Collector's Ink

PUBLISHED BY THE CALIFORNIA ASSOCIATION OF COLLECTORS | SUMMER 2023

Fed Launches Instant Payment System

After a decade of development and anticipation, the U.S. Federal Reserve has launched FedNow, a system that promises to revolutionize the U.S. payment landscape, [according to a recent article from Forbes](). With the ability to provide real-time payments, FedNow aims to bring the country in line with other tech-savvy nations like the UK, India and Brazil.

The existing high-speed money transfer system, Real Time Payments Network (RTP), rolled out by major banks, has seen limited adoption, moving only a fraction of the volume compared to the slower Automated Clearing House (ACH). The launch of FedNow is expected to change this dynamic, encouraging more banks and credit unions to adopt the instant payment system, according to the Fed.

The widespread adoption of real-time payments in the U.S. has faced a "chicken and egg" problem, according to reporter Emily Mason. "To use a new instant-payments system (like RTP), financial institutions need to build an interface for customers to interact with, which can be time-consuming and costly," she said. "But many banks and fintechs didn't want to make that investment until they were convinced that other banks, regardless of size, would be on an instant payment rail too and that customers would come to demand instant payments."

While instant payments offer enhanced convenience, they also raise concerns about potential real-time fraud. To address this, FedNow has set a default transaction limit of $100,000, which can be adjusted by individual banks.

What's Next?

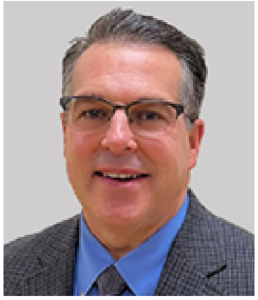
In the short term, smaller institutions are expected to gravitate toward FedNow, while larger ones might continue using RTP. However, as the demand for instant payments grows, it is predicted that institutions of all sizes will adopt both systems to ensure broader reach.

Faster payroll deposits, particularly for hourly workers, could be a significant benefit, helping

Continued on page 5...

President's Message

LOOKING AHEAD: PARTNERSHIPS FOR CHANGE



By Chris Schumacher

Where has 2023 gone? I can't believe we are moving into September already. I hope everyone was able to get some time away to relax and rejuvenate.

The collection industry seems to be moving so fast with the implementation of Regulation F, and now discussions around ChatGPT and the use of artificial intelligence (AI) in our collection strategies. AI is a new and untested technology, but it has the potential to revolutionize the collection industry. Industries including ours are saying that it's not if you will be using AI, but when. My hope is that federal and state legislators understand the value of AI and don't overreact by passing regulations that could stifle innovation.

These conerns are certainly justified given the compliance-driven nature of our industry regulators. Nevertheless, we will work with legislators to ensure that any regulations on AI are carefully crafted to protect consumers and promote innovation in our industry.

The CAC is hosting a roundtable discussion on AI in collection software at our upcoming 106th Annual CAC Conference and Expo in Long Beach on Oct. 9-10. The discussion will be led by industry experts and will explore the potential benefits and risks of AI in the collection industry.

Regulation F has changed the way we communicate with consumers. Along those lines, "Mastering the Art of Email and Text Communications to Revolutionize Your Business" is another salient session worthy of your attention. Many of you are already leveraging the power of these communications tools, and this session can only augment your awareness.

I am also looking forward to the session on "Managing Remote Employees Including Offshoring," given the challenges of rising labor costs and the ongoing labor shortage.

