



“Setting Uniform Standards for Operating
in a Changed Environment”

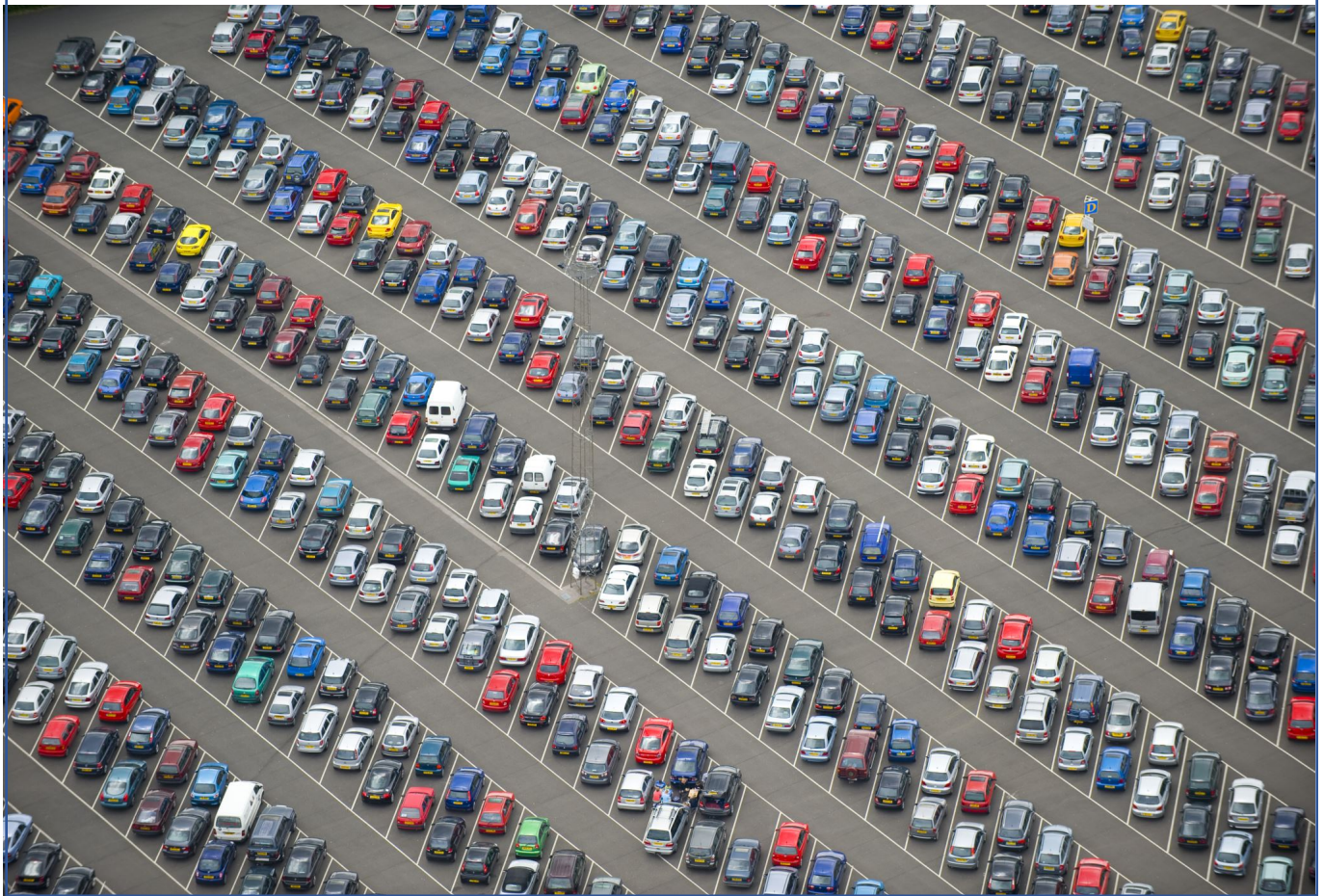


TABLE OF CONTENTS

Executive Summary	3
Then and Now 2000-2020	4
Uniform operating standards and terminology	5
Conclusion	7



EXECUTIVE SUMMARY

The American Recovery Association (ARA) is working closely with its members – many of the premier recovery professionals in our industry — to be ready once again to assist lenders with the recovery of their collateral that has ended up in default.

While all of us – lenders, forwarders, and recovery companies alike - have had to cut back or suspend operations during the COVID-19 virus pandemic, foregoing most of the revenue associated with the recovery of defaulted assets, the time is now approaching to potentially begin recovery activity in full.

