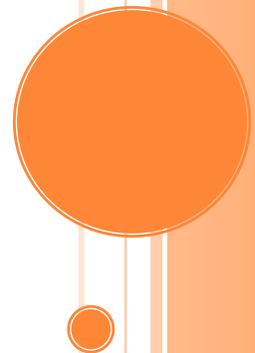


COLLECTIONS PROCESS COMPLIANCE REVIEW REPORT

April 2017

Lawdesk

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Executive Summary

The Compliance Review Report summarizes the results of the Collections Process Compliance Review (“Review”). The objective of this Review is to: (1) evaluate the effectiveness of controls over collection activity (2) evaluate the adherence to operating processes and procedures (3) ensure effective monitoring and reporting systems (4) assess the adequacy of the Company’s Collections Process Audit Program.

Review Scope

As part of Compliance Review, the following were examined:

- ❑ **Policies:** Portfolio Services and Collections, and Customer Service collection processes and procedures including training manuals were reviewed.
- ❑ **Processes:** Internal and outsource collection processes, quality Review process, and monitoring of internal and external collection calls.
- ❑ **Documentation:** Customer Service Compliance Review findings, 46 presidential complaint documents to ensure customer resolution training, Collections Monitoring Assessment Forms, Quarterly Business Reviews, litigation and disputes, and scripts used by internal and external agents.

Customer Service
 Compliance Review Rating: ⇨Satisfactory
 Compliance Risk Level: ⇨High

Review Rating and Risk Level

The Review period covered August 2016 through March 2017. **Compliance Review Rating** for the **Customer Service** collection processes is “Satisfactory,” and the **Compliance Review Rating** for the **Collections** and **Portfolio Services** collection processes is “Satisfactory.” The **Compliance Risk Level** to the Company is “High.”

The Risk Level remains high due to several factors, which include: heightened scrutiny by the CFPB and AGs in collection enforcement actions; forthcoming FDCPA regulations by the CFPB; potential arbitration restrictions by the CFPB in consumer credit agreements; and increased TCPA complaints in collection actions.

Collections and Portfolio Services
 Compliance Review Rating: ⇨Satisfactory
 Compliance Risk Level: ⇨High

Description of Departments Handling Collections

The Collection Department works in conjunction with Portfolio Services to handle all collection efforts for the Company. The Collection Department manages all domestic and internal collection Agencies, while Portfolio Services manages all outsourced collection Agencies. Additionally, Customer Service handles all written debt validation and cease and desist communications which intertwine with collection processes. For organizational charts, see **Appendix A**.

Review Issues

- Minor Manual Adjustments.
- 4 **Coaching Opportunities**.
- 1 **Procedure Adjustment Opportunity**.
- 1 **Violation of Law**.

General Process Procedural and Training Manuals

- ❑ Compliance reviewed the Collections and Portfolio Services' procedure manuals. Specifically, Compliance examined the *Collection Department Procedures Manual*, *Company Training Manual Collections*, and the *CA\$H Training Manual*. Additionally, the *CA\$H Training Manual* is also used as the Department's CA\$H procedure manual. It was noted that a few minor adjustments can be made to the manuals as identified in **Appendix B**, which include:
 - *Collection Department Procedures* manual
 - The *Fair Debt Collection Practices Act* ("FDCPA") should be quantified in the manual before it is used as an acronym, and in addition, the manual uses the Statute citation (e.g. 809) when it should use the Regulation citation of 15 U.S.C 1692 et Seq.
 - The *Servicemembers Civil Relief Act* contains a typo (e.g. "Service Members..." it should not be a separated), and in addition the reference to "soldier," should be replaced with Accountholder to be in-line with other Company manuals.
 - *Company Training Manual Collections*
 - The manual states that Agents should state the name of their "...Agency..." or the Company's name. However, since the Company no longer has third-party collectors, this language is outdated and could cause confusion. Therefore, it is recommended that the manual includes "as applicable," where appropriate.
 - Formatting universalized: it was noted that throughout the manual the spacing, font, and font sizes do not match, and in addition, that bullet styles and their indents do not match. Therefore, it is recommended that the manual should follow the same structure throughout.
 - In addition, Compliance recommends that Collections consolidate the *CA\$H Training Manual* and CA\$H procedure manual since the two manuals are nearly identical to each other.

