

# Payment Delinquencies Spanning All Industries

A SURVEY OF U.S. CONSUMERS AND THE COMPANIES THEY PAY



December 2007

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# Executive Summary

Across the United States, personal financial stability is decreasing as energy and healthcare costs hit all time highs, and the mortgage crisis pushes millions of families into further debt or foreclosure.

The majority of the recent research on the credit landscape and Americans' financial stability has focused on the mortgage industry—specifically subprime mortgages—with some speculation about the impacts on related subprime sectors. However, a recent online survey of 1,006 nationally representative U.S. households conducted by Online Resources Corporation shows that the mortgage fallout is spilling over into the greater economy and affecting recurring bill companies in all industries and their ability to collect payments.

The survey shows that households are being forced to prioritize among their bills. They are managing their delinquency by creating, in effect, a “delinquency budget.” It comes as no surprise that the mortgage bill tends to be the one that households are most likely to pay, with other businesses facing a decreasing share of the delinquency budget. Key findings include:

- 43 percent of households report that it is harder for them to meet their financial obligations, including bills, loans, mortgage and debt, than it was 12 months ago;
- When asked why it is harder to meet their financial obligations, most households cite increased energy and healthcare costs;
- 25 percent reported being delinquent on at least one bill, by at least 30 days or more;
- Not surprisingly, 98 percent of households report that if they did not have enough money to pay all their bills, they are likely to pay their mortgage first;
- With mortgage delinquencies skyrocketing, the potential impact on other bills is evident: households report that they would be least likely to pay five of the seven major household bills—credit card, phone, healthcare, utility and loan—if they had to choose; and
- The majority of consumers prefer the web channel for making delinquent payments, due to its convenient and non-confrontational nature.

Online Resources conducted a companion survey of clients from its extensive biller end-point network of banks, credit unions, utilities, healthcare companies, card issuers, receivables management and mortgage companies. A majority of the 54 respondents, from all industries and with annual revenues ranging from less than \$1 million to more than \$20 billion, report they have already felt a negative impact from the mortgage crunch, and expect that the economy will make it harder for them to collect payments in 2008. Key biller findings include:

- 84 percent of the companies surveyed expect to spend more to collect late payments in 2008 than they will have in 2007; and
- Despite this predicted increase in costs due to delinquency, billers are surprisingly out of sync with consumers when it comes to collecting payments, with only 8 percent of those surveyed meeting consumers' preference to cure their delinquency online.

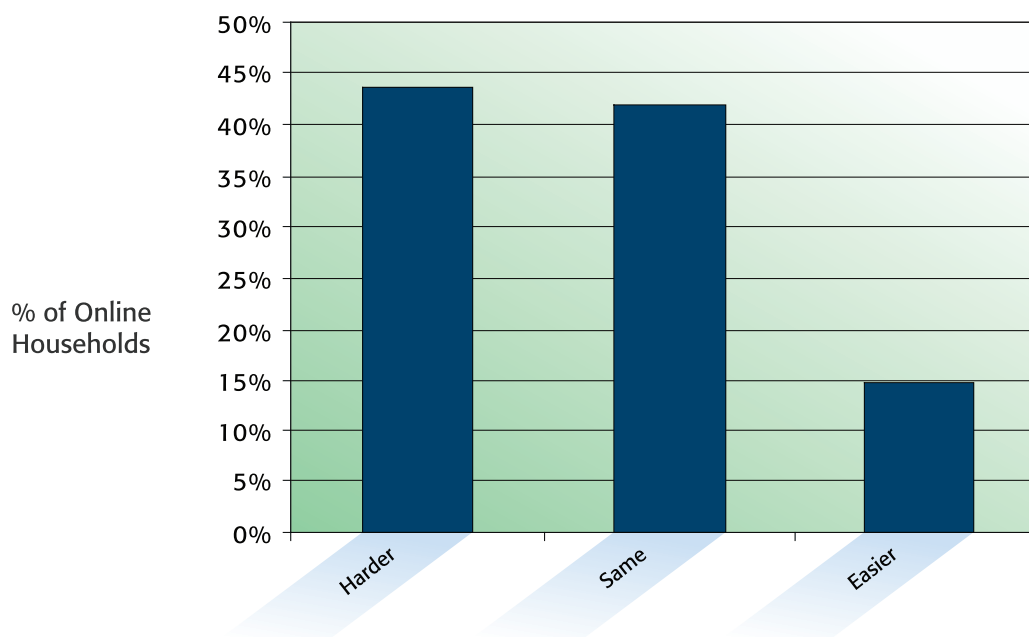
Billers will be competing harder than ever before for their share of households' monthly budget, whether they are collecting on-time or delinquent payments. Those who can offer consumers a convenient and preferred option for resolving delinquency will be able to maximize their share of payments. Given the low percentage of billers currently offering a specialized website to resolve delinquency, billers that are quick to offer this option and better meet consumers' preferences will have an advantage in receiving their share of the delinquency budget.

This report is the third in a series published by Online Resources about the developments in consumer debt and collection technology.

