The Power of Public Records: Enhance Collection Processes of Delinquent Receivables

Governments are actively responding to simultaneous changes in economic climate, budgetary constraints and evolving consumer behaviors by developing collection strategies to enhance operational efficiencies and effectiveness.

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Introduction

Government entities at all levels have expressed an increased focus in collecting delinquent receivables as a method to close the budget gap and avoid raising taxes on their constituents. This is evidenced by testimony on Capitol Hill by the Financial Management Service (FMS), press releases from the Louisiana Secretary of Treasury, and implementation of legislation in Illinois and Ohio to allow the offset of local debts at the state level. Currently, there are several hundred billion dollars of delinquent receivables owed to governments that could be collected and used to provide valuable services to citizens.

Some of the industry best practices utilized by third party collection agencies within the private sector can be applied to delinquent receivables owed to governments. These practices can increase operational efficiencies and effectiveness to maximize the collections of delinquent receivables at the lowest cost possible. One such industry practice is to obtain external data, such as public record data, to assist in the three phases of collections, which are:

1. Segmenting and prioritizing,
2. Locating and contacting;
3. Account monitoring.

Summary of Government Delinquent Receivables

Currently, governments at the federal, state and local levels have approximately $609 billion of outstanding delinquent receivables owed to them by individual and commercial entities. These delinquent receivables arise from many forms such as fines, fees, penalties, child support debts and loans, which are typically issued for education or economic development. Due to the great recession, delinquent receivables owed to governments have increased dramatically in recent years.

According to the United States Department of the Treasury’s Annual Report to Congress issued by the FMS in March 2011, outstanding delinquent non-tax receivables stood at $103.6 billion, of which $90.5 billion is owed to five agencies and has increased by 26% from FY09 to FY10. FMS collected $5.45 billion in FY10, which represents a collections rate of approximately 5.3%. Account receivables at the Internal Revenue Service (IRS) represents an additional $300 billion, which brings the total amount of delinquent receivables owed to the federal government to about $404 billion.

Data regarding outstanding receivables at the state and local level indicates there is approximately $121 billion and $84 billion in delinquent receivables at the state and local level, respectively. This brings the total estimated amount of delinquent receivables owed to governments to an estimated $609 billion.

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1 The Financial Management Service is a bureau within the United States Department of the Treasury and functions as the third part collector of delinquent receivables owed to creditor agencies throughout the federal government. FMS leverages the Treasury Offset Program (TOP) and the Cross Servicing program to collect debts.

2 Department of Education, Small Business Administration, Department of Defense, Social Security Administration, United States Department of Agriculture

3 5.3% = $5.45 billion divided by $103.6 billion

Challenging Economic Times and the Lag Effect on Governments

Since the turn of the millennium, the United States economy has experienced the popping of the dotcom bubble, terrorist attacks of 9/11, the boom and bust of the housing market, resultant financial crisis and the great recession where unemployment has reached levels not experienced in decades, as well as extended periods of both unemployment and underemployment. These difficult economic conditions have trickled down to governments, which typically experience a lag effect on their budgeting practices from the overall economy.

During 2011, Harrisburg, the capital of Pennsylvania, filed for Chapter 9 bankruptcy and entered a receivership situation with the state. Also in 2011, Jefferson County, the largest county in Alabama filed for Chapter 9 bankruptcy. Jefferson County is the largest municipal bankruptcy filing in US history and has surpassed Orange County, which filed for bankruptcy in 1994. In 2012, this trend will likely continue as the fallout from the great recession continues to ripple through governments, as evidenced by recent actions towards bankruptcy taken by Stockton, California.

Governments plan their operating budgets by estimating the amount of taxes that can be collected, most commonly on sales, income and property taxes. Revenues are under pressure from decreased incomes, which result in decreased spending and hence, decreased revenues from sales taxes and declining property values. Typically, local governments will also receive a portion of their operating budget from state aid, which is also under pressure from the economy. Given the unexpected sharp downturn in the economy, many governments have been caught off guard by the decline in revenues. As a result, governments have faced many challenging decisions, including closing offices and reducing workforces, while maintaining a consistent level of service to its citizens.

