

Capital Club Radio Interview with Bill Sturm 01-22-20

Show Opening: Broadcasting live from the Pro Business Channel studios in Atlanta, Georgia it's time for Capital Club Radio brought to you by Flock Specialty Finance. Please welcome your host, Chairman and CEO, Michael Flock.

00:28 Michael: Good afternoon from Atlanta. Today, we are excited to have an experienced and colorful leader in the world of collection law. None other than Bill Sturm. One of the founders, he has been with Rausch, Sturm, Israel, Enerson & Hornik for over 25 years. Bill started at the bottom of the company putting away files and has worked in every department after that. He earned his way to the top. Became Executive Director and now is Chief Operating Officer. He has been overseeing the firm's operations for the last 10 years. Bill is also a strategic partner of Galaxy, both leading debt buyer and master servicer in our industry.

01:12 Michael: He's very active in the industry of course, of collection law firms and debt buyers. He's been honored as a speaker at the National Creditors Bar Association, he founded the Collection Manager's Education Track for National Creditors Bar Association and served as Chair for six years. Welcome Bill.

01:32 Bill Sturm: Well, Michael, thank you so much, what an honor to be here with you.

01:36 Michael: Well, very few of us plan to get into collections. You don't go to school and say I want to be in collections that my... I want to be a collector or a collection manager. So, everybody wants to know how people get into this kind of work, where and many say, "it's not God's work". But Bill, tell us, how you planned to get into collections.

02:00 BS: Well, Michael, I was really born into it. So, my grandfather was an attorney and when my father graduated law school in 1966, as his graduation present, my grandfather gave him one three-month worth rent at his law firm along with a client. And the client happened to be a collection agency, and that's how we really started his Creditors Rights practice. So, from '66 to '77, whatever your problem was, he was your solution. And in '77, he incorporated the law firm really focusing in... Focusing in on Creditors Rights.

02:34 BS: And that's when I was born, and so in fact when I was born, back in those days, you would share a hospital room with another couple. So I'm born, I'm there with my mother, my dad comes in and he's visiting with us and as he's doing so, there's a gist occurring between them and the people next to them, and he can hear them talking and it turns out that my dad had just sued that couple for a unpaid bill. And so, as he's listening to this husband and wife talk about this lawsuit from this Sturm guy, back in that day they used to put your name on the side of the cribs and my dad slowly took our last name off the crib, put it into his pocket and told my mom, he'd be right back and he went to go talk to the nurse about getting my mom and I moved to a different room.

03:25 Michael: So that was your first interaction with a consumer debtor?

03:30 BS: Yes. And then from there, maybe it's growing up in the midwest, but we were expected to work at the firm. So, when I was in grad school, I knew my alphabet, I knew how to count to 10.

Back then we had files and so every time it snowed and the schools were closed, my dad was bringing me to work. So, I watched my friends go outside and I was off for the office to go put files away or find files in attorneys' offices.

03:57 Michael: Well, I hope he at least paid you the minimum wage, right?

04:02 BS: I guarantee you, he did not.

04:02 Michael: He did not?

04:02 BS: No, it was part of the pressure of providing the house, clothing, food, all that good stuff.

04:08 Michael: So, you were an intern?

04:10 BS: I was very much...

04:10 Michael: Un-paid.

04:12 BS: I don't think I started getting paid until I was in about sixth or seventh grade.

04:15 Michael: Okay.

04:16 BS: And then that was fairly underneath the minimum wage.

04:20 Michael: So, you're a son of a founder, what is that like? Is it hard working for your dad and having him get all the credit for everything and having to follow his instructions every day?

04:33 BS: I personally believe it is hard being a founder's son because the first thing is, you're the example. So, they're looking at you and they're judging your father or your mother over your work ethic. And so that became very apparent. What also became very apparent is they're telling you stuff in the hopes they will get back to your father. So, you have got to learn how to filter information of...

04:57 Michael: Okay.

04:58 BS: Because you...

05:00 Michael: From other employees.

05:00 BS: Yes, you don't want to be the go-to, where they want to have you communicate with your father over whatever their issue was. I quickly learned that my father expected a lot out of me. My father probably worked 70 hours a week, typically until 9 o'clock.

