

# LOAN COLLECTIONS & TECHNOLOGY

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## RISING UNEMPLOYMENT TO RAISE '02 DELINQUENCY RATE

With unemployment at its highest level in six years, collectors are racing to shore up accounts, anticipating that a rise in credit delinquencies isn't far behind.

"We've already started working accounts a lot harder, because we know what's going to happen next year," said Michelle Dunn, the president of **MAD Collection Agency** in Holderness, NH.

Dunn expects the delinquency rate to start a serious slide toward the end of the first quarter of 2002. Already, according to a quarterly survey from the **Mortgage Bankers Association of America**, the share of homeowners paying their mortgages late, as well as the percentage of mortgages in the foreclosure process, increased last quarter.

In the MBA's latest National Delinquency Survey (NDS), the delinquency rate for loans on one- to four-unit residential properties was 4.87% in the third quarter of 2001, up 24 basis points from the second quarter of 2001. The percentage of loans in which foreclosure started during the quarter rose 2 basis points to 0.38 percent, while the percentage of loans in the process of foreclosure at the end of the quarter rose 4 basis points to 0.95 percent.

Douglas G. Duncan, the MBA's Chief Economist, attributes higher delinquencies to the recession, resulting in higher unemployment.

In the '70s and early '80s there was a two- to three-year gap between the rise in unemployment and the rise in delinquencies and defaults, according to Gregg Patrino, who heads the mortgage modeling group at **Goldman Sachs & Co.** That lag time has been constricting significantly since then and is now

## HOUSEHOLD INT. SPENDS \$70M, HIRES 2,500 FOR COLLECTIONS

Through a \$70 million investment over the past two years, **Household International, Inc.** has doubled the size of the collections operations that support its credit businesses.

Household Chairman and Chief Executive William F. Aldinger announced the move earlier this month in New York, while addressing **Goldman Sachs Group Inc.'s** 12th Annual Bank CEO Conference.

In line with the increase in the collections operations, Aldinger said Household, based in Prospect Heights, Illinois, also hired some 2,500 collections professionals to staff collection-related posts across the country.

Household's businesses span consumer loan, credit card, auto finance and credit insurance products in the U.S., U.K., and Canada.

In the U.S., Household's largest business, founded in 1878, operates under the HFC and Beneficial banners.

Household is also one of the nation's largest issuers of private-label and general-purpose credit cards, including the GM Card and the AFL-CIO's Union Plus card.

Aldinger's announcement came two days after an article criticizing the company's accounting practices appeared in the business weekly *Barron's*.

The article cited analysts alleging the firm was underestimating or covering up bad loans. Sources were quoted as saying Household's profits might have "benefited from aggressive accounting to, among other things, minimize net loan losses." On Dec. 3, the first day of trading, following the publication of the article, Household's shares fell \$2.94 to

# Debt Mart

## CALENDAR

**Feb. 6-8 The Debt Buyers' Association** sponsors "Mechanics of Successful Debt Buying" at the Paris Las Vegas. 562-903-7222 or [www.debtbuyers.com](http://www.debtbuyers.com)

**Feb. 20-21: The Institute for International Research** is holding its 2002 Distressed Debt Summit at the Stanhope, Park Hyatt in New York City. 888-670-8200 or [www.iirusa.com/distresseddebt](http://www.iirusa.com/distresseddebt)

**Feb. 24-26 Royal Media Group** will host "The Subprime Summit 2002" at the Radisson Resort & Spa in Scottsdale, Ariz. 800-320-4418, or [www.lendingintelligence.com](http://www.lendingintelligence.com)

**March 10-12 Thomson Financial** hosts its 6<sup>th</sup> annual National Credit & Collections Risk Conference at the New Orleans Marriott. 800-803-3424 or [www.tfconferences.com](http://www.tfconferences.com).

**March 17-20 The Consumer Bankers Association** is hosting its 22<sup>nd</sup> Automobile Finance Conference & Tradeshow at the Hyatt Regency in San Diego, Calif. 703-276-1750 or [www.cbanet.org](http://www.cbanet.org).