Another effect of decreasing revenues on governments is the impact of their balance sheets on their bond ratings. Bond ratings have a direct effect on the borrowing costs of governments. Typically, the higher a government’s bond rating the lower borrowing costs to the government when financing new projects.

Changing Consumer Behaviors

The hierarchy of payments theory suggests consumers under financial duress will elect to pay certain debts more than others, allowing certain obligations to default more frequently. Although the premise is simple, quantifying when and how debtors make these choices is challenging. Conventional wisdom suggests that many American consumers have traditionally obeyed a pattern of “mortgage-then-auto-then-credit cards-then-sother” hierarchy. The theory assumes the logic that protecting the family home against foreclosure is the highest priority for consumers. But the U.S. housing catastrophe may have irrevocably changed this dynamic. All government related debts, such as fines, fees and taxes, fall within the other category and are usually the lowest priority for consumers.

Abandoning the futile effort of bailing water from a sinking ship, consumers drowning in unsustainable mortgage debt are likely to realign their payment behaviors in such a way that a monthly car payment—the literal and metaphoric vehicle that gets them to the job that pays their bills—now assumes the central position in the hierarchy. Still others, in the wake of a chicken-and-egg scenario where job loss has led to mortgage default, may assign a greater level of importance to continued spending, and thus expand credit card payments to shore up the foundation of the pyramid in order to facilitate that aim. It should come as no surprise that under economic duress, monthly household budgets are not growing in any material way, but they are continually changing and vary widely based on an individual debtor’s employment and housing status, geographic location, and numerous other demographic characteristics.

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2 http://online.wsj.com/article/SB10001424052970204224604577028491526654030.html
4 Know Your Debtor, Making (Dollars and) Sense of Consumer Behavior in a Down Economy
Another fast emerging trend in consumer behavior is the increased frequency of a strategic default on debt obligations. A strategic defaulter is someone who typically has a higher credit score, pays their bills on time and obtains new credit prior to defaulting on their current obligations. This increased trend of individuals strategically defaulting on their receivables has created a scenario where individuals who typically pay their obligations on-time, default on most of them and are willing to ride out a period of low credit availability until they get their financial house in order.

**Increased Government Focus on Collecting Delinquent Receivables**

In recent years, Governments have placed an increased focus on collecting delinquent receivables. In March 2011, David A. Lebryk, Commissioner of the Financial Management Service, testified before the House Oversight and Government Reform Subcommittee on Government Organization, Efficiency and Financial Management. Commissioner Lebryk’s testimony was titled, *Red to Black: Improving Collection of Delinquent Debt Owed to the Government.*

Commissioner Lebryk’s testimony laid out several strategic objectives to increase collections by more than $5 billion over the next ten years. Many of the strategic objectives outlined in the testimony are in line with the three phases of collections. A sampling of Commissioner Lebryk’s strategic initiatives include:

- **Improve Offset Match Process:** In the Treasury Offset Program (TOP), we will be making changes to our systems and procedures to improve the accuracy of the process by which we match the name and the Taxpayer Identification Numbers (TIN) information on outgoing payments with the name and TIN information associated with debts in our database. This will ensure that a debtor name change by marriage, for example, would not result in a “no match” in our offset process.

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10 [http://www.youtube.com/watch?v=T3JFeULx788](http://www.youtube.com/watch?v=T3JFeULx788)


12 Ibid
• **Improve management of the debt portfolio:** FMS is implementing additional operational efficiencies, technologies and strategies to improve the management of the debt portfolio, which will increase our collection of delinquent debt. These initiatives, which are scheduled to be completed by December 31, 2011, will provide the infrastructure to support future initiatives.