05:19 Michael: Right.

05:19 BS: He worked every Saturday. And so, after I graduated college and I was working for him, he put me on salary. At one point he grabbed me and he said, "Bill, I put you on salary, not for you to work 40 hours. I'm expecting a lot more out of you."

05:36 BS: And so, he's taught me along the way that in order to be successful in whatever you do...

05:41 Michael: Eight hours a day, wasn't worth it.

05:43 BS: Eight hours isn't even close.

05:44 Michael: Yes.

05:47 BS: So, he expected not only that you were there way more than eight hours, but I worked every Saturday for a long time with him.

05:56 Michael: So, one of his, I guess principles on life in the business, is just hard work and that gets you... What is that 80% of success in his mind or what?

06:00 BS: Yes, so for my father... It was interesting. So, one of his good friends was Al McGuire, coach of Marquette University, obviously won the championship for Marquette in '77. And so, Al and he would have these conversations about actually the reverse. 90% of it is your mental toughness and your mental attitude. 10% is actually then doing the work. And so, my father taught me a lot about having a mental toughness of whatever you're going through and in the fact that if you can control your fear and whatever else is racing through your mind, you can push forward into these uncomfortable situations as you grow as a human being.

06:54 Michael: So mental toughness, I guess both personally and professionally.

06:58 BS: Absolutely. And I give my father a lot of credit. I would tell you my mother is equally as credited for my upbringing. She was a psychologist. She worked with mental patients too. She taught clinicals. And so, I remember clearly my mom coming home one day where they had lost a baby in the OB unit that she was working in. And I saw her going through that grief and just bringing work home with you and how it affects you and how to deal with it in a positive way.

07:33 Michael: Did she have a formula for how to do that? It sounds nice, but how do you teach people to deal with their adversity in a positive way?

07:43 BS: So, for her, she had this magic formula. And it's called "I feel, I need, I want."

07:48 Michael: I feel, I need, I want. Okay.

07:49 BS: Yes. And so if we ever wanted money as a kid growing up, as long as we used her formula with my father, she would make him give us money, which was fantastic, especially if he didn't get a chance to get into the office that week and work. But really, as a psychologist, she would really go after, "What are you thinking?" Because those thoughts are really generating your feelings. So, if you're feeling fearful, what thought is causing that? Because that's now going to drive your actions. And I use that a lot now as a business owner because you're worried about everything that happens within a business. I think every business owner really cares and cares for that business like a child.

08:36 Michael: So, when you go through stress, your mother would say, "Think about it.. " Think

about what, a positive outcome?

08:43 BS: Well, what are those thoughts that are causing the stress? So, for me...

08:48 Michael: Fear of failure?

08:49 BS: Yes. Well, and then as you run that through... So, you're a failure. So, you're going to lose the business. And if you lose the business, you're going to lose your house and your family...

09:00 Michael: Your identity, your self-esteem.

09:01 BS: And pretty much you're living in a tent.

09:03 Michael: You're a prisoner of yourself.

09:05 BS: Yes. And so, she's like, "So you're going to be living in a tent because you had a bad month or a bad quarter. Really?" So, she gave us the ability to really examine what you're thinking.

09:19 Michael: Exciting. And your dad applied that to business and taught you to use that mental toughness? Is that with as a collector, or is that totally a different kind of toughness?

09:30 BS: Well, I think it's in anything that you're doing. So, whether you're collecting a past due receivable or dealing with an employee, dealing with a client, whatever the situation is, I think you need to apply that where, as you said earlier, it's not your ego.

09:49 Michael: Yes, ego can be a dangerous thing.

09:52 BS: It very well can be.

09:54 Michael: In fact, now I remember the other book that we were talking about earlier by Ryan Holiday is Ego Is the Enemy.

10:01 BS: Absolutely.

10:01 Michael: Yes. And that gets to the whole thing about mental toughness, and your thoughts really drive your actions. Anyway. So, as you were working for your dad, did he have a vision, a strategy, or was he more practical, opportunistic as he led Rausch Sturm?