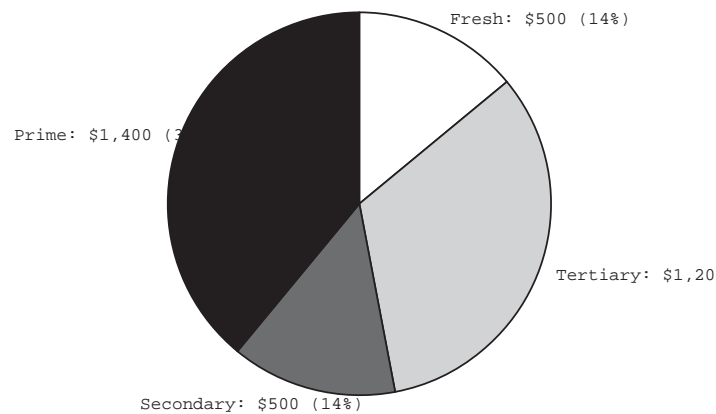
**April 21-23 Baker Hill's** rescheduled 10<sup>th</sup> Annual Lending Technology Conference, still to be held at the Pointe Hilton Tapatio Cliffs Resort in Phoenix, Arizona. 800-821-8664 x1260, or [lrc@bakerhill.com](mailto:lrc@bakerhill.com)

To have your conference listed, email information to [cmcguire@rmgdigital.com](mailto:cmcguire@rmgdigital.com).

## DEBT PURCHASING

*The Kaulkin Report, Debt Collection: An Industry in Transition* places the debt purchasing market at roughly one half the size of the contingency market, and 28 percent of the overall collection industry market. Furthermore, Kaulkin statistics marked the debt purchasing market as the fastest growing segment of the industry based on the face value of the debt purchased.

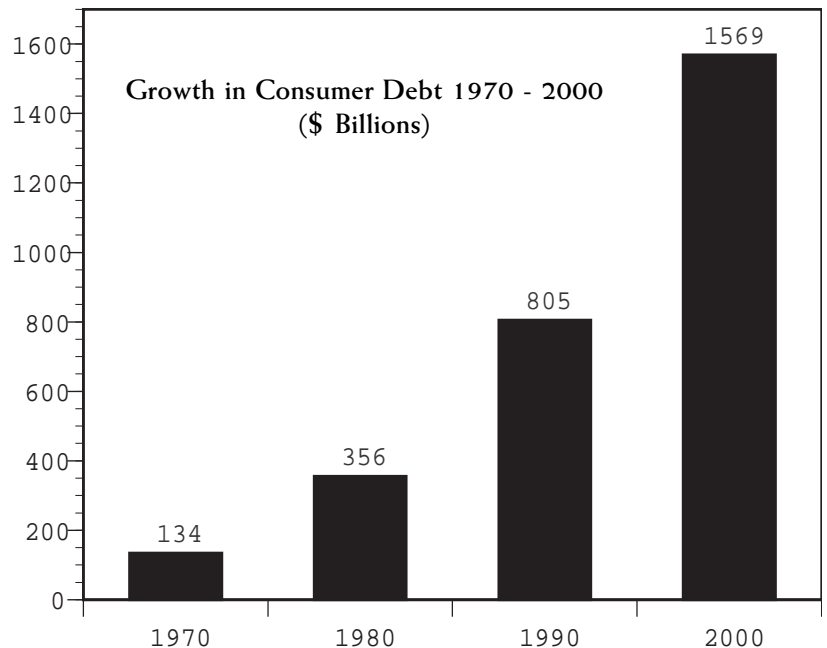
Distribution of purchased debt annual revenues by Age (\$ Billions)



\*Source: Kaulkin Ginsberg Company

## CONSUMER DEBT

According to the *The Kaulkin Report, Debt Collection: An Industry in Transition*, non-mortgage consumer credit outstanding has vaulted from approximately \$133.7 billion in 1970 to \$1,568 billion at the end of 2000. Over the same period, revolving credit swelled from \$2 billion to roughly \$626 billion. The report classifies consumer credit as covering most short and intermediate-term credit extended to individuals, including revolving credit (e.g. unsecured credit card balances outstanding) and non-revolving credit such as secured and unsecured loans for automobiles, mobile homes, trailers, durable goods, entertainment, vacation, and others.