  - **Work larger more collectible debts longer:** In our Cross-Servicing program, we will be improving our collection methods to better identify the collectible debts, work with agencies to improve the documentation associated with debts, and actively pursue the more collectible debts in-house for 60-120 days longer than we do now before referring them to a private collection agency, particularly larger debts that are relatively new.

  - **Implementing state-of-the-art debt collection tools:** By using state-of-the-art collection tools, we can more strategically allocate our resources to focus on debts with higher collectability potential. In addition, by enhancing our skip tracing capabilities, we will be able to more quickly and more often locate and contact debtors who may not have kept the Federal government up-to-date on their whereabouts.

Also during his testimony, Commissioner Lebryk stated, “The simple premise of TOP is that we should not be paying money to those who have failed to meet their obligations to the United States without first applying that money to the delinquent obligation.” This mentality regarding delinquent receivables is permeating throughout governments at all levels.

In October 2010 Louisiana State Treasurer, John Kennedy, issued a press release titled “Attack the Deficit by Collecting Money Owed to the State.” Treasurer Kennedy opened his press release by stating, “One way Louisiana can reduce the $2 billion to $3 billion budget deficit next fiscal year is by doing a better job of collecting money owed to the state.”

Late in 2011, Illinois passed Public Act 97-632, which allows the collection of debts owed to local government through the State’s tax refund offset program run by the Comptroller’s office. This program allows each local government who decides to participate in the program to set their own policies regarding which debt types (parking fines, library fines, etc.) they would like to collect via the offset program and the age of the debts. Chicago has decided to participate in the program and plans to collect debts that originated as early as 1999.

In January of 2012, Ohio Attorney General, Mike DeWine announced the Local Government Collections Services Program. The intent of this program is to assist local governments, i.e. cities, counties, townships and villages, by collecting the delinquent receivables owed to local governments. The program is to be funded by the dollars collected, which will not result in increased costs to the taxpayers in Ohio.

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13 Ibid
14 Ibid
15 Ibid
16 TOP is the Treasury Offset Program. Through TOP, FMS intercepts Federal tax refunds, benefit, vendor, salary, retirement, and other payments to collect delinquent Federal tax and non-tax debts, as well as certain debts owed to states, including child support obligations.
Public Record Overview and How They Can Assist in Collecting Delinquent Receivables

The delinquent receivables collected in the private sector and public sector have many common characteristics. One such characteristic is the data associated with the owner of debt, the debtor at the time of origination, may not reflect the debtor’s current situation. This data is needed to locate and contact the debtor and the more recent and accurate the data is, the more likely a debtor is to be contacted and the debt is to be collected. For decades, private collection agencies have used external databases, to help navigate through the three phases of collections. The three phases of collections include:
1. Segmenting and prioritizing,
2. Locating and contacting;
3. Account monitoring.

During the first phase, debts and debtors are segmented and prioritized based upon a variety of factors using internal, historical static data and external dynamic data that is typically more current about the debtor. Debtor’s information should be scrubbed against various databases to determine some valuable information about the debtor, such as whether the debtor is deceased, currently incarcerated or in a bankruptcy status. In most cases, collection action cannot be taken against the subset of debtors who are in any of those scenarios.

Additionally, this information gathered from public records about the debtors can be used to assist in allocating resources to different debtors depending upon their characteristics. For example, if a debtor has a history of Fair Debt Collection Practices Act (FDCPA) filings, these debtors could be handled by more experienced collectors who may be better able to manage a debtor who may be combative during the collection process. Lastly, a debtor’s identity, such as their name, address and Social Security number should be cleansed to verify whether the debtor has recently changed their name, address or is using a different Social Security number as seen in public records data.

Occasionally, a debtor’s identity can appear differently in public records data, typically because of a name change and a collection via an offset or intercept program could be missed. After the debts are segmented to determine which debts can be collected, a prioritization strategy is then implemented based upon various data sources.

