



SMARTER PERSPECTIVE: RECEIVABLES **How a Skilled Servicer Can Recover Maximum Value from a Distressed Sub-Prime Portfolio**

By Buddy Beaman

In this article, we discuss the rising incidence of sub-prime loan delinquencies, with emphasis on developments and effective remedies associated with auto and other transportation portfolios.

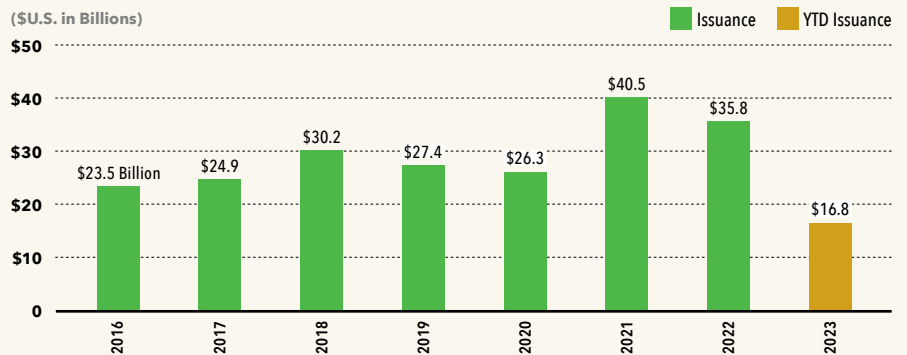
Sub-prime auto bonds have consistently returned sizable returns to investors over the past several years. Recently, however, growing delinquency rates, the collapse of some high profile used car dealer/loan issuers, and concerns over the stability of many others, have raised alarms across the industry.

According to Bloomberg News, issuance in the sub-prime auto ABS market grew more than 70% in the five years leading up to, and through, 2021. But now, as more lenders associated with those loans stand to fail, concerns are elevating in regard to ensuring that borrowers pay back the money they owe; particularly given now higher interest rate levels, the increased cost of goods, and dwindling consumer savings.

A big part of the problem in situations such as these is that when a lender does fail, there is often a loss in continuity for borrowers that can make it more difficult to collect monthly loan or lease installments. Historically, we have observed that as lenders become

Sub-Prime Auto ABS Boomed Since 2016

Sub-Prime Lenders Issued More Auto Bonds in Past Two Years



Source: Bloomberg News

Does not include near prime or non-prime deals





distressed, their normal channels of communication and follow through with borrowers frequently suffer. To make matters worse, customer service, accounts receivable and other personnel may be reduced based on cash flow during such periods of distress, further disrupting billing and other processes.

If a physical monthly bill fails to arrive by mail, a borrower may forget about the payment or decide to wait until another arrives. Hearing about the failure of its lender, a borrower may simply decide not to pay. Or, the borrower may actually

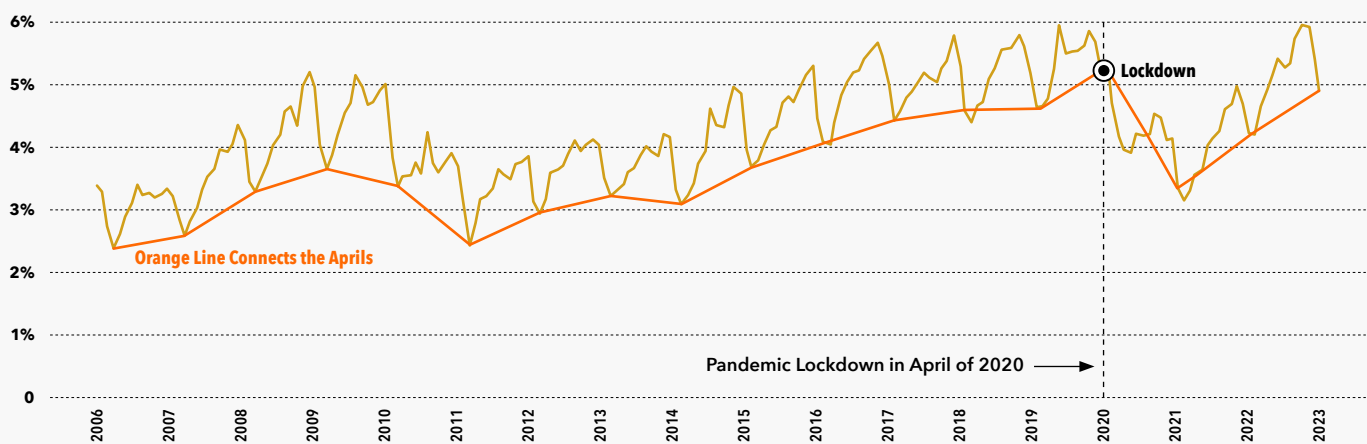
want to pay but not know where to send that payment without a physical bill for guidance. It is also important to note that in the current environment, we are seeing this same scenario occurring across a variety of transportation portfolios, including both consumer borrowers (auto loans/leases) and commercial borrowers (commercial vehicle and truck fleet loans/leases). Overall, the longer that this continuity disconnect continues, the more difficult it can become for creditors to collect these monthly payments, particularly from portfolios of sub-prime borrowers.