\*Source: Kaulkin Ginsberg Company, The Federal Reserve

# CRM

## CHAMPION TO LINK DAVOX DUO

Champion Mortgage Co., Inc. is currently rolling out Davox Corp.'s Ensemble software to help its customer service representatives better handle incoming calls at the call center of its Parsippany, N.J. headquarters.

"This product will enable Champion to automatically identify incoming callers and route these callers to the most appropriate customer service representatives in the most effective and efficient manner," explained Sharon Nieuwenhuis, a spokeswoman for Champion, a retail home equity lender on pace to originate some \$1.4 billion in loans this year.

Champion, a division of Cleveland-based KeyCorp., which lends in 27 states and Washington, D.C., gave Ensemble the nod early in the fourth quarter of this year and will go live with the system sometime early next year.

The Ensemble selection is the latest development in Champion's efforts to automate internal processes, said Nieuwenhuis.

"Champion Mortgage is constantly looking at the processes in place and seeking to improve these methods when possible," she said.

Earlier this year, Champion installed Davox's Unison software for outgoing calls, which Champion uses for handling collections, including call scheduling and predictive dialing.

Unison also provides the company with call-blending capabilities, software tools for designing, implementing and modifying campaign strategies; report generation software; agent monitoring tools; and automated tracking of supervisor-defined boundaries.

Once Ensemble goes live in 2002, Champion will have a total of 125 customer service representative using Davox's solutions. At that point, Champion will begin moving toward integrating the two programs.

"With Ensemble, we're adding inbound routing

and agent scripting, and integrating them with our existing outbound campaigns to streamline our customer service initiatives and create a more efficient call center," said Marge Trautman, director of service quality at Champion.

Furthermore, in addition to streamlining call center capabilities, Peter Cohen, Davox's senior marketing director, said he expects Champion to integrate the programs to provide automated end-to-end support for collection-related tasks and other programs.

"They will implement Ensemble fairly conservatively, making sure it is operating as expected," explained Cohen. "As they gain confidence and experience, they will start integrating one piece [or module] at a time."

## INDUSTRY EYEING AUTOMATION

Adopting technology for both customer interaction and collections, **Champion Mortgage Co., Inc.** is in the minority in an industry slow in embracing automation.

"We are seeing more companies in the sector trying to automate several of their processes, such as routing and voice and data transfer," said Peter Cohen, **Davox Corp.**'s senior marketing director.

Typically, when a call comes in, that call is routed to the first available agent. Many lenders are now looking to instill more artificial intelligence into that initial interaction, and avoid bouncing clients around between agents.

On the collections side, automation uses techniques like predictive dialing and list management, approaching the process from an organized, methodical, goal-oriented perspective.

"Especially on the collection side, automation is demonstrating its value very quickly in rises in agent productivity, lower delinquency rates and generating more promises to pay," added Cohen.

## CRM USAGE RISING

**Champion Mortgage Co., Inc.** isn't the only institution looking to automate customer relationship management processes. A report issued in November by **TowerGroup, Inc.**, a Needham, Mass.-based consultancy, shows a growing demand for CRM technology in the financial services industry.

According to the report\*: — TowerGroup estimates that IT spending for 2001 on customer knowledge-type CRM in retail financial institutions will be \$4.3 billion. Just over 50% (\$2.2 billion) will come from North America.

— TowerGroup anticipates North American spending from 2001 to 2005 on CRM technologies will grow at a compound annual growth rate of 6% (that's significantly higher than the expected growth for the economy as a whole for that same period). — TowerGroup expects more small and mid-sized institutions to implement CRM strategies over the next few years, where CRM investments had been traditionally used by larger retail financial institutions.

