Mike Gibb (00:03):

Hello everybody. Welcome. Thanks for joining us. My name is Mike Gibb. I run accounts discovery.net and I am thrilled to welcome you to today's webinar, The Impact of Coronavirus and the Economic Downturn on the Debt Buying and Collections Industries. Today we've got leading members from the debt buying and collections industry here to discuss the positive and negative impacts that the crisis is having on agencies and debt buyers alike. They will talk about current views about the legislative initiatives and more. So, before I get to it, a couple of housekeeping items. First of all, this webinar is being recorded. The recording will be made available on the Couch Recovery.net webinar recordings page. If you have a question for our panel, please hit the Q&A button on your zoom webinar control panel and type your questions in and we'll get to it a little bit later in our program.

Mike Gibb (00:54):

This webinar today is being graciously sponsored by Flock Specialty Finance. It's my pleasure to introduce Michael Flock, the CEO of Flock Specialty Finance, to continue with today's event. Thank you, Mike, and it's a pleasure to be here. First of all, I'd like to thank the audience for participating today. Hope everyone is safe and everyone as well. It goes without saying that we're living in very unprecedented times. You know, it's the first pandemic in over a century. It's a black swan event by definition. No one ever anticipated something like this when a month ago the economy was booming. You know, we're living obviously in very volatile from markets. The Dow Jones two weeks ago drop the most since 1930. Today, just before I logged in, it was reported on the news that the Dow Jones had the biggest jump since 1938. So, within two weeks, we've had the biggest drop and the biggest jump in the Dow Jones.

Michael Flock (01:57):

Incredible. So today we're going to take you through a bunch of issues here, but I want to say I think there's one common theme. We're going to talk about some crazy legislative proposals, some price changes and volumes of pre-death buyers and creditors alike. It's become impossible to forecast and everyone's got all kinds of ideas and how we're going to navigate through this. But the one common theme that I think you will hear today will about be about how we can find opportunities in the obstacles that face us, opportunities and obstacles. Something I've always believed in my whole life. So, let's look at the discussion topics, the current views on the legislative initiatives that impact collections and debt buying. As you know, this changes as we speak. You know, we've got four or five states that are pretty aggressive in managing collections. So, we're going to talk about what that means for all of us.

Michael Flock (03:00):

We know already that there's volatility in evaluation of debt portfolios. Just at Flock within the last week or two. We have seen some incredible changes both in terms of volumes of sales from creditors as well as price changes as a result of that. We also are going to talk a lot about the changes in the creditors with the sellers of that and their behavior and why debt buyers actually can provide a pretty big service to creditors right now when cash is so important to their, some of them, their survival. And lastly, we're going to talk about how collection agencies can cope with this new environment of teleworking and operational ways to maximize results and minimize the risks. So again, that’s an opportunity in this obstacle that we're facing a new way of looking at the business of collections. And maybe, you know, we'll get into some of the pros and cons of telemarketing and how we think that's going to change our industry forever.

Michael Flock (04:05):

So today, I'm really excited to have on our panel three leaders in the industry, experts in their fields, and I might add, they have very colorful personalities as well. The first panelist I'd like to welcome is Irwin Bernstein, owner and CEO of CMS services. He's an attorney and CPA with over 30 years experience in the industry. He's an expert at compliance. He's going to talk about that in a few minutes, but he's also worked with over a hundred collection agencies as an expert in developing best practices. He has a successful track record as a business operator, analyst and risk manager. He's also on the board of advisors for Flock Specialty Finance and we rely on him for a lot of our decision making and strategic planning. Irwin would you like to share with the audience today a few of the highlights of your perspective on what we're facing today?

Irwin Bernstein (05:10):

Well, thank you for the introduction. Thank you for asking me to participate. There's really two parts to my presentation. One is going to be talking about the regulatory environment and then later on we're going to come back and I'm going to give some perspectives on the economy, on market cycles and how we can avoid and plan for the future. So, speaking about the regulatory environment, all of us on this call I believe have access to many of the summaries of state-by-state actions. So, I'm not going to focus on a state-by-state list, but I want to focus on the big picture.