During the "virus-related downtime", many members of the American Recovery Association have focused on maintaining, repairing, and upgrading their extensive equipment and facilities to better serve clients like you once they can start working again. Of course, continuing the on-going educational programs for all employees, funding the continuing employment of highly-trained field agents, motivating office staff who have less-than-demanding workloads, and allowing technical assistants to work from home or other venues have been among the greatest challenges of all.

Through it all, ARA members have worked diligently to retain their highly-qualified recovery professionals who are eager to "hit the road" and resume the recovery of valuable collateral for lenders like you who depend on us for the resale of defaulted loan assets to keep their loan revenues at respectable levels so they too can remain successful and can withstand the financial setbacks associated with severe economic downturns like the one all of us have been experiencing.

For repossession company owners though, the current financial landscape is precarious. While many are eager to get back to work, the difficult economic realities of the last few years have now been greatly compounded by the effects of the Covid-19 crisis. Consequently, it has become incredibly challenging to afford continuing to operate in the recovery space and a change to the status quo is needed immediately. ARA is releasing this Summary Paper to communicate the issues that deserve attention, and will continue releasing Industry White Papers to articulate the critical issues that need to be resolved by all stakeholders within the industry in order to avoid the loss of more recovery companies in the near term. Establishing a new economic model and adopting universally accepted industry standards are essential next steps.

THEN AND NOW: 2000-2020

From the year 2000 to a time just before the COVID-19 pandemic of 2020, there is indisputable evidence that the operating costs in the recovery industry have been growing continuously while there has been no corresponding increase in revenue to cover those costs. What was once a successful business model has become unsustainable for the owners and companies that provide the recovery services.

In addition to no increased revenue to cover things like annual inflation, there have been no incremental fee increases added to cover costs such as mandated compliance fees, new technologies such as LPR cameras, increased collateral-location and recovery software leasing fees, and increased costs resulting from third-party repossession management firms (forwarders).

As a result, operating margins have plummeted to all-time lows and many companies are experiencing major bottom-line losses. The present consequence of this reality is that more recovery agencies are closing their doors permanently because they can no longer afford to serve their lender clients.

Some examples of 2000 versus 2020 costs and expenses facing recovery firms are cited below:

Employment Wages:

2000 -- Hourly employees average \$6 -\$8 per hour

2020 -- Hourly employees average \$12-15 per hour

Equipment Pricing:

2000 – Average recovery wrecker -- \$50,000.00

2020 – Average recovery wrecker -- \$80,000.00

Fuel Cost: (Diesel Fuel)

2000 -- \$1.43 per gallon

2020 -- \$3.17 per gallon

Technology Fees

2000 -- \$20.00 per month (basic fax machine)

2020 -- \$10,000 per month (includes camera car/lease on camera systems & other equipment)

Compliance Fees

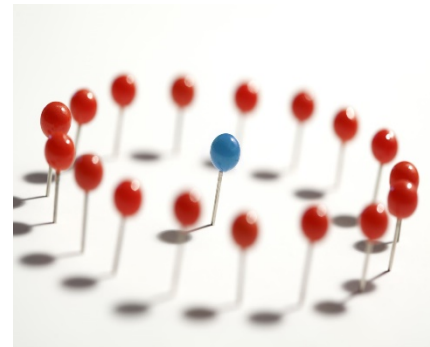
2000 -- \$ None

2020 -- \$ Hundreds to Thousands per month depending on assignment volume

Secured Vehicle Storage Costs

2000 -- \$100 per month per acre – plus insurance, depreciation, taxes

2020 -- \$400 per month per acre (up to \$1200 or more in urban areas)



UNIFORM OPERATING STANDARDS AND TERMINOLOGY

Understanding the urgent need to reestablish the sustainability of a healthy recovery industry which can continue to serve lenders effectively, the American Recovery Association has collaborated with its membership to identify the best potential ways ARA members can revive and strengthen their ability to serve their valued clients in the days ahead.

ARA invited over 10,000 people from across the auto finance and recovery industries to participate in this timely initiative. Multiple conference calls were conducted and those willing were aligned into working groups that contributed substantial time and effort towards identifying key areas of concern and ways to improve practices across the industry. The resulting information was then presented to over 250 recovery professionals from around the country who were polled and asked for their input and responses to the many items presented regarding how to generate a stronger business model following the COVID-19 Crisis. Recovery industry personnel as well as forwarding clients were in 95.4% agreement on newly revised operating and contract standards to be included. ARA will continue to foster this collaboration between all industry stakeholders and communicate the progress and results to all who participate.