The debts are characterized, using internal data, by type, such as whether the responsible party is a consumer, or commercial entity, balance of the debt, age of the debt and whether the debt is an administrative debt, such as a fine, fee, or penalty, or if the debt originated as a loan. Governments can gain insight into which debts are typically curable and where to begin their collection efforts by leveraging dynamic data regarding their debtors.

External data regarding the characteristics of a debtor can be obtained through a public records company, such as LexisNexis® who is the number one data supplier to third party collection companies. This data offered through the LexisNexis® Revenue Recovery Solution will include updated information such as name changes, phone numbers, deceased, incarceration, bankruptcy, history of FDCPA filings as well as appending other pertinent identity data, such as a debtor’s most used SSN in public records, which can be used to increase collections through an offset program. Obtaining this identity management data about a debtor should increase hit rates during an offset collections process.

A contactability score on the debtor using external databases will represent how contactable a debtor is and can be used to establish a priority order in the workflow process. Another score that is helpful in prioritizing debts is a score that measures the probability a debtor would be able to pay their debt. Each of the characteristics on both the debt and the debtor can play a role in the contactability and collectability of the debt and overall treatment strategy.
Another factor essential to efficient and effective collection strategies involves more recent data on the debtor. Once the debts have been segmented and prioritized, the second phase of collections will begin. At this point, there will be an increased level of focus on which debtors should be contacted first, those debtors who are most likely to pay and how best to contact them, while maximizing the efficiencies and effectiveness of active collection activities.

The second phase of collections involves locating and contacting the debtor to attempt to collect the debt owed. It is common practice to first send a demand letter, sometimes referred as a dunning letter, to the debtor’s address of record explaining to them who is servicing the debt and how the debt can be resolved. The address information on record is sometimes inaccurate for a variety of reasons and should be updated to ensure the debtor receives proper notification and opportunity to pay their debt.

After the demand letters are sent to the debtor, a calling campaign to contact the debtor will typically commence. During this step it is imperative the collectors have the most up-to-date phone numbers to increase the number of right-party contacts and to not waste valuable resources when skip tracing a debtor. Another effective collection strategy for collecting government debts involves the contacting of relatives or associates, as seen in public records, to assist in locating and contacting a debtor and collecting on the delinquent receivable. If after all avenues to locate and contact a debtor have been exhausted and the debtor has not been located, then the third phase of collections, account monitoring, can begin.

External databases can be continually monitored for updates or changes in their public record, such as name, address, phone data, or deceased information. These updates can be passed back to the government collection agency automatically via an Extensible Markup Language (XML) feed. This account monitoring step is critical to a successful delinquent receivables collection program because it allows the creditor agency to be the first in line to contact a debtor and collect their debt. Employing an account monitoring strategy into a delinquent receivables management process for hard-to-find debtors can be an extremely effective method for being the first entity to locate and contact a debtor and collect the debt.

Summary of Challenges and Solutions

Challenges

Delinquent receivables owed to governments have increased at rapid rates in recent years and tax revenues from most sources have also declined due to the great recession. This scenario, coupled with consumers shifting viewpoints on how they manage their finances have put increased pressures on governments to provide services with constrained budgets.

Solutions

Governments can adopt industry best practices when taking actions on delinquent receivables by leveraging external public records databases and following the three phases of collections. These practices will help them increase their knowledge of a debtors’ identities and maximize their operational efficiencies and effectiveness. During phase one, collections of delinquent receivables should increase by segmenting and prioritizing the portfolio prior to assigning accounts to collectors. Secondly, the most recent and accurate location and contact information about the debtors should be obtained to increase right-party contact rates, as well as first call resolution rates to maximize the overall amount of dollars collected per dollar spent. Lastly, the locate and contact information of hard-to-find debtors should be monitored for updates on an ongoing basis to be the first in line to contact the debtors and collect the debt.
Learn how the LexisNexis® Revenue Recovery Solution can enhance your collections process.

Call 866.528.0778 or visit www.lexisnexis.com/government/revenuerecovery

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