Irwin Bernstein (05:58):

Yes, there will be some continuing efforts by local governments to freeze collections. We've seen what's happened in Nevada, we've seen what's happened in DC, and Massachusetts. There are some politicians who will try to take advantage of this for political gain. We'll recognize the pain that some consumers are going through and make incorrect decisions, overreaching and shutting down practices. But in general, although there's 45 States with full or partial shelter and stay at home orders. Most of the states that I have looked at, including my own state of Illinois, so far, have taken a balanced approach balancing the needs of businesses, especially small businesses to obtain cash and bear with the pain, the suffering that consumers are going through as we see unemployment rising and furloughs rising. So, I do see, and if we look at what NACARA, the National Association of Collection Agency Regulatory Agencies, has done a really nice job of putting out a balanced statement.

Irwin Bernstein (07:29):

And what they said was they want to encourage collection agencies, debt buyers, creditors to take reasonable steps to offer assistance. But we should feel comfortable that while they're suggesting that we offer modifications or forbearances and that we make certain that consumers have ways to delay payments that they might not be able to afford today, they're also saying it is important for us to be able to reach out to our consumers proactively and provide them information to make intelligent decisions. It's my belief that that will be the national consensus and we will not see a much larger shutdown of our industry. It's very unlikely, I know, we have some federal regulators that might be on the call. It's my belief that federal efforts are not likely to go very far. The CFPB, we know has along in challenging process. We've seen how long it's taken them to try to publish their rulemaking.

Irwin Bernstein (08:44):

They have to publish, then they have to wait for a comment period and they have to respond to the comments before a final rule. Sherrod Brown, has proposed harmful legislation. I don't see the senator or the president making any new legislation that is going to have a significantly negative impact on business. So, I think we're going to get sympathy from the majority of the regulators, but we should take messages from what they've said. Also, I think reading between the lines and the Illinois rules provide some strong guidance to us. They worked very hard to come up with a method to allow us to continue to do business even remotely, but they've also left themselves a strong hammer. And I think the message is, if we violate the law and, if we are too aggressive in going after consumers during the crisis, don't expect any leniency except to have the book thrown at you.

Irwin Bernstein (09:50):

So, you know, continue to do business. I believe that it's always been in our best interest when we respond with empathy and when we respond to a consumer's needs. That's when most successful as an industry. And I think that if we follow those guidelines, the regulators will have our backs. As for the debt buying, markets know this is our opportunity to prove that debt buyers are a critical part of a creditor's toolbox. It's in times of crisis and panic that we provide a true value to the financial markets. These are the times when creditors need access to financial markets for stuff. Our sellers need a lifeline. They need immediate cash. They can't take a hit to the balance sheet selling off charged off accounts. Receivables is one of the only ways that they have to obtain instant liquidity, improve their balance sheets.

Irwin Bernstein (10:56):

Because, remember we are buying something that is currently valued at zero on their balance sheets. So, if we can provide cash for zero valued assets, we've improved their position. And we're also, by taking responsibilities of managing the consumers, we're allowing them to reduce their FTE count, reduce the expenses, focus on their business going forward while we focus on what's in the back. Risks in the market during these times are greater. And later on, I'm going to talk about the market cycles. Unfortunately, where are we are in a cycle only in parent, in hindsight. And for this reason, it's not unreasonable for us to be expected to be rewarded with above normal returns over the next few years. So, my message is one of the solutions. Be there for the sellers, be smart, be prudent, and there's opportunity to be had going forward. And Michael, back to you.

Michael Flock (12:07):

Thank you. Thank you, Erwin, for that perspective. I appreciate it. And, we look forward to your commentary in a little bit. I'm delighted to introduce now Matt Maloney who I've actually known for over a decade. He's also probably one of the most creative leaders I think we have in our industry. He currently is president of First Financial Asset Management or First Fam. You can see he's got over 18 years of experience in receivables, management, debt buying and healthcare revenue cycle management. He also has done a lot in this subprime performing auto segment, which is growing very fast for his business. He manages $3 billion accounts receivable annually, and he's acquired $22 billion of them over time. He's also on the board of directors for the Receivables Management Association. So, Matt, can you share with the audience a summary of your perspectives right now on what's going on in the industry and a lot of these unchartered waters that we find ourselves in?

