing stronger customer relationships, but reaching those goals is not without challenges.

For example, the accounts receivable management (ARM) process, especially when payments are past due, often involves emotional upset for consumers that interferes with cognition — not a good thing for what is often a complex discussion about finances and repayment terms. A major federal survey points to additional obstacles — showing that more than half of consumers contacted in collections were reached about debt that was not theirs but instead was owed by a family member, or it was for the wrong amount. All the while, federal regulations set a high bar for ARM professionals in communicating clearly and fairly about the intricate web of consumer debt options, rights, and responsibilities.

Fortunately, an education-inclusive approach to ARM strategy, resources, and support can improve customer engagement and lead to more favorable contact outcomes. A commitment to consumer education is especially valuable in long-term situations — including debt related to education, mortgage, auto, and healthcare — that may involve shifting consumer attitudes and circumstances over time.

This eBook examines the value of educating customers about their credit responsibilities and repayment of debt. It draws lessons from various forms of financial education and instructional best practices to help ARM practitioners optimize asset recovery through improved customer literacy around repayment terms and obligations. Throughout, we advocate a consultative and problem-solving approach that can enhance the customer relationship and lead to ultimate contact success.
A Crowded Information Landscape

Credit customers today live in a world replete with financial information and guidance, but lenders and collections agents need guidance of their own for how best to communicate all this information with consumers. Research into student loans, for example, has produced insights and best practices around loan counseling, repayment rates and patterns, and mitigating default. For any kind of loan, a key challenge is helping consumers make sense of all the information available to them.

Sometimes, in fact, “too much information” becomes a problem in and of itself. As an example, the CFPB found that over-disclosure in mortgage loans can “drown you in detail” and be nearly as bad as not sharing enough information.

So what’s the best way to help customers navigate a vast information landscape for the right data and guidance at the right time?

Customization Needed

ARM professionals increasingly realize they must design their education and counseling efforts with the understanding that not all debts — and not all debtors — are the same. While regulations require collections agents to inform customers of the amount and nature of a debt, that’s simply a starting point. A more customized engagement strategy built around adaptability can present customers with data and options formatted to meet specific needs and circumstances.

For instance, federal student loan programs require entrance and exit counseling sessions that cover a wide variety of loans — including undergraduate and graduate, subsidized and unsubsidized. In many cases, the counseling sessions are standardized. However a recorded examination of how various students complete these sessions revealed a “click dynamic” in which students lost interest upon reaching information that didn’t seem relevant to their specific situation. (Take a look at the long list of required topics and you can understand how this occurs.)

Such findings support the push for more customized education. Sticking with the example of education loans, for instance, research shows a wide variation in debt-to-income ratio depending on academic major; students who borrow the same amount to finish college may nonetheless have different income prospects based on their majors. That means a counseling strategy might benefit from adjusting placement and emphasis of the debt-to-income ratio discussion depending on whether the student is, say, a pre-med major or a philosophy major.

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Different Strategies for Different Circumstances

Zoom out to the broader debt landscape and it’s possible to see even more need for variation in consumer education strategy. A college degree may be an investment whose value accrues over time, since it sets the student borrower on a lifelong course toward better jobs and better income, but not all debts involve assets that appreciate in this manner.

An auto loan, for example, involves a product that loses value over time (sometimes rapidly). That means the customer engagement strategy may place special emphasis on clarifying the consequences of skipping payments and — in the case of repossession — how the consumer may remain responsible for any difference between the loan balance and the trade-in value of the vehicle.

Furthermore, while car ownership comes with practical benefits — like reliable transportation that helps a person get to work on time — there’s also a “wow” factor that may help explain research that shows people spend far less time shopping and negotiating for financing than for the vehicle itself. A smart ARM operation might consider this context in developing a proactive strategy emphasizing enhanced guidance for finding the best financing terms and options to begin with. Of course, this increased focus on proactive counseling shouldn’t come at the expense of education efforts that might follow later on — especially if customers start falling behind on payments.

Healthcare is another area of growing concern that requires customization when educating patients about their options, rights, and responsibilities. In fact, some 43 million Americans have overdue medical debt on their credit reports. Part of the problem is the tremendous complexity around the procedures and players involved in treatment. Especially with cancer and other major or chronic conditions, many different specialties can be involved — from diagnostics and blood work to radiation, surgery, and recuperative care.