Other conference topics of note include:

- Predicting the collection industry of 2025
- The industry profitability debate (how do we increase income or cut costs?)
- Changing our clients

The CAC Annual Conference will be a great event where members and vendors can share information and experiences to move the industry forward. It's a great opportunity for industry leaders to learn about the latest trends in the industry and to network with other professionals. The sessions on AI, profitability, and changing clients are all particularly timely and relevant. I hope everyone can attend the conference to learn more about how they can improve their businesses. See you in sunny Long Beach! CI

2022-2023 Board of Directors

Chris Schumacher – President
Company: Optio Solutions, LLC, dba Qualia Collection Services
Email: cschumacher@optiosolutions.com

Kelly Parsons O'Brien – Secretary
Company: Pacific Credit Services
Email: kelly@pacificcreditservices.com

Shawn Suhr – Treasurer
Company: Continental Credit Control
Email: Shawn@contcred.com

Maryrose Diaz - Director
Company: Grant Mercantile Agency
Email: Maryrose-gma@sti.net

Steve Ernst
Company: The E&A Group
Email: sae@eandagroup.com

Bob Keith – Director
Company: Rash, Curtis & Associates
Email: bob.keith@rashcurtis.com

Rick Minton - Director
Company: Action Professionals, Inc.
Email: rick@actionpros.com

Tonya Richardson - Director
Company: California Business Bureau
Email: trichardson@cbbinc.com

Cindy Yaklin – Director
Company: States Recovery Systems, Inc.
Email: cindy.yaklin@statesrecovery.com

Tammy Schoenberg - Executive Director
Company: Calif. Assn. of Collectors
3200 Courthouse Lane
Eagan, MN 55121
CAC Telephone: 916-929-2125
Email: schoenberg@acainternational.org

Tom Griffin – General Counsel
Main Office: 916-925-6620
Email: tgriffin@hsmlaw.com

Cliff Berg – Legislative Advocate
Main Office: 916-448-8240
Email: cberg@govadv.com

Executive Director's Report

Register Today for the 2023 CAC Annual Conference!

By Tammy Schoenberg

CAC's 2023 Annual Conference will take place Oct. 9-10, 2023, at The Westin Long Beach. Registration is open and you can sign up at www.calcollectors.net/events. The Conference Committee has been working to secure speakers for some great topics, including:

- The Heat Map: The Communication Channels with Consumers, the Risks and the Law
- Mastering the Art of Email and Text Communications to Revolutionize Your Business
- Managing Remote Employees Including Offshoring
- Using Social Media Data to Enhance Skip Tracing
- The ever-popular Legislative Review, Legal Panel and Best Ideas and Burning Issues Roundtable.

We hope you will join us!

The CAC PAC Needs You

The California Association of Collectors continues to focus on building our Political Action Committee fund for 2023. Our PAC is growing and important—thanks to our valuable members!

As you read the updates from your CAC leadership, please consider adding your additional support to the imperative CAC PAC fund. A pledge of $500 will go a long way to win decisively for our industry.

Here's where the money will go:

- First priority: The legislature is in a major state of change. Members are leaving and new members have been elected. Before California passed term limits, that was not the case. A small interest group like CAC must move quickly to educate new members on our industry and defuse long-held incorrect impressions of the collection industry.
- Second priority: A small group like ours needs to have the leadership of both Houses know us and our issues. We do not have the capacity to be a major player with the legislators, so we are left to be known by those legislators who can influence others to help us. This means the leadership of both Houses as well as committee chairs and vice chairs.

These are real, tangible benefits that will help each and every collection agency in California!

By providing just $500 to CAC's PAC fund, you will become an integral part of the history-making team that continues to protect the California collection industry.

The CAC PAC fund needs your support to help elect legislators who favor creating a pro-business environment in California; an environment that allows businesses like yours to grow and prosper. We are asking you and all of your colleagues in the industry to write a check for $500 (or any amount you can provide) to the CAC PAC fund. You know where the money will go and what it will do. Now, it's up to you.

Contributions in any amount may also be made by credit card by clicking here.

Thank you for your generous support!

Tammy M. Schoenberg

Tammy Schoenberg

CAC MEMBER OBITUARY: MEL SHAW

Mel Shaw, former president and CEO of ACA International member company USCB America in Los Angeles, died on Aug. 4, 2023.