*\*CRM IT Spending: What Are Retail Financial Services Institutions in North America Spending on Customer Knowledge Technologies?*

# Integration

## LOAN COLLECTIONS & TECHNOLOGY

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## BELCO LINKING INTELLECT WITH CORS, A 1ST FOR INTERBIZ

Colorado-based **Bellco Credit Union** recently selected **InterBiz's** collection management software, **Intellect**, and its **Charge-Off Recovery System (CORS)** to automate its collection activity of delinquent loans.

Bellco, like many in the collection industry, is embracing automation to not only increase productivity, but also to reduce the costs and errors traditionally associated with maintaining manual processes.

Bellco's rollout marks the first time **Intellect** and **CORS** will be integrated and run seamlessly together on the same platform since they were bought by **Computer Associates International, Inc. (CA)** and unfurled under the vendor's **InterBiz** banner three years ago.

Initially created 65 years ago as the credit union for **Bell Telephone Co.** employees in Denver, Bellco has since expanded its rolls to include 820 Select Employee Groups (SEGs). As Denver's largest credit union, Bellco serves 130,000 members with more than \$1 billion in assets, deposits of \$867 million, an \$896 million loan portfolio and ten branches in the city's metro area.

Once **InterBiz's** systems are brought fully live, scheduled for sometime in early 2002, the transfer of Bellco's account data from **Intellect** to **CORS** will be seamless.

Previously, Bellco collection professionals who needed access to account data had to do so manually.

Once the new system is on line, these professionals can automatically access account information from their desktops, manipulating data from the collections process through default recovery.

For Bellco, this automation means a savings in both time and money, said Douglas

Ferraro, Bellco's chief executive.

Users of **Intellect**, a Microsoft Windows-based system, can define their own strategies, such as using Microsoft's **Word** word processing program to create form letters to be used for client outreach.

Additionally, **Intellect** users can access a management and activity-reporting tool for meeting internal reporting requirements.

Meanwhile, Bellco staffers using **CORS** to manage the recovery process and convert charged-off dollars will have access to both standard and custom reporting, multi-address/phone support, legal tracking and user-based security controls.

Formed in 1999, **InterBiz** serves as **Computer Associates** so-called e-business applications division.

**CA** bought a number of business applications over the past several years, explained Roy "Chip" Glisson, a marketing manager at **CA**.

"When **InterBiz** was formed, these applications were folded into three distinct groups: **InterBiz Banking**, **InterBiz Financial**, and **InterBiz Supply Chain**."

The banking group sells three main product lines: **Infopoint**, a suite of approximately 25 mainframe-based banking applications, serving primarily top-tier banking institutions; **BPM**, or bank performance measurement; and collections and recovery.

"By acquiring [**Computer Management Sciences, Inc.**], **InterBiz** bought a suite of banking systems called 'profitability enhancement products', including **Intellect**, **CORS** and the **Deposit Correction System**," said Glisson. "Since acquiring [**CORS** and **Intellect**], we've been able to integrate them so the collection data can automatically be transferred into the recovery system. Bellco will be the first one to do that."

# Dossier

## AKCELERANT SOFTWARE

*The preliminary information you need to analyze whether this vendor is right for your company.*

**Corporate Profile:** Initially founded in early 1998 as Mvest Technology Solutions, Inc., Akcelerant Software LLC has developed a suite of web-based products designed to automate many processes in the loan collection industry.

**Address:** 1700 Paoli Pike, Malvern, Pennsylvania, 19355

**Phone:** 610.232.2800

**Fax:** 610.407.0200

**Web Address:** <http://www.akcelerant.com>

Products:

- **CollectAnywhere:** A web-enabled delinquent account management solution including a suite of tools for managing the collection process. CollectAnywhere is also available on a service bureau basis.
- **DialAnywhere:** Also web-enabled,

DialAnywhere provides a predictive dialing solution based on XML technology.

- **AppraiseAnywhere:** Independent of the user's internal network, this web-based application manages the appraisal and home inspection process including ordering, delivering, tracking and billing.

**Customers:** Bank of Oklahoma; Country-wide Mortgage Co., e-Profile, Inc.; HomeGold Financial, Inc.; and the Pennsylvania State Employees Credit Union.