Since patients are receiving multiple bills from various sources (see above) — at the same time their energies are already taxed by their efforts to get well — the collections strategy here can be customized around simplifying the debt and increasing the role of education and counseling. Industry research, in fact, shows patients make better health decisions when they receive face-to-face counseling and messages tailored to their personal needs and background.
Credit Education is a Long-Term Commitment

Given the myriad forms of debt and what might be years of consumer touch points, businesses can benefit from an ongoing and long-term approach to educating consumers. Under this model, popular on-the-spot tutorials and other “just in time” education tools are situated within a larger engagement framework that takes into account how people’s attitudes and circumstances change over time. Indeed, experts maintain that a long-term commitment to financial literacy augments consumers’ understanding of any particular “just in time” notification.

Think back to the research showing people tend to view auto loan financing as an afterthought. The long-term approach includes the proactive credit counseling mentioned above, so people recognize the value of shopping around for the best borrowing terms at the outset. The more that creditors support an environment of proactive and ongoing education, the more consumers learn what to look for and understand better the payment obligations that come with the debt.

Ultimately, however, any education effort must hold up in situations where those obligations aren’t met, and the customer faces delinquency or default. “Unfortunately, agents are all too familiar with the ‘how did I get here?’ phenomenon of consumer awareness only increasing when delinquency happens,” says one industry veteran. “And quite honestly, even some collections teams might not notice a problem until a customer has fallen behind. More awareness all around is what everybody needs.”

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Creating Your Credit Education Strategy

How should the ARM operation go about supporting this awareness and navigating the overall lifecycle of credit and collections? Here are four things to consider:

1. **Understand customer behaviors and historical patterns**
   Before planning your strategy, learn the characteristics of default and common problem areas. For instance, industry research shows borrowers routinely overestimate their credit health, and an FTC report ties confusion about credit terms and conditions to poor decision-making, higher fees, and more financial troubles. Also, consider the chronological patterns involved in borrowing: When are forbearances scheduled to end? When do deferments expire? What about grace periods? Monitor these milestones and calibrate engagement accordingly.

2. **Train agents for collaboration and problem-solving**
   Multiple touch points and circumstances call for skilled agents who can adjust to conditions. Train call center agents and the people who oversee chat, text, and other written communication to practice active listening and look for teachable moments. Agents should be able to adjust the sense of urgency to the situation: Sometimes the first job may be to “put out the fire,” with a subsequent pivot to money management skills for avoiding future problems. Agents should know how to meet consumers where they are — and that takes training.
3 Balance customized care with scalability

For all the benefits of customizing consumer education, collections is still about volume and contact success rates. CRM systems help you reach the right person at the right time, providing personal attention through one-on-one conversations. However, the key to handling a heavier workload, even with highly-tailored conversations, is in organizing your processes. Taking the time to optimize your operations with customer segmentation tools will yield a more efficient call strategy for your agents. Leveraging detailed analytics to identify particular customer segments allows your teams to provide personal attention through more relevant communications.

4 Don’t forget the user experience

We mentioned online modules for credit counseling and “just-in-time” education. And modern ARM operations now include chat, text, email, and other omnichannel options for engagement. As with any digital interface, user experience considerations are critical to understanding. Follow eLearning best practices, including manipulating white space, paragraph breaks, and page design for maximum focus and minimum distraction. Figuring out what colors to use or how many words to put on a page may seem like trivial concerns, but they make a big difference for users who are trying to move through the experience and process tasks effectively.
Conclusion

Education in debt recovery involves long-term engagement and a delicate balance of customer service, regulatory compliance, and efficacy in generating cash flow. A consultative approach to collections delivers results through collaboration and customized problem-solving. Especially for complex or long-term forms of debt, teaching customers about responsible credit and partnering with them to rehabilitate through crisis situations can improve customer relationships, safeguard the brand, and clear the way for more contact success.
About Waypoint

Waypoint Resource Group is a 100% US-based company and a member of the Trellis family of companies. Waypoint provides multi-channel accounts receivable management solutions to businesses in a variety of industries including automotive, utilities, healthcare and telecom/cable/satellite. Trellis Company (formerly TG) has nearly four decades of successful experience in accounts receivable management as a federal loan guarantor. Waypoint draws from this experience and heritage to deliver results that improve revenue flow and recovery as well as safeguard consumer relationships.

Contact Waypoint at (888) 648-6606 or www.waypoint.com for more information.

End Notes
1. https://www.debt.org/advice/emotional-effects/
9. https://studentloans.gov/myDirectLoan/counselingInstructions.action
10. http://www.ecfr.gov/cgi-bin/text-idx?SID=54cddfde2ef161e8d55d6b32ef9b878&amp;mc=true&amp;node=se34.4.685_1304&amp;rgn=div8