10:20 BS: I would say he and his partner, Scott Israel, were very practical. They were very conservative. In fact, in 2001, we were approached by a client and asked to go into an additional state. At the time, it was Michigan. So, that would have been our second state. And Greg Enerson and I went to my father and his partner and asked him. And they said no. But being younger guys, we didn't let that no stay. We continued to pester them for the next year. In 2002, we got him to agree to finally open a second office in Michigan. And that became really successful for us. So much so they allowed us to open up our third office, which was in Minneapolis, Minnesota, and they saw the success of that. And from there, the firm's footprint just grew.

11:11 Michael: So, it was more geographic-oriented or was it also driven by regulation? Those

states that had maybe looser regulations, they were more attracted to? Although was it also geographic because they were based in Milwaukee and it was easier just to get to Minnesota or what drove the decision-making on expansion, I guess is where I'm going?

11:32 BS: Yes. So, the way that our firm focused on expansion wasn't so much the state laws or the regulation, but it was really driven by the clients. So, in the states that we've grown into, all of them have been organic except for one. So, in each state, if we had enough clients ask us to go into that state, we went, regardless of what the makeup was of the state.

11:56 Michael: Okay. Okay. So, it was more opportunistic, then. You were waiting to be invited in as opposed to saying, "Okay, we want Minnesota, we want Illinois." Okay.

12:04 BS: Correct.

12:05 Michael: Alright, okay. And as you look at portfolios then today, is it... You have your own geography. Are you driven more by opportunistic opportunities, or also by the level of regulatory barriers to your success in a collection law firm?

12:06 BS: So, in my opinion, the regulatory barriers are pretty much even. Obviously, as of late, you have New York and California that are "becoming mini CFPBs". But in general, I think as you look at portfolios across all 50 states, it's really more opportunistic in terms of the type of debt, where that debt's been, and what you think you can do with it.

12:51 BS: And that's how we approach each buy. There are some asset classes that we would stay away from. We're not fans of the medical world and purchased medical. I actually think student loans in the upcoming years are going to get very interesting. We more focus in on installment loans and credit cards.

13:10 Michael: Okay. Back to working for your dad now, during this period when you worked for him, what were some of your biggest successes and what were some of your failures working for your father? I guess you really got going, was it 2000? That's really when you graduated from working as a student to working full-time as a career.

13:35 BS: So, actually, we didn't have collectors in our law firm till about '95. So, going through college, I was a bill collector. And one of the things that I love about the way I was brought through the business is I had the opportunity to work in every department. And so as I graduated college, whether it was working in accounting or litigation in issuing lawsuits or following up on garnishments or calling the consumer and interacting with the consumer, it really gave me a nice foundation as I became then the executive director and today the COO of the firm, as I look at the different areas of the business and how files move through it.

14:17 Michael: So, I guess if you worked in every function, you really understood the functional requirements, the responsibilities and what you were accountable for. So, when you're now COO, you know it maybe even better than some of your employees. You've been there.

14:34 BS: They love that.

14:36 Michael: Yes. You talk their language.

14:37 BS: I do. And they'll hear stuff, "Well, when I did your job... " Which they love to hear. And so, I'm still applying tips to something that I did 18 years ago. And I think in our business, one of the nice things is that hasn't changed in 18 years. So, you look at Dodd-Frank that came out, or the CFPB, we're still regulated by laws from 1977. And so, a lot of it may be client standards have heightened, or what the CFPB is looking for has heightened. But in general, if you just do the right thing and you treat the consumer with respect, you try to make the client whole in what they're owed, you don't have an issue.

15:23 Michael: Yes. I remember you said, well, earlier, that you have three guiding principles. Now, those are guiding principles for the firm, I think, or yourself, or both... It was, do the right thing, tell the truth, and give back.

15:38 BS: Correct.

15:39 Michael: So is that for the firm and you personally, or just the firm or...

15:42 BS: Well, I think it's for both of us. So really, when we bought the firm, we came up with those as our three values of the company. And so, as we look at it, "do the right thing" is... I speak to every brand-new employee, regardless of where they are at with us in the country, and I do that after they've been with us 30 days. And my main message to them is, "You're going to make a mistake. Regardless of what you believe in, I personally believe in God, you had one in 400 trillion chance of being born. So, God wanted you here. Why did God want you here?" And then, "Unfortunately, God didn't make you perfect. And so, because you're not a perfect human being, you're going to make a mistake. And when you make that mistake, do the right thing. Let us know." And then I give them a bunch of examples in our industry where people didn't do the right thing and they paid heavily for it.