**Contact:** Jay Mossman, president

**Phone:** 1-610-232-2802

**E-mail:** [www.akcelerant.com/software](http://www.akcelerant.com/software)

*To appear in Dossier, please contact Craig McGuire at 212-206-8000 x103 or [cmcguire@rmgdigital.com](mailto:cmcguire@rmgdigital.com). In addition to the monthly Dossier feature, LCT will also offer an annual Buyer's Guide, available in early 2002.*

## JOBLESS WOES

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notices, calls are more effective," said Dunn. "But we're making those calls with the same sized staff."

It's unclear how long the jobless slump will drag on. However, recently the Labor Dept. reported that initial jobless claims had fallen for the week ending Dec. 15 to its lowest level in almost five months. State unemployment offices received 384,000 new applications for jobless benefits, down 11,000 from the prior week, and lowest since July 28.

# AD

# Tech Bytes

## U.S. DEPT. OF ED. EXTENDS CSC CONTRACT BY \$229M

The U.S. Department of Education's (DoEd) Office of Student Financial Assistance (SFA) recently extended a contract with Computer Sciences Corp. for a student loan data center by an additional four-and-a-half years. The deal, valued by CSC at some \$229 million if all options are exercised, is slated to run through 2011.

The move is part of the DoEd's move toward modernizing the delivery of major federal student aid programs, including Pell Grants and Stafford Loans, which provide more than \$50 billion a year.

Since 1997, El Segundo, Calif.-based ComputerSciences has helped the DoEd migrate and combine eight SFA legacy systems into a single system used by administration, students, and bank and university personnel, and consolidated SFAs storage facilities into a single CSC data center.

## FHLB AUTOMATES RECONS WITH CHECKFREE

The Federal Home Loan Bank of Boston (FHLB), a wholesale bank for housing finance in the six New England states, plans to implement CheckFree Corp.'s RECON-Plus for Windows to automate manual processes. Cooperatively owned by more than 460 New England financial institutions, FHLB supports the residential mortgage and community development lending activities of its member institutions.

FHLB will use the Atlanta-based vendor's RECON-Plus to reconcile its correspondent bank accounts, and perform pass-through-processing for its partner savings and loan institutions. By automating, FHLB aims to reduce time consuming and expensive manual reconciliation processes.

## ABN AMRO 1ST TO GO LIVE ON ALLTEL'S DATAMART

ABN AMRO Bank N.V. is Alltel Corp.'s first Advanced Commercial Banking System (ACBS) client to go live with DataMart, providing the commercial bank with exposure/risk management and profitability analysis capabilities.

DataMart is fully integrated with the ACBS suite of products, including Deal & Loan Origination, Deal & Loan Servicing, Primary Sales & Syndication and Secondary Sales and Trading. DataMart focuses on providing on-demand information analysis to all levels of end-users from senior management to business analysts. It supports the collection, technical analysis, graphical analysis, and ad-hoc reporting of customer and product information derived from the ACBS components.

## LONDON BRIDGE PARTNERS WITH REO.COM

REO.com, Inc. and London Bridge Software Holdings PLC recently inked a deal to offer a new automated distressed property management system. As per the agreement, REO.com's Offer Management System will be fully integrated with London Bridge's default product suite utilizing London Bridge's BridgeLink Exchange Network.

## FAIR ISAAC DEBUTS SMARTLINK

Fair, Isaac and Company, Inc. unveiled the Fair, Isaac SmartLink(SM) customer data integration (CDI) service at the National Center for Database Marketing Winter 2001 conference held earlier this month in New Orleans.

Providing detailed snapshot's of consumers bases, SmartLink is supported by the relationship between Equifax Inc. and Fair, Isaac MarketSmart Decision System, and the first in a new generation of CDI solutions expected from Fair, Isaac.

## SALLIE MAE BUYS PIONEER

USA Education, Inc., also known as Sallie Mae, announced last week plans to acquire Pioneer Credit Recovery, Inc., the top student loan collection service for the U.S. Department of Education.