The Collections and Portfolio Services departments have stated that the update of the manuals is a work in progress, and anticipates the project to be completed by the first quarter of 2017.

- ❑ Compliance reviewed 9 **Training documents** that Collections provided. These training documents consisted of: BK Notification Form; Reference Guides; Escalation Matrixes; NACHA procedures; Inbound Verification procedures; etc. Compliance found all of the training to be adequate and to accurately reflect the Company's procedures. However, as a general guideline, the recommendations for the above manuals should be incorporated in the Training documents, where applicable.
- ❑ Compliance reviewed all **Collection scripts**, such as NACHA, the Call Model, and other scripts located throughout the manuals, and those provided in training documents. These materials were found to meet all legal and regulatory requirements, and that for the most part, Compliance notes that all internal and external agents adhered to the directions stated in the documents. As previously mentioned, the recommendations for the above manuals should be incorporated in the **Collection scripts**, where applicable.

Agency Partner Evaluation

- ❑ Company currently outsources the majority of its collection portfolio to first party collection Agencies. The allocation for each collection agency is as follows: 33% iQor; 24% iEnergizer; 16% NCO; 8% GC Services; 5% TPUSA; and 4% Convergent. Therefore, approximately 90% of the collection portfolio is outsourced with the highest share of collection being handled by iQor.
- ❑ *Agency Partner Quarterly Business Reviews* were evaluated for the Review period. Assessments included Agency performance, call quality, number of presidential complaints, business efficiency, overall business support and improvements. A rating is assigned from a 1 to 10 point scale. Agencies with higher ratings showed a positive measure of improvement. NRG, TPUSA and GCS received a 5 point improvement rating whereas NCO, iQor and Convergent received an 8 point improvement rating. ICS showed no improvement and therefore received a rating of 0. The ICS was unable to attain a competitive status and meet Company performance expectations within the Review period. Consequently, the Company’s contract with ICS was terminated at the end of January 2017.
- ❑ Compliance reviewed the **Presidential Complaint Log** for collection complaints, and fines that were assessed to Agencies from August 2016 through December 2016 in response. It should be noted that fines are assessed to regulatory complaints, and not for exceptions; exceptions are addressed through the indemnification process as noted below. The Company received **43 Presidential Complaints** related the collection processes during the Review period. The complaints were filed with the OCC, CFPB, and an AG’s office. Below is the language from the Collection Master Servicer Agreement regarding fees that can be assessed for a chargeable customer complaint:

Chargeable Customer Complaint. A chargeable Customer Complaint period is defined as a rolling twelvemonth period using the first date that a Customer Complaint was received either by Company or Debt Collector Agency. If within the chargeable twelvemonth period, a Customer Complaint is received, the fees earned by Debt Collector Agency that month may be reduced by **\$600** for each chargeable Customer Complaint. The second Customer Complaint received may reduce the fees earned by the Debt Collector Agency that month by **\$900**. The third Customer Complaint received may reduce the fees earned by the Debt Collector Agency that month by **\$1,200**. Customer Complaints that are not caused by the actions of the Debt Collector Agency, or brought about by policies and procedures previously agreed upon between Company and the Debt Collector Agency or Debt Collector Agency’s compliance with Company Instructions will not result in the Debt Collector Agency’s fees being set-off.

Of the 43 complaints, 9 were found to be avoidable and therefore chargeable to the Agencies at \$900 each. The Company found that the root of these complaints ranged from agents not following proper procedures, not listening to customers, failure to educate customers on the Company processes, and failure to escalate calls. iQor, iEnergizer and TPUSA received multiple complaints and multiple fines for the Review period. The assessment breakdown is as follows:

- iEnergizer - \$2,700
- iQor - \$2,700
- TPUSA - \$1,800
- GC Services - \$900
- Total: \$8,100**

- ❑ Compliance reviewed litigations and disputes for the FDCPA, State **collection laws, and TCPA from August of 2016 through December 2017**, and determined the following Agencies indemnified the Company as provided in the table below.