Matt Maloney (13:18):

Sure. Yes. Thanks. Thank you, Michael for that introduction. That was fine. And you know, first I'd like to say I'm just thankful that we had so many participants interested in this topic today. I think from an overall perspective, I think we're all grabbing for information in real time as we can. And I've carved out a message for my entire organization. We have roughly 300 employees. I think that we're, as you've already articulated Michael, in unprecedented waters. And have been somewhat of a black swan event. And from an organizational perspective, we're taking an approach of support and outreach. Irwin mentioned a moment ago about communication and how communication is vitally important, particularly in times like these. And I think the communication that we're having with customers, with consumers, with our clients, with our investors and with our employees and probably most important with our families is what's going to pull us through this process.

Matt Maloney (14:45):

I think at the outset of this there was a lot information coming in from a lot of different sources and it was hard to ascertain what was really going on. If I just look back three weeks ago, and since then I feel like that we've now kind of gotten settled both as an organization for our company, but as an industry in terms of the lines of communication and the credible sources of information that we're tapped into perceived. But it's still a daily change. You know, today I'm going to be able to provide kind of two perspectives. One from a debt purchasing and specialty finance organization and one from a servicer. Our organization is a hybrid organization that does both. So, we serve as client receivables at virtually every phase of the receivable life cycle.

Matt Maloney (15:52):

So, from a point that the loan is originated, the loan service or on the front end all the way through, back to the time that an account is charged off. And of course, we're buying those same receivables instead. Today, I hope to be able to share with the audience some insights into just tactically what our organization is doing. I've talked to probably a little more than a dozen other CEOs of other organizations like ours and the industry just to kind of benchmark what strategies that we've been insuring and what new processes and procedures we've been deploying. And just to make sure that what we're doing is benchmark against our peers in the market. And I think much of the audience today is going to look for that on today's webinar is just to benchmark and litmus test what they're doing and how they're responding or other things that maybe they should be looking at.

Matt Maloney (16:56):

I'll close with this just from an overall economic perspective. There's a lot of unknowns. I think that one of the things that we're seeing in one niche area of our company, which happens to be in the healthcare space, we're seeing a large, naturally speaking, a large increase and accounts coming through both on the insurance side and on the future. The question that we are asking ourselves on the patient responsibility side, not so much on the insurance side, the question that we're asking ourselves is, how should we handle these patient balances? How should we handle our communication with these patient accounts, particularly those ones that are coming through hardship programs or other programs with modifications or for Barron's. How do all of those work as it relates to a health care account? A little bit different maybe in some respects than a credit hype was and so, I hope the share a deeper perspective on that today.

Matt Maloney (18:11):

I'll turn it over to Michael.

Michael Flock (18:14):

Thank you, Matt. Our next panelist is another creative leader in this industry. Greg Paulo, Vice President of Business Development at Flock Specialty Finance. He's got three decades of experience in the recivables management industry. One of the things that Greg does that he's quite talented at is developing relationships between debt buyers and originators of subprime debt. He's also managed lots of collection sales teams and served as President of Red Line Recovery, a good sized ARR company that has, in the past, provided accounts receivable management services because Greg has had this combination of collection operations experience as well as business development. I think he's eminently qualified and capable and he's proving it with some of the deals and solutions he has brought to the depth by market and I think again this is something unique and very important. Our industry, if you can connect debt buyers, creditors and collection agencies and develop solutions that make a difference for each one of those segments. So, Greg, please share with the audience here, are some of your perspectives on the kind of the turmoil that's going on in our markets.

Greg Paulo (19:43):

Thank you, Michael. I'm not sure I can live up to that kind introduction. I think most of the people that know me might think there's a little bologna in there, but what I wanted to do was I wanted to share with everybody that I've been closely monitoring the debt selling market. And over the past three weeks I have spoken to a number of sellers, number of buyers, a number of agencies, and they are all expressing a considerable amount of concern over the state of the industry. They're very concerned about their businesses and they're very concerned about their employees and what the future holds. I think the one thing that is certain is that nobody is certain what's going to happen over the next 60 to 90 days. And so, I've seen, from a seller’s perspective, I've seen kind of three strategies emerging.

Greg Paulo (20:43):

I think first off, we're seeing some sellers that are temporarily suspending their sales. We're going to wait out the effects of the Corona virus while continuing limited collection treatment, internally. They are looking to reevaluate this every 30 days. Typically, sellers who are financially strong or have good balance sheets, typically have some cash on hand. There's the second strategy out there and those are the folks that are negotiating temporary reductions in sales prices. They're allowing their current debt buying partners to renegotiate a price decrease based upon the economic impact that they anticipate over the next 30 to 60 days. They're approaching this more from a partnership standpoint and the seller typically has some financial stability but needs a regular flow of cash to either meet outstanding goals or to cover pro costs.