Shaw was highly admired and respected as an innovator and a visionary in the collection industry. After serving in the U.S. Navy, Shaw accepted a position with United California Bank, one of the original banks behind MasterCard. In the mid-1960s, the bank bought USCB America on Shaw's recommendation, and he ran the collection agency for several years before eventually buying it.

From 1981-1997, Shaw also served as founder and chairman of the board for American West Bank. In 2003, he sold USCB to its employees while still retaining his title and responsibilities. He retired in 2016 after almost 50 years with the company.

Shaw was an active ACA member for more than 40 years and served on the Board of Directors. He earned ACA's Member of the Year award in 2016. He also served on every committee for the California Association of Collectors and was co-chair of CAC's Educational Scholarship Fund.

Fed Launches Instant Payment System - Cont'd from page 1

to reduce reliance on costly loans for those living paycheck-to-paycheck. The introduction of FedNow opens up new possibilities for fintech companies and payment solutions, potentially leading to more payment options like "pay-by-bank" that could circumvent interchange fees for merchants.

FedNow is launching with 41 banks and 15 service providers certified to use the service, including community banks and large lenders like JPMorgan Chase, Bank of New York Mellon, and US Bancorp, but the Fed plans to onboard more banks and credit unions this year.

The Fed said in a statement that 35 banks and credit unions were currently using the service, as well as the Treasury Department's Bureau of Fiscal Service, according to Reuters. CI

HEALTH CARE FINTECH RAISES $29M IN FUNDING

Collectly, a patient financial engagement software for medical groups based in Santa Monica, California, recently announced that it closed a round of $29 million Series A funding led by Sapphire Ventures. This latest investment brings the company's total capital raised to $34.1 million.

"As the health care financial landscape grows increasingly complex, this raise will aid medical groups, billing and revenue cycle management (RCM) companies, as well as hospital and health systems to regain control with Collectly's patient financial engagement software," the company said.

A Tech Crunch article reported that Collectly uses "proprietary interfaces that integrate with electronic health records and practice management software to enhance patient billing operations."

Collectly aims to bridge the disconnect between providers and patients, modernizing the "outdated" payments system with innovative software.

The company will use the new funding on technology and product development, as well as market expansion.

"We are also looking at emerging technologies, like ChatGPT," Collectly cofounder Levon Brutyan told Tech Crunch. "AI is highly leveraged, so we are working on that as well to make sure that the patients will receive the best experience, understand their bills and that questions are resolved in a timely manner."

Join us for

CAC's 2023 Annual Conference

Oct. 9-10, 2023 • The Westin Long Beach

Sessions include:

- The Heat Map: The Communication Channels with Consumers, the Risks and the Law
- Mastering the Art of Email and Text Communications to Revolutionize Your Business
- Managing Remote Employees Including Offshoring
- Using Social Media Data to Enhance Skip Tracing
- The ever-popular Legislative Review, Legal Panel and Best Ideas and Burning Issues Roundtable

Access the **event page** here to check out the agenda of timely topics, and to register for early-bird savings–before Sept. 8!

Additional exhibit and sponsorship opportunities are available. Interested? **View the prospectus here**.

AUTO LOAN REJECTION RATES SOAR AMID BORROWING CHALLENGES

Car buyers are finally witnessing an improvement in the availability of cars and a leveling off of prices, according to a recent article from USA Today. However, they now face significant borrowing challenges that may hinder their plans to get a new ride.

According to the Federal Reserve, the rejection rate for auto loans surged to 14.2% in June, up from 9.1% in February, signaling the highest level since data collection began in 2013 and even surpassing the application rate for the first time.

Lenders have become more cautious as well, particularly with borrowers who have struggled with high inflation and increased interest rates over the past few years. Many consumers have accumulated debt to make ends meet, resulting in a higher chance of loan default, especially in the auto financing market. Notably, a record number of Americans, just over 17%, have been paying at least $1,000 a month on new auto loans in the three months leading up to June 2023.