16:36 BS: So, as an example, there was a firm in Colorado, they were practicing down in New Mexico, and they sued the wrong consumer. Ended up taking a judgment against this wrong consumer and then filed a garnishment. And that case went to a jury trial, and the jury awarded the consumer one million dollars. And I explained to our staff, when you have jury verdicts for those types of numbers that obviously impacts the business tremendously. And you look at all the steps between issuing the validation notice to the consumer to issuing a garnishment, there was clearly multiple opportunities to correct the situation. But either somebody was too afraid in that firm to say something, they had a culture of yelling at people, or they were punished for showing forward a mistake... And we want to make sure that they know we expect them to make mistakes, but when it happens, just tell us and we'll fix it. It's a different conversation if this is the same mistake the third time or fourth time. But when it's the first time, yes, it's going to happen.

17:41 Michael: It's part of their development.

17:42 BS: Yes. "Tell the truth" really came from Manny Newburger.

17:46 Michael: Oh, really?

17:47 BS: Yes.

17:49 BS: It's one of Manny's rules. So, I've had the fortune of knowing Manny since I was a kid. So, as a kid, my dad's been involved in the Commercial Law League for over 40 years. He's a past president. Our summer vacations were at the national conventions. And so, I got to know Manny when I was probably as high as his knee. And early on, he was one of my mentors. And really, Manny is all about telling the truth. So, whether you're talking to a consumer, consumer's attorney, as long as you're doing that, you have nothing to worry about. And so, we really make sure that, obviously, the company as well as my children know the value in telling the truth.

18:33 Michael: Okay. Let's fast-forward now to 2009. That was a very important milestone in the life of Bill Sturm. You bought out your father's interest at a time of economic crisis. It was a financial meltdown that we all know led to a restructuring of this industry. So how did it affect your firm and how did it affect you personally that year?

18:50 BS: So, 2009 was an interesting year. Through 2008, Greg Enerson, Julie Rausch, and I were lining up financing in order to buy my dad and his partner out. We thought we had lined it up. And of course, the financial meltdown comes and the financing goes with it. So, part of working with your father, they always say you get this great deal, Dad's going to cut you in, he was giving the firm...

18:50 Michael: He gave you a break. Gave you a discount on the price, the valuation?

18:50 BS: Yes. The discount my dad gave me was 10 times EBITDA.

19:36 BS: That's what we paid for the firm.

19:38 Michael: 10 times EBITDA, that's quite a valuation.

19:41 BS: It was, it was. And of course, they held the cards in it because they had the opportunity to say, "No, I'm not selling".

19:50 Michael: He was tough.

19:51 BS: He was very tough. I have four sisters and my sisters, I think they have this impression that I got this great deal, and I don't know any companies for the EBITDA that we were at that traded at 10 times.

20:03 Michael: 10 times. That's crazy. Was he joking?

20:05 BS: No.

20:06 Michael: Or you really had to pay 10... Wow.

20:08 BS: We paid 10 times.

20:12 Michael: Woah! Did he give you a note to cover that? [chuckle]

20:15 BS: He did. He did. But as, obviously, we purchased it, financial meltdown occurs, charge-

offs, what? They were on average through the US were at 3.5%, I think they were close to 11%. So, the volume is flowing in, and in our business as a collection law firm, your expenses are all up front. And so, you have to staff your firm in order to handle those validation notices going out. Obviously, you have got to hire district attorneys to review the accounts for suit, follow-through with that. So, our expenses went through the roof. And right after we bought it, our CFO was coming into Greg Anderson and myself's office saying, "We don't have enough money to make payroll." We were like, "Wait, what? We just bought the company."

21:03 Michael: Yes. "What happened?"

21:05 BS: And so, I heard it for, I think it was the next three months in a row. And finally, I called my dad, I'm like, "Dad, what is going on? Every month, they're telling me we don't have enough money to pay payroll, what's the story?" And he's like, "Oh Bill, they don't know how to play poker. As you become a business owner, you'll understand stuff's going to happen, and as stuff's going to happen, you're going to have to deal with it. So, in this case, if it's a cash flow issue, because you're expanding your payroll in order to handle all this additional volume coming through, obviously, sometimes owners don't get paid, as an example." And so that was...