## COMINGS & GOINGS

Alfred T. Mockett recently stepped into the chairman and chief executive posts at American Management Systems, Inc. Mockett, 52, succeeded interim president and chief executive William M. Purdy. Purdy is continuing at AMS as president and chief operating officer.

Ocwen Technology Xchange Inc. (OTX) President and Chief Executive Arthur D. Ringwald has been named to the technology steering committee of the Mortgage Bankers Association of America's (MBA) 2002 board of directors.

This oversight committee manages the Mortgage Industry Standards Maintenance Organization (MISMO) and Real Estate Finance Security Management Organization (REFSMO) and reports to the MBA board of directors. The primary focus of the Committee for 2002 will be the standardization of electronic data standards for eCommerce.

In other OTX news, the company recently appointed Herbert B. Tasker to its Board of Advisors. Tasker is a former president of the Mortgage Bankers Association of America, as well as a former president of the California Mortgage Bankers Association and president of the Southern California Mortgage Bankers.

Fair, Isaac and Company, Inc.'s Chairman Dr. Robert Oliver, 70, has announced plans to retire at the end of his term on Feb. 5, 2002. A board member since 1985, and chairman since 1995, Oliver will be succeeded by George "Skip" Battle, the chief executive of Ask Jeeves, Inc., and a member of Fair, Isaac's board since 1996.

# Wall Street Watch

## PERFORMANCE OF PUBLICLY-TRADED COLLECTION-RELATED TECHNOLOGY COMPANIES

Company	Ticker Symbol	Price12/21	Price12/3	%Ch.	P/E	52-Wk Hi	52-Wk Lo	Shrs.Out*	Mkt.Cap*	Avg Vol
American Mgmt. Syst.	AMSY	17.03	15.390	10.6	25.27	25.040	10.250	41,686	709.9	237,454
Alltel Corp.	AT	62.34	64.980	-4.06	18.18	68.687	49.430	310,412	19,351	704,681
Computer Associates	CA	34.79	33.000	5.42	n/a	39.030	18.125	575,987	20,033	2,705,090
CheckFree Corp.	CKFR	18.37	16.040	14.52	n/a	58,250	12.200	87,213	1,602	980,909
Computer Sciences	CSC	47.02	47.790	-1.61	55.50	71.5625	28.990	170,327	8,009	1,157,318
Davox Corp.	DAVX	9.02	8.960	.66	n/a	14.875	7.200	12,331	111.2	31,500
NCO Group	NCOG	23.68	17.150	38.07	20.92	35.500	11.000	25,811	611.2	365,409
Ocwen Financial Corp.	OCN	7.78	7.200	8.05	n/a	11.370	4.500	67,300	523.5	62,954

\* In thousands

### JOBLESS WOES

*continued from page 1*

under a year, he said.

Many, including economists like Patruno and collectors like Dunn, attribute the shrinking lag to the fact that less Americans keep substantial cash in reserve.

Meanwhile, at collection agencies on the front lines, Dunn said that lag time is shrinking even further.

"It's definitely down to less than a year, and more likely down to four or five months," said Dunn.

So earlier this month, when the **U.S. Department of Labor** announced the unemployment rate rose to 5.7 % in November, Dunn and other agents decided it was time to get aggressive.

"When we see unemployment start to rise, we try to get people to pay, and we'll accept more payment plans, earlier, which we normally wouldn't do," Dunn said. Collectors will typically attempt to have people pay their debts, including interest, on time before offering a payment plan, stretching the debt into smaller payments.

Similarly, Gary Williams, president of **Williams & Fudge, Inc.**, a student loan

collection agency in Rock Hill, South Carolina, said his collectors are forced to use different tools, such as accepting special pay arrangements quicker than normal, and counseling borrowers on how to utilize other lines of credit.

#### No Year-End Breather

With the delinquency onslaught expected earlier than usual, few collectors are enjoying any year-end wind down.

"We're already seeing people having trouble paying in the early stages, which is why we are keeping our staff in place through the holidays," said Jerry Kaufman, vice chairman of **Nationwide Credit, Inc.**, Kennesaw, Georgia. "Many agencies will lay-off 20%-30% percent of their workforce at this time of ye

ar, and then staff up during the first quarter. This year, though, when January comes, we don't want to have to spend time recruiting."