Deteriorating auto loan performance is evident as the severe delinquency rate in May reached its worst level since data collection began in 2006, and the default rate rose to levels similar to those seen in 2019. A significant concern is that consumers paying substantial finance charges are at risk of falling into a negative equity trap, where the amount owed on the vehicle surpasses its value, according to Ivan Drury, director of insights at Edmunds, the online car resource and information company.

Some lenders, including Fifth Third Bancorp, Citizens Financial, U.S. Bank, and Capital One Financial, have already reduced their auto lending or completely cut it out. This reduction in lending options could lead to higher interest rates and leave some potential buyers ineligible for financing, further impacting their ability to purchase the car they desire.

"Consumers are already under pressure, and they're even worse off because banks are reducing their lending," said Alex Liegl, chief executive at electric vehicle financing company Tenet. "If there are fewer options, interest rates are going to further increase for customers. Typically, sometimes, they won't even qualify for financing, so they're shut out from getting the car they want."

The Fed said the average reported probability that an auto loan application will be rejected increased sharply to 30.7%, the highest level since the Fed started collecting this data in 2013, according to the article.

What Can Consumers Do?

Consumers looking to buy a car are likely to face an uphill battle with increasing auto loan rejection rates and tighter lending standards. According to auto experts, it's crucial for buyers to approach their purchase with a comprehensive budget and consider all financing elements beyond just the monthly payment and APR. Rather than extending the loan term to lower monthly payments, buyers should focus on making a larger down payment or opting for a more affordable car to avoid excessive interest payments.

PREHIRED FACES LEGAL ACTION OVER DECEPTIVE STUDENT LENDING PRACTICES

Prehired, an education company offering a 12-week online training program, is facing legal action from the Consumer Financial Protection Bureau and several state attorneys general for deceptive marketing and unfair debt collection practices, **according a recent complaint by the bureau.** The company claimed to prepare students for entry-level software sales development representative positions with "six-figure salaries" and a "job guarantee." However, Prehired induced applicants to sign "income-share" loans to finance the program's costs while misrepresenting that consumers would only need to make payments once they secured high-income jobs through Prehired.

In reality, Prehired concealed terms in the loan agreements that obligated consumers to make payments even if they didn't obtain a job. Additionally, the company unilaterally increased consumers' minimum monthly payments without evidence of employment or income growth.

Lawsuit

The legal action involves attorneys general from Washington, Oregon, Delaware, Minnesota, Illinois, Wisconsin, Massachusetts, North Carolina, South Carolina and Virginia, along with California's Department of Financial Protection and Innovation. According to the complaint, Prehired originated over 1,000 income-share loans for students nationwide, and its debt collection entities, Prehired Recruiting and Prehired Accelerator, pursued collection activities on defaulted loans.

The lawsuit alleges that Prehired misrepresented the nature of its income-share loans, falsely claiming that the loans did not create debt and were contingent on securing a job with a yearly salary above $60,000. However, buried within the loan terms were requirements for graduates to make payments regardless of job placement. Furthermore, Prehired engaged in deceptive debt collection practices, tricking consumers into converting the income-share loans into revised settlement agreements that imposed burdensome dispute resolution and collection terms.

Prehired also filed debt collection lawsuits in remote jurisdictions, making it difficult for consumers to defend themselves.

The CFPB further alleges that Prehired failed to disclose key loan terms, such as the amount financed, finance charges and annual percentage rate, violating the Truth in Lending Act and its regulations.

What's Next?

Through this joint action, the CFPB and state attorneys general aim to hold Prehired accountable for its deceptive practices, void the income-share loans, provide restitution to affected consumers and impose penalties, with the collected amount being deposited into the CFPB's Civil Penalty Fund.

Prehired's alleged deceptive practices highlight the importance of consumer protection in the student lending market, emphasizing the need for transparency and fairness when offering educational financing options.

"Today's action is part of the renewed focus the CFPB has placed on partnering with state regulators and bringing forth joint actions, including issuing an interpretive rule in 2022 designed to reinforce and expand state enforcement efforts," according to the bureau.

Read the bureau's complaint here. CI