21:42 Michael: Just like when you're a kid.

21:43 BS: Yes.

21:44 Michael: You didn't get paid. [chuckle]

21:45 BS: [chuckle] Yes. So that was my first intro in terms of owners are last, employees are first. And that was his first lesson to me as being a business owner, that it's more about the business than it is about you.

22:01 Michael: So, you report to the employees, I guess.

22:04 BS: Even though they don't see it, you really care about...

22:07 Michael: You have to support them.

22:08 BS: Absolutely. Otherwise, who's going to work for you if you don't?

22:11 Michael: Right. Wow. So, you survived. During that period, were you really worried about failure or were you worried about not keeping up with your dad and your mom's own principles? Your mother was saying, "You have got to have mental toughness, toughness." Your dad said the same thing. How did you mentally survive that period?

22:36 BS: Well, my wedding anniversary is about to come up. I've been married 20 years, and my wife, God bless her, I think, obviously, to have a spouse that supports you as owning a business you're coming home, and she's kind of giving you these big eyes as you're starting to share what's happening at the office. And her support, and obviously through Greg Anderson and Julie Rouche, we went up, hit the road, sold, and you got through it. And as you get through it, one of my new partners, Scott Lowery who's partners in the firm, as he likes to say, "You get these lashes on your back of going through these events and you become tougher, you get that thicker skin."

23:21 Michael: Right, right. So, you learn from the mistakes, you learn from the adversity. 10 years later, you've probably seen more changes than many of us could have imagined, like the Dodd-Frank law, the creation of CFPB. As a result of that, how have you had to change your operations? How have the regulations affected both your strategy as well as your processes?

23:47 BS: Well, going back to, I think it was 2010-2011, we had one of the top credit card issuers come to their top 10 law firms and they got us all on a call and they said, "We want you to be ISO 27001 certified." We all said, "Okay." And they said, "We want you to do it in six months." So, everybody hung up from that call, ran off, and looked up what the heck ISO 27001 is. And everybody figured it out, went back to the client, and said, "Look, there's no way we can do it in six months." And they said, "We understand. You can go a little longer, but we want you to be at least compliant." So, we took the next two years. In order to be ISO 27001, you have to document every single process at the firm, put a risk rating to it, and then based off of that risk rating, have a measure to make sure your process is effective.

24:44 BS: So, we did this 2010-2011. The standard is actually governed by the British Standard Institute. And so as Dodd-Frank came out, we were lucky because a lot of what the CFPB was looking for is, as they looked at our clients, is vendor management to make sure that even though, whatever bank hired us, those consumers are being protected in our firm. Luckily, we had all of those policies and procedures documented with risk ratings, with measures, and so we welcomed it. Again, our laws are from 1977, the CFPB has this Notice of Proposed Rulemaking out. We're really hoping these laws come into effect because it will be easier, in my opinion, to communicate with the consumer which is what we want to do. And the laws that we have today don't allow us to engage them the way the consumer wants to be engaged.

25:34 Michael: So how do you get around that?

25:34 BS: Today, it's asking the consumers. For example, I can't email a consumer unless they give me their express consent to email them, which is how the world today wants to communicate. And so, we're excited about these rules. There's a lot of good people in this industry. I think everybody wants to follow the rules, there's some bad actors, but I would call those guys felons. They're going to break the law, regardless of what the rules are. And I think the core of this industry wants to understand what the CFPB would like and we'll all follow it and, in fact, welcome it.

25:34 Michael: How did all these changes, especially in regulation, affect your profitability?

26:19 BS: So, for us in the industry, 2012 was a very good year because we had all those accounts in-house from 2009, 2010. And then in 2013, banks stopped writing loans because of all of the charge-offs they had just taken over the prior years. And then you had Dodd-Frank come out, where nobody knew what these new rules were going to be, so they just plain old stopped. So, in 2013, '14, it was very dry in our industry.

26:51 Michael: I know, yes.

26:52 BS: I heard one gentleman who's been in the industry a long time call it the Dark Ages. And then, of course, obviously, as people started to understand what the CFPB was looking for and banks started writing loans again, we're excited about the future.