Greg Paulo (21:56):

And then thirdly, there are others who are holding firm to their contracts and pricing. Kind of a more wait and see attitude and Irwin has talked a little bit about cycles. We'll talk more about that in a little bit down the line. But we are looking at what the impact is going to be to collections and we're looking at the rise in unemployment rate. I think today they announced that it's at 10% and we've seen estimates going as high as 20 or even 30%. We see that there's going to be a legislative impact to collections and we know this uncertainty to our economic future can have an impact on the psyche of consumers which will translate into lower payment rates and ultimately lower liquidation. On the positive side we'll see significant government assistance, the CARES Act. We're seeking to slow unemployment support from the state and federal authorities.

Greg Paulo (22:59):

And what we are doing is we are constantly our buying partners to find, think that there is still an opportunity to crack liquidity to the sellers. We just need to take a much more conservative, much more thoughtful approach. And be careful not to lock ourselves into a long-term relationship. When we don't really know what the outcome of your the covert. And so, you know, just kind of make the conclusion in the Flock view is we think that there are still opportunities in the market. We still think that that there's an opportunity for buyers to buy and as long as they can evaluate the file and the conservative nature to kind of offset some of the impacts that I talked about earlier.

Greg Paulo (23:59):

Michael?

Michael Flock (24:00):

Yes, thanks, Greg. Mike do you want to go to the next slide? So, you know, Greg's comments are a nice segue to what we're going to talk about next. You know, Greg was talking about how there's lots of uncertainty right now. Lots of things we don't understand in the short-term. Things we can't forecast in the short-term. But what's interesting in history, when you look at history from, you know, the long view, the long-term, there are things that you can predict. You can predict cycles. And you know, I became a fan of Irwin Bernstein, I guess it was about 15 years ago, at one of the ACA conferences where Irwin presented the Kondratieff Curve and the history of what that meant and how it applies to our situation today. And so we just thought for a few minutes, if Irwin could kind of share with you what he learned about the Kondratieff Curve and what it means for us and how we deal with the Corona virus and some of the shocks to our businesses today. Irwin do you want to take it from here?

Irwin Bernstein (25:10):

Well, thank you. Can you go to the next slide? Thank you. So, prior to getting into this, I spent a good part of my career on Wall Street working with traders. And the lesson that I learned was you can't get frozen by what's happening today. What you have to do is use today's news as a guide for tomorrow and for tomorrow's decisions. The world moves in cycles. And what's amazing is with perspective, what we believe are one-off events, there’s nationalism, whether it's the virus that we see spreading today, to cycles that we find ourselves in. And I almost believe that what we see in what we read in the news is it's part of the human nature and part of human cycles. And while the stories change, what we see is the patterns very often repeat. So, Nikolai Kondratieff, the Russian economist from the 1920s, 1930s, he identified long-term cycles. Ultimately Stalin and didn't like what he had to say.

Irwin Bernstein (26:31):

He thought that he was Stalin. And in the 1930s, he was killed by Stalin, but his lessons have lived on. And what he really talked about was that there are cycles and these cycles have been going on since biblical times and they generally last about 60 years. And in each cycle, there's four seasons and the seasons are generally 15, 20 years long. And he referred to them as seasons because just as hurricanes develop from the warm waters, financial storms are created by factors such as growth and money, debt and speculation. And this is a wave of human nature that repeats itself as memory grows dim. So unfortunately, at least in my mind, over my success, I've had an opportunity to identify cycles in hindsight, but while living through them, it's a real challenge of what we can do is we can use the guideposts, use the cycles and understanding of cycles it has guideposts. So, we can try to think of where we are today and what's up ahead. So within each cycle, as I said, stories are different, but the outlines will repeat and I'm just going to give you a quick summary of what each of the four seasons looks like and you'll make your own determination as where you think you are. So, starting in winter the world feels like a sense of capitulation. Stocks begin a bear market or financial markets experience a major crisis.