CASE NAME	AMOUNT PAID	AGENCY	CASE TYPE
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Murphy	\$2,500	ICS and GCS	CA Collections Statute
Henry	\$1,000	NRG	CA Collections Statute
Kennedy	\$2,000	TPUSA	CA Collections Statute
Leonard	\$2,000	iQor and ICS	TCPA/FDCPA
Cousar	\$1,650	NCO	FL Collections Statute
Woods	\$2,375	iQor	Massachusetts Collections Statute
Tarr	\$2,250	TPUSA	FL Collections Statute
Doss	\$60,000	NRG	TCPA/West Virginia Collections Statute
Bickford	\$60,000	NRG	TCPA/ West Virginia Collections Statute
Watson	\$2,750	NRG	TCPA
Cline	\$3,000	TPUSA	TCPA
Foote II	\$115,000	iQor	CA Call Recording Statute
Chandler	\$2,500	NRG	TCPA
Darbandi	\$6,000	NCO	TCPA
Whiddon	\$2,500	iQor	TCPA
Monroy	\$1,750	iQor	TCPA

- ❑ The Company’s Compliance and Legal department attempt to resolve all legal disputes by raising defenses to negotiate resolution of the matters before they advance to costly litigation. Part of that process requires comprehensive research and collaboration with the Collections, Portfolio Services, and Customer Service departments.

During the research process, legal allegations and reoccurring issues are tracked. When issues are observed, preventative measures are implemented to mitigate the Company’s exposure to liability or future collection process complaints. This process involves ensuring that proper policy and procedures are being followed by the departments, and adequate training is being provided. To be more efficient in these efforts, Collections and Portfolio Services have begun the formation of a Litigation Support team to work directly with the Compliance and Legal departments on such matters.

Portfolio Services Quality Call Monitoring

- ❑ All **Agencies** attended all calibration sessions during the Review period for coaching and teaching purposes for their leadership and agents. Additionally, the Agencies, combined, monitored around 5,000 calls per month outside of the calibration process for self-assessment purposes.
- ❑ During the Review period, **Portfolio Services** performed quality monitoring at a rate of 8.5 calibration sessions per month where 4 – 6 calls are monitored. In these sessions, various agency calls are monitored for FDCPA adherence, negotiation skills, procedure adherence, and professionalism. In addition, Portfolio Services uses these sessions for coaching (i.e. how the call could have been better) and teaching (i.e. instructing how to incorporate the positive points of a call) opportunities for the Agencies’ leadership and agents. Furthermore, Portfolio Services monitors around 538 random calls a month outside the calibration sessions for the foregoing reasons.
- ❑ **Audit and Quality** attend 2 – 4 calibration sessions per month. All calls are monitored to ensure adherence to FDCPA and Company procedures. Quality monitoring reports are also reviewed to assess overall quality performance.
- ❑ **Compliance** listened to a total of 17 calibration calls during the Review period for the following Agencies: iQor; NCO; TPUSA; i-Energizer; and, GKN. During the Review of the calibration, Collections utilized each call for both coaching and training opportunities for the Agencies participating via video-conference. During these sessions **3 Coaching Opportunities** were noted as follows:

- iQor: Agent became argumentative with the customer, however, the agent recognized this during the call and corrected their behavior. Additionally, the agent did collect a payment. Collections discussed this issue with the agent during the session.
- NCO: Supervisor took over the call and stated that he “needed \$100 today,” from the customer in an abrasive manner. Collections addressed this issue with NCO during the session.
- iQor: Agent cut-off the customer multiple times during the call, and in addition, did not request a debit card payment during the call. These issues were addressed with iQor during the session.