In summary, the agreed upon consensus includes the following issues:

- **Personal Property Inventory and Storage** – Storage and removal of property has become a more dangerous proposition during this pandemic period. The additional costs of time, resources and manpower to meet current safety requirements, including to protect personnel with PPE in the removal of all personal items, must now be compensated.
- **Storage of Collateral** -- Storage charges should be supported, whether by the lenders or borrowers or both, for insuring and storing all types of collateral.
- **Reverse Indemnification** – Many contracts now place indemnification solely upon recovery agents. New contract language must be provided that specifies liability resides with the appropriately responsible parties.
- **Force Majeure** – Liability and responsibility for damages done to collateral caused by natural disasters must be shared in a fair and equitable way.
- **Request to violate a law or regulation** – Contract violations and penalties should exist for any lender or forwarding company which pressures or demands a recovery agency to violate any state, federal, or local law, regulation, mandate, or statute.
- **Specialty Fees** – Additional fees should be reimbursed for the use of dollies, flatbed trucks and all additional specialized equipment necessary for the safe recovery of collateral and the safety of the repossession agent. These types of equipment have limited usage and/or require additional fuel as well as continuing costly maintenance and or replacement.

- **Programming and Key Fees** – A reasonable fee must be collected for all keys including standard, specialty and locksmith services.
- **Technology Fees** – After assigning recovery orders, lenders and forwarding companies will be responsible for reimbursing all reasonable software-platform fees required to locate and recover collateral.
- **Handling Fees** – An appropriate fee will be charged for time and resources devoted to transporters in moving and/or delivering collateral and for borrowers during redemption reinstatement and provision of collateral.
- **Recovery and Handling of Hazardous Materials** – Hazmat fees should be charged for handling materials such as oil, pesticides, cleaning fluids, paint and other toxic products which present hazards to employees and the hiring of an environmental company must also be an option for extremely hazardous cases.
- **Compliance Education Requirements** – Professional recovery agencies should choose which compliance program they offer and should not be mandated by the lender or forwarder. If a lender or forwarding company requires an additional compliance program, all additional compliance expenses become the financial responsibility of the requiring party.
- **Dual Assignments for direct placements within same coverage area** – An assignment for a repossession should not be sent to multiple agencies simultaneously. This practice can be confusing and potentially very dangerous for repossession agents in the field.
- **Release of Previous Repo information/Hostile Debtor info** – Extra care and contractual language must exist and be communicated in detail to protect the recovery agency from hostile situations and previous hostile debtors.
- **Payment Terms** – All invoices should include payment terms of net 30 days of submittal.
- **Post Repo Reporting Requirements** – Punitive withholding of invoice payments for late reporting should not exist. Reporting times must be based upon the local times of the recovery agency and apply only to standard business hours.
- **Removal of Invoicing Research Restrictions** – Recovery agencies cannot accept restrictions placed upon research requests for unpaid invoices.
- **Collateral Take Backs (vehicles that have left the care, custody and control of the agent)** – The time consuming and often acrimonious duty of collateral takebacks can also be litigious and should be re-assigned as and compensated as a new standard repossession because the risks are equivalent and insurance otherwise does not cover non-assignment processes.
- **Repossession Accounts Placed on Hold** – Reasonable periods of hold before automatic cancellation need to be established and stated in recovery contracts.



CONCLUSION

As the leading professional organization assisting the recovery industry, the American Recovery Association (ARA) is resolute in its commitment to work with all willing stakeholders across the auto finance world to create mutual success, while always pursuing its core responsibility to ensure the viability and sustainability of the repossession community. It is imperative that repossession companies can return to profitability so that they can again be successful business partners to the lending community.

As we emerge from the COVID-19 hiatus, it will be more challenging than ever for the recovery industry to continue to perform efficiently, effectively, and safely while serving clientele in a professional manner that protects all parties from possible litigation and/or unneeded negative publicity. There has never been a more critical time for lenders and ARA members to work together to bring about mutually beneficial change. We are confident that - *if we all work together* - we can develop a more sustainable model that can serve all parties into the foreseeable future.

Also, I would welcome a chance to talk with you and learn how ARA can further improve our continuing relationship as industry partners. Along with member companies of the American Recovery Association in your area, I am always available to discuss any of these or other topics with you by phone or in person. Please note that ARA will be further detailing information presented in this document soon.

Thank you for allowing ARA members to professionally serve you and your company,

Les McCook
Executive Director

American Recovery Association

Key Takeaways

- Industry-wide Commitment to Building a Sustainable Recovery Industry
- Adopt and Implement Uniform Operating Standards and Terminology
- Re-establishing and Protecting the Interest of the Lending Community