Irwin Bernstein (28:27):

When do we want to go back to the prior slide? Mike, do you want to go back to the prior slide about the seasons and the characteristics? Yes, there you go. Okay, thank you. I'm sorry. Wrong. Okay.

Irwin Bernstein (28:37):

No, it's okay. You know, if we look back at past cycles, you'll see that frequently there is a change in world leaders. There might be a new international currency doesn't happen, but these are things that we have to be careful about. But, underneath the gloom and doom, we also see advances in new technologies, new industry, but today we're looking at new energy sources. We're looking at artificial intelligence, we're looking at biomedicine. All of these are showing promises for the upcoming new boom that will come spring. Even in the dark days, we have these forward looking people creating these new technologies. They're allowing for the emergence of a new economic order. With the new economic order, there is going to be some disjointedness. New workers are going to be in demand as there's new markets that open up. There's a new sense of hope. There's new optimism with the new jobs and increased activity.

Irwin Bernstein (29:42):

We're going to see increased consumer confidence driving economic growth, driving higher prices. As that demand continues to grow, we roll into summer and summer brings growth, creates these many new consumers, large increases in demand and supply struggles to keep up and soon we face capacity constraints. What happens with these capacity constraints? They often result in global unrest. Countries begin wars to secure valuable resources and we've all studied the simple world, the world wars, Vietnam and Iraq. If you think about it, each of those wars was also about disruptions in the market, whether it was oil supplies or rubber supplies or labor supplies hit the newspapers. Mike talked about what's current today, but in hindsight it's about countries looking out for their best interest, seeking to secure markets, seeking to secure supplies. Usually during this period we see stagflation recession, high commodity prices, large bottle, Burlington pans, high interest rates causing a bear market in the stock market.

Irwin Bernstein (31:11):

As always, things change. New seasons, autumn arrives, folks get back down to business, begin to have a new sense of optimism. Rapidly growing money supply keeps inflation and commodity prices down. Consumer confidence grows because of that. And that leads to gains in the stock prices and real estate. Unfortunately, gains in stock prices and real estates in these cases are often funded using those same assets as collateral. So capital is going into securities and real estate investments as opposed to new businesses. Unfortunately, unforeseen shock occurs. Is it the virus, was it September 11th? I'm not sure where we are in the cycle, but eventually we get to a point where asset prices no longer support the debt they collateralize, causes disruptions for the banking system. Money becomes scarcer. Trade protectionism grows and world trade begins to fall sharply. And as prices fall, we see a period of unwinding as we head back into winter, it's controlled. We have a recession and the cycle begins. A new risk is if the unwinding of excesses gets out of control, that's when we might have a depression. So, I'm not trying to, I don't want to leave us with thoughts of depression. No matter where you think you are on the cycle. I put this together not to create fear, but to put things in perspective.

Irwin Bernstein (33:00):

You know, you have to think longer term and you have to think forward. I wrote this partly to give my five children a message. I don't want them to be a prisoner to what has just happened. But look to what might be coming in the form in the future. 2008, I was running a fund, a debt buyer, and I was funding debt buyers. I thought the worst in 2008 had occurred. I thought we were never coming out of it. I was unable at that point to look forward into the opportunities. I think that was a mistake. As I said earlier, it's during these times of crisis that we in our industry can provide a critical service as an outlet for creditors needing help with cashflow and reducing their own expenses. So my messages look to what's, I had be smart, be prudent, be forward looking.

Michael Flock (34:02):

Thanks Irwin. I appreciate that. That history of cycles and how you've lived through it in the past yourself. Mike, can we go to the slide on? Yes, right after this one on charge off pricing. So, let's apply this whole lesson about cycles in economies in businesses and governments. Let's apply this notion of cycles to our world here of debt buyers and collections. And I'd like, you know, Greg to, Greg Paulo, to talk about the waves here that we're seeing in charge off pricing over the years up until, actually this is current at 2019. And by the way, this data came from Garnet Capital Advisors, a major broker in our industry and all this data was collected by them and all the portfolios that they have brokered in addition to data from Citibank, Barclays and Synchrony. So, this isn't just a curve that we kind of built anecdotally, this comes from data from sellers as well. And so, I'd like Greg Paulo to take you through what this means for us today, Greg.