In addition to the calls currently being utilized in calibration sessions, Compliance recommends that calls which have resulted in litigations, with liability, also be used to further train and coach agents. Collections and Portfolio Services have agreed to this recommendation, and these additional calls will be utilized as appropriate.

Collections Department Live Internal Call Monitoring

- ❑ **Collections** monitored around 85 internal calls per month during the Review period. These calls are monitored to ensure agents are knowledgeable and adhere to applicable laws, and Company policies and procedures during the collection process.
- ❑ **Audit and Quality** monitors live internal collections calls on a weekly basis. All calls are monitored to ensure consistency, and adherence to applicable laws and Company policies and procedures.
- ❑ **Compliance** listened to a total of 188 collection calls internally. These calls consisted of hang-ups, wrong numbers, third party connects, answering machines, and correct party connects. Compliance listened for adherence to the FDCPA, NACHA scripting, the Collection Call Model, and to determine if proper negotiating skills were applied during the calls. In the vast majority of the calls monitored by Compliance, it was found that collection representatives actively attempted to assist the Customer in making a payment. Out of the 188 calls **1 Violation of Law**, **1 Coaching Opportunity** and **1 Procedure Adjustment Opportunity** were identified. These issues are described more fully below:
 - 3/2/17 – **1 Violation of Law** that resulted in a procedure change: a customer told agent that his attorney wanted to speak with the Company, the agent escalated the call to the supervisor, however, the agent continued to collect on the account, and noted the agent was successful. At the end of the call the agent confirmed the customer’s information, including telephone number. When brought to Collection’s attention, they stated that currently the procedures do not address what the agent should do when a customer makes a statement that their attorney wants to talk with the Company. Therefore, Compliance recommended that Collections adjust their procedures to address this issue by directing agents to cease collection efforts and obtain the attorney’s information. Collections stated they have incorporated the recommendation into their procedures and began training in March 2017.
 - 1/23/17 (Friday evening) – **1 Coaching Opportunity**: an agent reached a third-party who was upset and asked why we were still calling; the agent kept cutting the third-party off and asking for the customer. Then the agent hung-up on the third-party. This issue was brought to Collection’s attention. Although Compliance had the agent’s extension, it did not catch the agent’s name because it was the agent’s last call of the day, and in addition, the extension could not be matched to an agent due to a recent change in extension numbers. Nevertheless, while the particular agent could not be coached on the matter, Collections addressed the issue with all agents on 1/26/17.
 - 3/2/17 – **1 Procedure Adjustment Opportunity**: a hostile customer stated “...don’t call me no more...,” and the agent began to end call. However, during the closing of the call the agent obtained a telephone number and stated that the customer would continue to get calls. When brought to Collection’s attentions, it was stated that current procedures do not cover the variety of “do not call” statements that customers can make. As of 3/23/17, the Litigation Support team

created an escalation matrix that encompasses a multitude of such statements, including the one cited above, to assist agents in placing C&Ds for calls on accounts when appropriate. See **Appendix C**.

Compliance and Legal will continue to monitor calls throughout the year to provide Collections with feedback where appropriate.

Collections Department Internal Live Call Transactional Observations

- Collections** observes at least 40 internal live call transactions a week. These transactions are observed to ensure adequate agent performance, consistency, and proper notation of customer account files.
- Audit and Quality** conducts weekly transactional testing. This includes testing of processed items to ensure that they are processed in accordance with Company policies and procedures.
- Compliance** observed a total of 89 collection call transactions internally during the Review period. These call transactions consisted of hang-ups, wrong numbers, third party connects, answering machines, and correct party connects. Compliance observed each transaction to ensure adherence to Collection's procedure, agents communicated accurate information to customer, and accounts were noted properly. Compliance noted that all transactions were in adherence with the policies and procedures of the Company.