In much the same way that a consumer who borrowed money to purchase his or her vehicle expects to receive a bill every month, bondholders expect those in charge of managing billing, accounting and other processes associated with the collection of those payments, to perform their duties under all conditions. When they do not, bondholders can be put in a compromising position because their indicators of such problematic issues often lag those of a borrower.

Early identification of these situations and quick action by creditors is critical

Sub-Prime Auto-Loan 60+ Days Delinquency Index

Percentage of Total Balances in ABS Tracked by Fitch



Source: Fitch Ratings ABS Index

WolfStreet.com

The sub-prime auto delinquency rate of 4.67% in April of this year was the second worst for that month ever on record, exceeded only during the Pandemic lockdown in April of 2020.





to ensure continued performance of these portfolios during periods of distress. The timely assignment of a substitute “Servicer” into the loan structure can help ensure that consistent and ethical business practices are followed in both collecting borrower payments and administrating the overall loan process over a given period moving forward. These third-party servicers are rated by a rating agency to ensure that all practices are conducted in accordance with the structure and contractual obligations of a loan.

In light of the above market conditions, at Hilco Receivables, we are already seeing a notable increase in demand for our extensive, proven, and fully compliant national servicing capabilities.

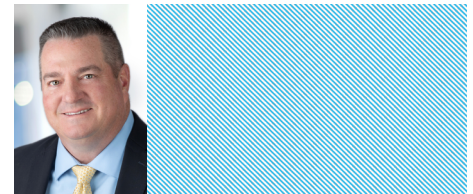
As a recognized leader in the collections industry with over 40 years of experience working on behalf of companies and their performing retail and non-performing commercial debt portfolios, our team is differentiated not only by its experience, but by a track record of implementing innovative and successful recovery solutions across all sectors and industries.

Our capabilities include distressed debt monetization and valuation services across both commercial and consumer accounts receivable and loan portfolios. We painstakingly evaluate

the net realizable value of a company’s receivables and develop innovative and customized collections techniques tailored to maximize return for each individual client.

Unlike many other providers, Hilco Receivables is able to outright purchase receivables, purchase with an upside share, or operate on a fee basis. This provides an enhanced level of optionality and reassurance for our clients based on time sensitivity, cash flow and other considerations.

Advisory services are also available under a structure contingency fee transaction basis that enables clients to maximize value while also best serving business objectives. And, as a Hilco Global company, we are able to leverage an extensive range of complementary advisory and other related services to assist well beyond the servicing of loan portfolios, in ways that others in the industry simply cannot. We encourage you to reach out to our Receivables team today to discuss any situations you are dealing with that could currently benefit from, or are likely to soon require, experienced servicer intervention. We are here to help.



BUDDY BEAMAN IS EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER FOR HILCO RECEIVABLES, LLC.

He is responsible for managing day-to-day operations and research analytics for the company, which handles principal investments totaling over \$500 million, \$10 Billion in assets acquired and over \$400 million of purchased and fee based commercial receivables.

Buddy brings to Hilco Receivables, LLC extensive hands-on experience managing both people and systems, including oversight of call center operations, research analytics, and client services. During his tenure in the receivables (A/R) industry Buddy has managed a variety of data and financial systems. His strong technical skills, coupled with a deep understanding of the A/R business enable him to deliver unsurpassed customer service and results for clients. Contact Buddy at bbeaman@hilcoglobal.com or 469.400.4842.