MAD's Dunn also stressed the immediacy of jumping on suspect accounts early, as many of those forced onto unemployment will undoubtedly soon be filing for bankruptcy protection.

"We identify the people who don't have

resources and who might be a problem, and we'll offer settlements," she explained. "But this involves really working the accounts, seeing who pays on time, and who are stragglers. We know they're working this month, but maybe not next month. They have low-income jobs and we know if we offer a low enough settlement, they'll accept it. Of course we have to authorize this through our clients."

#### Staffing Up Not an Option

Both Dunn and Williams say that despite launching aggressive collection campaigns, they haven't the resources to staff up.

"There's obviously more work to be done, but remember, there's less money that will be collected," said Williams. "Most of us in the industry are small operators, so when it comes to staffing issues, we're more reactive than proactive."

Dunn, who also doesn't plan to staff up, said she will focus on alternative collection methods.

"We're switching gears, focusing on making collection calls, because though they are more time consuming than

*Continued on page 5*

# Data Points

## COLLECTION COMPANIES IN SEATTLE AND REDMOND, WASHINGTON STATE

Company	City	BBB Member	Rating	Complaints Filed
A A A A Inc.	Redmond	No	N/A	Yes
A T F Professional Credit Services Inc.	Seattle	No	N/A	No
Allied Credit Services Inc.	Seattle	No	N/A	No
Associated Credit Service	Seattle	Yes	Satisfactory	Yes
Atlantis Credit Corp.	Seattle	No	N/A	No
Cascade Asset Recovery Service	Redmond	No	N/A	No
Cascade Olympic Credit Inc.	Redmond	No	N/A	No
CHEKPROTEKT	Seattle	No	Unsatisfactory	Yes
Drico Recovery Service Inc.	Seattle	No	N/A	Yes
First Revenue Assurance	Seattle	No	N/A	Yes
International Commercial Collections Inc.	Seattle	No	N/A	Yes
Merchants Credit Association	Redmond	No	N/A	Yes
MOCO Inc.	Seattle	No	N/A	Yes
Nation Wide Collectors	Seattle	No	N/A	No
National Service Bureau	Seattle	No	N/A	No
Northwest Reg. Contract Collection	Seattle	No	N/A	No
Northwestern Collection Service Inc.	Seattle	No	N/A	No
Pacific Claims	Seattle	No	N/A	No
Physicians & Dentists Credit Bureau Inc.	Seattle	No	N/A	No
Pioneer Credit Company	Seattle	No	Satisfactory	Yes
Seattle Service Bureau	Seattle	No	N/A	Yes
Sound Collection Services Inc.	Seattle	No	Unsatisfactory	Yes
United Collection Service Inc.	Seattle	No	N/A	Yes
United Fathers of America	Seattle	No	N/A	Yes

## HOUSEHOLD SPENDING SPREE

*continued from page 1*

\$56.05. Household, which did not return calls seeking comment, was trading at \$57.24 per share at presstime.

The latest move to increase credit operations comes after another Household unit, **Household Automotive Finance Corp.**, San Diego, launched a new collections facility in Jacksonville, Florida (*Auto Finance News*, March 5, 2001\*). At the time, Household Automotive said it expected to have an additional 130 collectors in place at that location by year-end. Two months later, Household Automotive opened a loan servicing center in Dallas, similar to the Jacksonville facility (*Auto Finance News*, May 14, 2001\*).

## New Non-Prime Loan Platform

Meanwhile, on the technology front, Household recently announced plans to roll-out **Fiserv Inc.**'s MortgageServ platform to reduce the cost of servicing non-prime loans for its mortgage services business unit.

Household gave the Brookfield, Wis.-based vendor the nod following a thorough due-diligence process that included issuing a formal request for proposal (RFP) and conducting interviews with all major servicing system providers.

Household will move from an overnight batch processing system to the real-time MortgageServ servicing platform sometime during the third quarter of 2002.

(\**Auto Finance News* is a sister publication of LCT.)