Overcoming the Long Shadow of Sept. 11

Rapidly eroding consumer confidence in the aftermath of the tragic Sept. 11 terrorist attacks staggered an already faltering U.S. economy. Bearing its share of the burden, the credit sector is facing potentially record levels of loan defaults and bankruptcy filings. Georgia State University College of Law Professor Jack F. Williams, the American Bankruptcy Institute's first Robert M. Zinman Resident Scholar, offers the unique perspective of being both a former bankruptcy professional and a terrorism and homeland security expert.

With a specific eye on credit collections, Craig McGuire, a *Lending Intelligence* contributing editor, spoke with Williams to find out what he thinks of the current economic state and what loan professionals can do to counter today's financial malaise.

Craig McGuire: Generally speaking, how did Sept. 11 impact the credit industry?
Jack F. Williams: The impact on lending institutions ranges from, in some cases, complete devastation to core businesses to, more commonly, significant negative indirect consequences.

CM: Indirect consequences?
JW: We're seeing more businesses, particularly small-to-medium-size businesses, and consumers, seriously consider relief under the bankruptcy code. We're also already seeing a substantial increase in loan defaults, both from a business and personal consumer perspective.

CM: Obviously there's more going on here.
JW: Of course. Basically, what we had was a situation where the economy was already in a recessionary slide. The [Federal Reserve Bank] had done just about all it could do, as far as monetary policy is concerned, and the real possibility of recovery was in the hands of the consumers. On Sept. 11, that consumer confidence got slammed.

CM: How has this damaged consumer confidence affected the collection industry?
JW: Consumer confidence has fallen substantially, beyond expectations. I mean, we expected it to fall, but not at this magnitude.

CM: And the tangible results?
JW: Well, we're already seeing a substantial increase in loan defaults, both from a business and personal consumer perspective.

CM:: How are the lending institutions responding to this rise in defaults?
JW: Historically, lenders have become quite sophisticated in not only monitoring and collecting on loans, but vigorously asserting their rights. However, at this time, a lender shouldn't be surprised that vigorous enforcement of its rights may generate negative publicity. This is particularly the case in New York and the Washington, D.C. area. Many lenders are now in more of a precarious position.

CM: Who are you talking to, and what are they saying?
JW: I've spoken with over 36 attorneys in the bankruptcy area across the country, and all are reporting substantial increases in bankruptcy clients, particularly among individuals and small businesses. Other experts I've spoken with have consistently expressed similar observations.

CM: What will it take to stimulate an economic recovery, and, more specifically, reduce the number of defaults and bankruptcy filings?
JW: You just can't underestimate the effect the terrorist attacks have on consumer confidence, and on society in general. If these, or other types of attacks, are sustained in any way — and I think we're seeing several indications; we should expect more — we will probably not see a greater recapture of consumer confidence, and certainly not in the short term.

CM: What is your prognosis for the collections sector?
JW: I think this will drag on, in the sense that we will see a greater and greater number of defaults.

CM: Which types of professionals will be most affected?
JW: Those charged with collecting, particularly those in special asset divisions, we will see them have banner years, justifying larger staffs and larger expenditures.

CM: What major challenges will they face?
JW: They are already facing difficulties in attempting to get loans repaid. These are very dramatic times and many people are going to have very sympathetic reasons why they can't repay. It will require some sophistication and diplomacy from the loan collection folks.

CM: How does technology fit into the equation?
JW: I definitely think we'll see a profound rise in the usage of technology. This is a very ripe area for growth, and a very ripe time for loan collection to become more automated.

CM: Specifically, what areas do you see prime for growth?
JW: Specifically ... the exploitation of the internet for monitoring collection, and, ultimately, obtaining judgments and enforcement of those judgements. These can all be handled by an internet-based system, and those systems already exist. In fact, I've been working with the people at Georgia Tech to develop just such a system. We've already beta-tested it and it's up at six client sites.

CM: Will the industry be quick to embrace such technology?
JW: I have found that many in the lending sector, particularly at the medium-to-small credit managers, have not even begun to tap into the technology.

CM: How about the larger companies in the industry?
JW: The big boys develop systems in-house, but those are subject to great improvements as well. The technology is available right now. For the most part, the technology out there doesn't require great outlays of capital, and, in the end, they'll find that the productivity gained would add significantly to their bottom lines.