27:10 Michael: Very great tale, very great tale, Bill. So, looking forward in 2020, what's your plan for the firm and what's your vision going forward?

27:22 BS: So, for us, as I just said, we're really excited about the CFPB's proposed rules. We think being able to meet the consumer where they want to be met is goal number one. So, if the consumer wants to communicate with us electronically, we're excited about being able to offer that to them. So, as we look at 2020 and 2021 is being able to make sure that we're technologically there with the consumer in offering the channels in which they're asking for. In terms of the firm, we'll continue to expand our footprint. We have clients that constantly ask us to go into additional states, which we're excited to do.

28:05 Michael: So, if everybody, though, has these same rules, and everyone does in this industry, how do you differentiate Rausch Sturm in this environment when you're at behavior... There's a framework and you have to stick within that framework. So how do you show the market that you're different?

28:25 BS: So, I think for us, it's always been the ability to invest before the clients ask us to invest. So, as an example, we had a compliance department before a single client asked us about having a compliance department. In fact, in 2019, we invested another \$2 million just into our compliance department in additional software, additional positions, in order to make sure... As we call it, compliance is table stakes. You either have it or if you don't. And if you don't have it, you're going to be out of business, period. And so, for us, we'll continue to invest whether it's into people, technology... I'm a big fan of BI. I also am very interested in some of the behavior modeling that's out there. A lot of us rely upon scores in order to understand the consumer's situation, and I think with AI, the ability to start to model the consumer's behavior is very exciting.

29:25 Michael: Great. Wrapping it up here, though. What's your outlook now for Rausch Sturm in this new strategic alliance that you've created with Galaxy Asset Management? They're both a debt buyer and a master servicer. So how does that fit into the Rausch Sturm strategy going forward?

29:42 BS: Well, I think one of the biggest issues as a collection law firm is the variability of your placements. So, every month, our placements can fluctuate as high as 30%. And so for us, that makes staffing a very difficult job because at what level do you actually staff for? And so, with this alliance that we have with Galaxy, it's a way of flattening out our placements every month. So that, of course, allows us to provide better service to our clients and making sure that we're staffed for those higher water marks as the files come through.

30:17 Michael: The last question I always like to ask our guests here, What's on your nightstand? What's one of the favorite books you read recently?

30:26 BS: Oh, gosh. So, this is one of the things my father taught me, my father is a huge reader. And his idea of a good vacation was anywhere around a pool and a book. So, I'm an avid reader. So, I love "Boys in the Boat" great story.

30:42 Michael: That was a great story, yeah. All about teamwork.

30:44 BS: I've recently got... Yes, about teamwork. It's a rowing team that went through a bunch of

adversity getting to the Olympics. Brene Brown, a phenomenal professor...

30:55 Michael: I haven't read that book yet, but I have it, yes. What's the lesson there?

31:00 BS: Being vulnerable. So, my partner Scott Lowery is incredibly good at this. And being vulnerable, whether it's with your spouse, with your partner, with your employees, and the closeness that you can build by sharing what's really going on.

31:16 Michael: That's what vulnerability means in your life, sharing what's going on with your friends, your parents, or your family, and I guess your customers too.

31:26 BS: And not being worried about the judgment they have as you share that...

31:30 Michael: That's tough.

31:32 BS: It's very tough. "Mindset" by Carol Dweck, a phenomenal book about a growth mindset or a fixed mindset. And for me, I've always been a big learner. I foolishly thought after college, education was done. And today, whether it's a podcast or a book, I'm always trying to enhance myself.

31:54 Michael: Your education just began when it finished.

31:57 BS: That's for sure.

31:57 Michael: The formal one finished. Well, thank you... Thank you, Bill, for these wonderful stories about your life, your business, the lessons learned from your dad. You had a great mentor with him, and his principles obviously have guided you through some of the good times and bad, and set the stage, I guess, for the future also for Rausch Sturm. But for the last decade, you've accomplished some great milestones at your firm, and we look forward to hearing about the next years together, especially with your new strategic alliance with Galaxy. Thank you, Bill.

32:18 BS: Thank you Michael. Appreciate it.

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