Greg Paulo (35:16):

Well, I think it's pretty obvious Michael that there is some cyclicleness to pricing the portfolio. It was in this graph. It does show by asset a pricing that they can have has tracked over the years. And so you can see here that there was a cycle back in 2007, 2008, 2009, which we think at Flock could repeat itself in 2019, 2020, 2021.

Greg Paulo (36:02):

So, the only question we have is, is it going to be a long, slow increase coming back over the next three to four years or is it going to be more of a V shape recovery? And I think that's going to be strictly dependent on how long the Covid situation lasts and how quickly our government supports going back to business as usual. And our consumer confidence continues to rise, but it's in these troughs that we do find opportunities you know, based upon the degradation of liquidations to deploy money safely for our investors.

Michael Flock (36:51):

Thanks Greg. And now we'd like to open it up for questions from the audience and I think we've got a couple right here. I think the first one actually, Greg may have addressed already. Where does the panel see prices going on paper post Covid? So, Greg, is there anything more you would like to add to that question?

Greg Paulo (37:14):

I think that's a difficult question to answer with any type of certainty. I certainly don't think we have gotten to the bottom in terms of pricing. I think we've talked about the three strategies out there. We have some folks that are on the sidelines, some folks that are accepting discounts and some folks that still have not moved on their pricing. And so, I think we're going to see a continued degradation of pricing until we have some more certainty around how long we think the work from home initiative is going to stay in place and the shelter in place and until the unemployment rates start to improve. So, you know, I think this is something that you have to evaluate every 30 days. I think you need to be looking at taking sharp discounts to future liquidations over the next six to nine months from that evaluation point.

Irwin Bernstein (38:18):

So, Michael, I think that there's what drives the price of a portfolio expected liquidation, your cost of capital and the amount of risks you think of your forecast is. We're uncertain about liquidating assets. Depends upon whether we have that V curve and you know, why do, why is it very possible that this will be more of a V curve? I think that if you look back at 2008 crisis was a

Irwin Bernstein (38:54):

reduction in the values of homes. People lost their greatest store of wealth and that takes a long time to rebuild. This is more like a storm. People have no wealth has been other than on paper securities; wealth has not been destroyed in a big way. Yes, people are out of jobs, but it's a political, it's an election year and I think the politicians are working hard to make certain that consumers are made whole. There is no loss of home value at this time. So, it's hopefully the demand that existed in February.

Irwin Bernstein (39:38):

it's still there when we reopen, and we can have a rapid recovery. but the unknown is the risk factor. And because there is an allocation of risk to buyers, there will have to be potentially further reductions in price.

Matt Maloney (39:59):

Yes. This is Matt. I think I echo both what Greg and Irwin suggested there. These are my opinions obviously, for the audience, but overall economically, I guess the perspective on whether this is a V-shaped recovery or a U-shaped recovery depends upon how close and how drilled down or how drilled out you are on the chart. Personally, I believe that because the rate at which many industries were just almost apparated overnight. A retail restaurant, not so much, but retail for hotel travel, entertainment, those industries, the travel or the path back is going to be a lot longer. So, I think it depends upon if you were to look at recovery overall, it's going to be pretty specific and that ultimately will drive how our industry is able to ultimately collect on outstanding unpaid consumer debts. I think that from a pricing perspective, it's certainly going to be asset class specific. I think that we're going to, I firmly believe that at this point, we have not reached, for my own opinion, we have not reached a point where pricing has has bottomed. We're still on the downslope. And I think that there's a lot of factors in that.

Matt Maloney 3 (41:53):

Factor number one is going to be ultimately how quickly or slowly or if there are additional regulatory. So how quickly or slowly those regulatory rules take effect in the impacting collection just in the last what, two and a half weeks you've seen one, then two, then three states and or the District of Columbia essentially with either no collection or some variation thereof. Plus, other states are obviously talking about that and we don't know where that's going to go. Nobody has a glass ball on that. Nobody knows what the conversations are. We know what conversations are happening in their sessions. There are legislative sessions, but we don't know where those are and what certainly, what bills have been proposed, but we don't know where that's going to go. So, I think that's going to have an impact and until all of that levels out., I think it's hard to really ascertain where pricing is going to go. And then obviously understanding the underlying consumer. I think that frankly this is by organization health and the charged off receivables side and you were heavy in the subprime auto finance on the performing receivables. I think both of those industry sectors are just scratching the surface on asset valuation or receivable valuation decline. And we just were talking about it yesterday in an investment committee meeting. We see this having impact on us over the next 18 plus months. That's my perspective.

