

The Importance of Transacting ACH

Cut Costs and Improve Portfolio Performance

BY PETER MOODY

In the not-so-recent past, timeshare buyers went home from closings with a shiny new member kit, an exchange company resort directory, and book of payment coupons to be returned with a check each month. As the industry moved to digital technology, all of these elements were largely replaced with online versions. This is great; we save paper and can revise materials as facts change.

As consumers moved to on-line payment technology, however, many replaced that monthly check with a monthly or automatic payment from their credit cards. Automatic credit card payments sound great in theory, but in practice, developers who buck this trend have an opportunity to both cut their servicing costs and improve their overall portfolio performance.

A better option is to create compelling reasons for buyers to set up Automated Clearing House (ACH) payments for monthly credit payments and annual maintenance fees. The ACH Network moves money and information from one bank account to another through direct deposit and direct payment via ACH transactions. In the United States, the ACH Network facilitates the transfer of more than \$43.7 trillion annually.

Cost Cutting

When a merchant accepts payment via a credit card, the credit card companies retain a portion of the payment before transferring the funds to the merchant. These are expensive transactions, with fees for many developers ranging from 2.5 and 3 percent.

Simply put, with ACH payments from consumer checking accounts instead of credit cards, developers receive more of

their money. Consumers have become much more comfortable making payments online; the task today is to incentivize them to set up automatic payments that tap their checking or savings accounts and not their credit cards.

There's another important way that automatic payment with ACH creates costs savings. Recurring Direct Payment via ACH results in less churn among accounts. Consumers' bank accounts don't have expiration dates, and consumers are far less likely to change their main bank accounts than they are to change their credit cards. When consumers close a credit card, are reissued a card because of credit card fraud, or a store card they use switches from American Express to Visa, payment requests are denied. This means that developers and their loan servicers must spend money and time contacting consumers to obtain new billing information and get them back on an automatic payment system.

Improve Portfolio Performance

Perhaps the most important advantage of automatic payment through ACH technology is that it leads to dramatic improvements in portfolio performance—something both developers and lenders can agree is an important goal. The correlation between increased ACH automatic payments is so strong that I call ACH the “King of Payment Methods.”

To test this theory, we recently analyzed multiple portfolios by comparing consumers on credit card payments with those on automatic ACH payments. The difference was stark: the segment initially paying with credit cards averaged 15 percent past due after one year, while the segment initially paying with automatic ACH payments had

a less than 1 percent delinquency rate in that same year.

Now that you're convinced that automatic ACH payments are the preferred payment method, there's another important audience to convince: your owners. There are good reasons they prefer using credit cards instead of their checking accounts. They receive points from the credit card companies, and for those who pay off their cards each month, they get a few days of "free money" before their credit card payment is due.

Sometimes just encouraging consumer to use ACH autopay rather than credit cards is enough to change behavior, but more often incentives are needed. A leader in this area is San Juan Capistrano, California-based Global Exchange Development Corp., which now has more than 70 percent of its members on automatic ACH payments. If or when they drop off, GEDC gets them right back on the program.

"It's very important to us that our buyers start out on and stay on an automatic ACH payment program," explains Rick Sargent, developer and operator. "This way, we don't have to worry about credit cards expiring."

It all begins at the closing table when GEDC's verification loan officers ask for the buyers' checking account information. If they are unable to provide it at the time of sale, they will follow up the next day with a phone call.

One of the ways GEDC has achieved this level of success with automatic ACH payments is that borrowers that don't set up the program are charged twice as much in fees for servicing their loans. If a borrower falls off their automatic payment, their payment increases.

"This heavily incentivizes that member to go back to the automatic payments," Sargent says.

Developers selling to a more far-flung clientele have an additional challenge in that most consumers don't bring their checkbook to the sales table, but with smartphones and online technology, most can access their account information online. If they can't, a simple phone call once they



have returned home can be made to obtain the information.

Maintenance Fees, Too

Although we have concentrated on timeshare mortgage payments, maintenance fee collections can also be improved with automatic ACH payments. One incentive that some HOAs are offering is to allow owners to make their maintenance fee payments monthly or quarterly rather than annually. Another trend, for example, is to bill in January for 2018, and then incentivize owners to pay throughout the year at the 2017 rate instead of waiting for 2018 bill. This technique also saves credit card fees and reduces delinquencies.

According to a 2017 survey by the Credit Research Foundation, ACH payments are expected to surpass checks by 2020. The respondents anticipate that ACH

will account for 45 percent of payments, checks 34 percent, cards 12.5 percent, and cash and wire at 8.5 percent. I think our industry can—and in some cases already is—outperforming these numbers. Isn't it time you did too? ■



Peter Moody is vice president of business development at Equiant, a timeshare servicer with a portfolio that exceeds \$1 billion and includes more than

125,000 individual consumer loans. They offer loan receivables and maintenance fee servicing on a fully hosted web platform, PaaS receivables technology, point of sale merchant processing with PCI Level I compliance, delinquency control, document custody (including digital), and analytics reporting. Moody's email is pmoody@equiant.com.