Customer Service

- During the last Review, Compliance identified Violations of Law that occurred within the Collections Process. Customer Service had made a business decision that from mid-March to mid-April 2016, all C&Ds would be aged due to an influx of correspondences. The aging of the C&Ds resulted in collection calls to be made that violated the FDCPA. Customer Service reports that the ageing of correspondence has not occurred since the aging incident identified in the last Review. In addition, all C&Ds are handled within the recommended timeframe.
- In the last Review, Compliance noted that when customers were in the collection process and requested validation of debt, or disputed the account, C&Ds were not being placed on the account to prohibit collection communications while the debt was being validated. Failure to place C&Ds on these disputed debts resulted in collection calls to be made in violation of the FDCPA. Therefore, Compliance recommended that Customer Service implement a process that ensures collection efforts cease on disputed accounts while the validation of debt is conducted. As of November 17, 2016, Customer Service has implemented the process, and thus, has placed all accounts in C&D until debt validation is complete. Therefore, the Company is no longer in possible violation of the FDCPA when it is in the process of validating debts.
- In addition, during the last Review, Compliance observed that when customers in the collection process were requesting validation of debt or disputing their accounts, the accounts were not being reported as disputed to the Credit Reporting Agencies ("CRAs"). This resulted in Violations of Law under the FDCPA. Communicating credit information to the CRAs when the account is in dispute, and not reporting the account as disputed, is a violation of law. Therefore, Compliance recommended that Customer Service ensure that all debt validation requests are reported on the customer's account as XB initially, and then when the validation of debt is completed as XH. As a business decision, due to the short SLA that Customer Service works and completes these cases, Customer Service and Compliance decided that such accounts would be marked with the XH upon completion to be in compliance with FDCPA. As of November 17, 2016, Customer Service has marked all such accounts with XH upon completion.

FDCPA

- During the last Review, Compliance identified possible FDCPA issues concerning customer requests to stop calls before a certain time of the day. Compliance recommended that the systematic process be evaluated to

better assist cardholders when they state that calls before certain times are inconvenient to ensure compliance with the FDCPA and various state collection laws. Collections looked into this issue and determined that the technology of the current dialer system does not enable the Company to adjust calls times. Therefore, this issue is still present. However, Collections has selected a dialer system, pending I.T. approval, which has the technology to address this issue.

Conclusion

During the Review period, Compliance reviewed the policies, procedures, practices, and documentations of the collections processes. Of the areas reviewed, Compliance identified the need for minor manual adjustments, 4 **Coaching Opportunities**, 1 **Procedure Adjustment Opportunity**, and 1 **Violation of Law**. Because of these findings, the ratings of this report for Portfolio Services, Collections, and Customer Service have been determined to be at **“Satisfactory,”** in accordance with the highest mark of the *Legend of Compliance Review Ratings*. To address issues identified in these processes Compliance, Collections and Portfolio Services, and Customer Service have formulated recommendations as detailed throughout the report, and will work together to enact these recommendations.

Legend of Compliance Review Ratings

Satisfactory:

This rating reflects that the applicable statutes and regulations are being followed. Three or less violations of law or procedure errors may exist. Adequate staff, systems, processes, procedures, and controls are in place to ensure compliance with all applicable statutes, regulations and internal policy and procedures.

Fair:

This rating reflects that the applicable statutes and regulations are being followed, but with some difficulty. Between four and five violations of law or procedure errors exist. Adequate staff, systems, processes, procedures, and controls are in place to ensure compliance with applicable statutes, regulations and internal policy and procedures, but require some improvement.

Needs to Improve:

This rating reflects that the applicable statutes and regulations are being followed, but with significant difficulty. Between six and seven violations of law or procedure errors exist. Adequate staff, systems, processes, procedures, and controls are in place to ensure compliance with applicable statutes, regulations and internal policy and procedures, but are lacking and require significant improvement.

Unsatisfactory:

This rating reflects that the applicable statutes and regulations are consistently not being followed. More than seven violations of law or procedure errors exist. Adequate staff, systems, processes, procedures, and controls are not in place to ensure compliance with applicable statutes, regulations and internal policy and procedures.