Greg Paulo (43:38):

Hey, Matt, just a quick question. I was talking to some other folks in the collection industry and they had made the observation, going back to kind of Irwin's point that one of the arts in terms of determining cost of portfolios is cost of operations. Do you see any impact after going through this in terms of how you can improve your efficiencies on a go forward basis in a normal environment?

Matt Maloney3 (44:07):

I think absolutely. As I said on a call earlier today with somebody else, necessity is the mother of invention. So I think that as organizations, as leaders inside of companies, irrespective of the size of your organization, to not look at operational efficiencies that now not only must be applied in the temporary and the short term, but need to be applied in the long term is going to, without question, it's certainly going to drive and change the face of how organizations run and finding additional operational cost efficient. Is that going to help pricing? I think that those things are probably going to want to be continued to be captured by those organizations versus passing that downstream or upstream in a transaction with a seller at least initially. I mean we just recently. I'm going to give you an example. We recently took on an additional 30,000 square feet in our business at the end of the year because of some expansion in one of our facilities. And we've now been looking at ourselves in the deployment of our secure remote workforce thinking, wait a minute. Maybe we didn't really need that. Maybe there's a better, more cost efficient and operationally efficient way to run this business. Because it's already proving out that that's the case. So, whether that gets passed on into economics of transactions, I guess that remains to be seen, but perhaps.

Greg Paulo (45:56):

Thanks. Michael.

Michael Flock (45:57):

Yes. Here's another question. Based on company stock price pressures from Covid, what overall percentage of debt sales increase might we see from originators to make up this difference and those that are increasing their sale. I mean, does it come from those increasing debt sales for quick funds or from those that have never sold today but are considering to do so? Who wants to take this one? Greg?

Greg Paulo (46:33):

I was going to pass that to Matt.

Matt Maloney (46:38):

Yes, that's okay. I'm going to answer the question in two forms and not specifically related to stock price of a publicly traded organization operating in our industry, but just from a practical perspective. The increase in volume is going to come in in likely two forms. It's going to come in both. It's going to come in the form of increased charge offs. They're going to trail this cycle eventually when you know, maybe hardships or modify loan modifications for parents is when all of those things are kind of flushed out and then charge offs are going to start flowing again. I think existing deal flow that is flowing through from credit grantors or other organizations that are sellers of non-performing receivables, they're going to increase the other sides that I can absolutely see. We're already seeing it.

Matt Maloney3 (47:37):

And now again, this is in a niche area within healthcare, but just this week we've had three conversations with three large national health systems whom would not sell debt before and are fast tracking a program to move their patient receivables, a non-performing bad debt, patient receivables into a sale process, which is known that it's going to account for probably well over a billion dollars in opportunity and receivables. Because they need liquidity on it over a longer period of time, they've realized the inefficiency of some of their internal processes. That's not necessarily the case in other markets that are more accustomed to selling receivables. But I do believe that those industries like the credit markets and banking and non-bank financial lenders and other types of organizations who may have been on the cusp of selling more volume, they may, I believe my intuition tells me certainly the hurricane may prove me wrong, but I believe that will drive more volume into a sales process. How that affects stock price,. I'm not the person to answer that question. Perhaps somebody else is better at to do so.

Michael Flock (49:11):

Okay, thanks Matt and Greg. Nnow this is an interesting one. We've all been talking about how we know the supply of debt is going to increase, but given that lawsuits today are limited due to court closures, suspension, default judgments and so forth, you know, is that going to decrease? Is that going to impair the growth in supply which is different than, you know, we all think it's going to grow, but what impact will these factors have on the potential increase of supply?

Irwin Bernstein (49:50):

Michael, I'll step forward, take first crack at that one. I think that what a lot of folks forget is that debt collectors are counselors or consumers who find themselves in trouble. Now, there, there's really three types of corridors. Some people have heard me say this before. You have consumers who for whom the bill was truly lost. They have the money. You reach out to them, they will pay it no matter what. You have the folks, the other side who aren't true consumers, they were people who were trying to game the system and they wanted to get something for nothing. The bulk of the US population, the real consumers are the 78% of the folks in the middle for whom rough times happen. And they don't have a lot of resources, whether a storm. Those are the people who need the greatest help today. And unfortunately, you know, when Nevada one Massachusetts said, don't reach out, don't be proactive, we're unable to provide the important function of holding people's hands and helping them get back on their feet. And the end result longer term is people who would have been helped and got back on their feet. Instead, we'll find out that their accounts are being charged off. So not only will you see potentially an increase in numbers of charged off accounts to sell, but you might also see an increase in the quality of the consumer that you're buying.

Matt Maloney (51:46):

Yes, is Matt Maloney. I want to make sure that I address one aspect lecturing, which is with respect to judgment accounts. As I understood the question and how is it having an effect? I'm not sure if it has effect on supply with how the accounts are or how the court systems are essentially on furlough. If you will, right now and how that's affecting accounts that are in the legal collection process question. It's going to an IP that's going to be longer in a very large pool of judgment inventory. And we're seeing a fairly impressive drop off in the recovery of those accounts that are in that process from judgment inventory. And because of what one interesting element to it is that because of the backlog that some of these court systems were under, we're actually seeing claims that had not been processed. Some of them up in certain court systems across the country because they've shut off any new flow coming in. But we think that that part of the recovery cycle on the judgment or legal inventory, it's going to perhaps be exacerbated when things are just going to be overloaded and slow to be able to respond. And that's just because it's primarily abuse.

Michael Flock ([53:41]):

Okay. We've got time for one last question here, but it's a, it's a big one actually on, I know it's on everyone's minds and we have actually a couple of questions on the same subject. So how do you think work from home will change the standards of collections and with almost a year of social distance occurring? What impact did that have on the bottom-line a. And B, can you guys comment on how specifically collection agencies then are changing their operations and their workforce infrastructure to comply with the CDC and government regulations or requirements over the last month? So, kind of two questions on the same subject. How will at home standards change the year of distancing occurring? How does that impact the bottom line? And then kind of related to that, what are agencies doing to change their operations and workforce infrastructure to comply with new regulations?

Matt Maloney ([54:41]):

This is Matt. I'll take that. So, the first part, there cannot be change in work from home operations without the support or the approval of certain regulatory bodies. Now this is, I'm speaking on a national scale, so if any members of our audience work in specific regions or just state, they may be okay. But as many of you probably are aware, there are several dozen states that specifically preclude or prohibit the ability to have a collection occur in an unlicensed location and therefore a personal residence will be an unlicensed location. That changes very quickly during Covid. And that just isn't with the collections that's within the mortgage industry and other heavily regulated industries whereby that business could not be performed at an unlicensed location. If there is willing to be a change. It first has to be approved and it starts at the regulatory side. So now let's make the assumption that that can take place going forward.

Matt Maloney ([56:05]):

I believe that as I mentioned in an earlier question, that this is going to fundamentally change how certain organizations operate their business. Not wholesale change, not complete 180 degree from in office to work remotely or work from home. But I think it's going to change certainly how we look at it and manage our workforces. You know, first of all you have to assess your policies and procedures and things related there too. And then you have to reconcile those against client, SLAs, right? Service Level Agreements to clients that allow or precluded. You have to reconcile that to regulatory restrictions, not just state licensing or federal licensing, but also privacy restrictions, PII, PHI, high tech for healthcare. There's a lot of various things that you have to do to reconcile that to. Next you have to reconcile that to youremployee infrastructure. One of the things I feel that our organization was quite well-prepared in this process and we supported the last week of February and had 90% of our workforce deployed remotely by March the 10th ecept for those states where we were still precluded from doing so, and we had those accounts shut down. But what we underestimated was our employee infrastructure, i.e., their technology at home, their ability to be able to remote into our private cloud environment for our secured workforce. There are things that you have to look at there. I believe this and when we have a book, a new written book, it's still adding chapters every day to how to manage this process. But, I think that it starts at the regulatory side that would not be possible until any restrictions or prohibitions against that were revised to allow from a work.

Michael Flock (58:16):

Okay, Matt. Thank you very much. That wraps up our webinar this afternoon on The Impact of the Coronavirus and the Economic Downturn on the Debt Buying and Collection Industries. I want to thank our audience for participating. I wish you a good luck and we intend to have more of these webinars in the future and I hope you all will participate again. Thank you very much.