# Survey of Households: Delinquent Bills Are Not Created Equal

## Consumers Are Overextended

Households across the country are finding it harder to meet financial obligations now than they did just twelve months ago. Of the households surveyed, 43 percent report that it is harder for them to meet their financial obligations, including bills, loans, mortgage and debt, than it was 12 months ago.

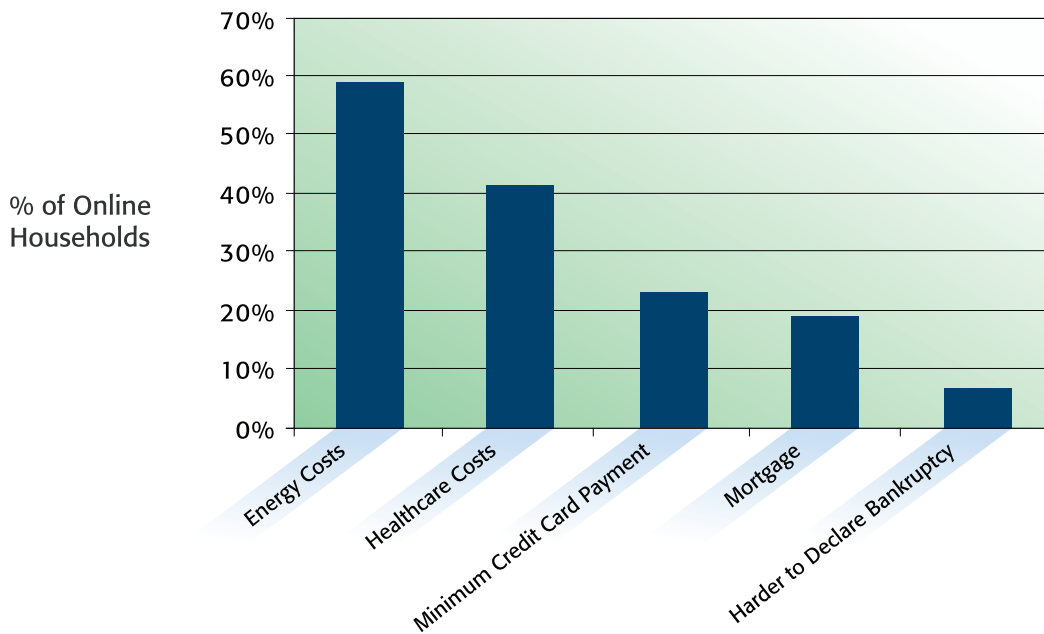


*How would you describe your household's ability to meet your current financial obligations, including bills, loans, mortgage and debt?*

# Survey of Households: Delinquent Bills Are Not Created Equal

## Reasons It Is Harder For Households To Meet Financial Obligations Than 12 Months Ago

More than half of households chose multiple reasons why they are finding it harder to meet their financial obligations. The most popular reason—and the only one cited by more than half of respondents—is increased energy costs. As further evidence that troubles are not limited just to the mortgage industry, only 19 percent of households report that their mortgage is a reason why it is harder for them to meet financial obligations.

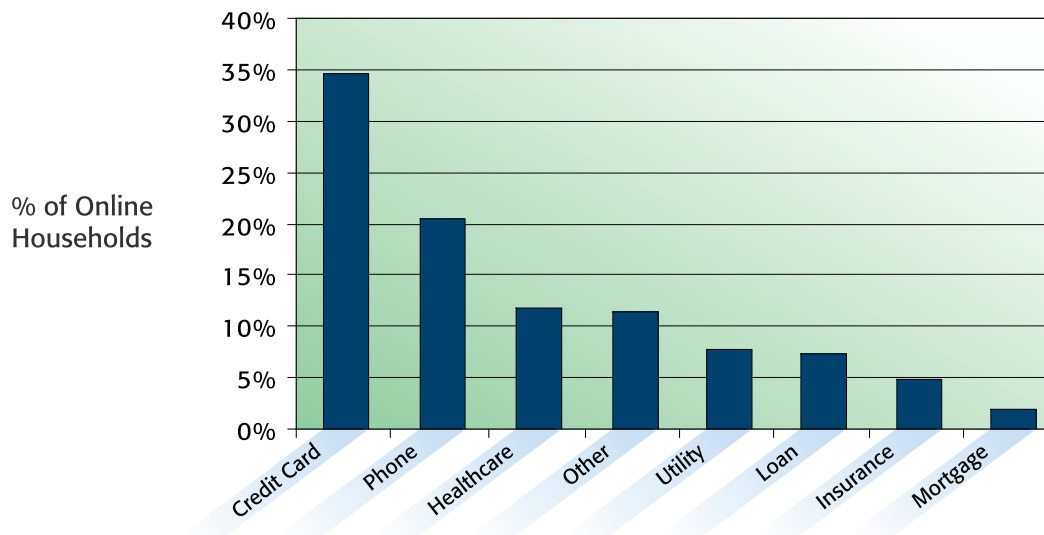


*If you indicated in question #1 that it is harder to meet financial obligations than 12 months ago, why is it harder?  
(Select all that apply)*

# Survey of Households: Delinquent Bills Are Not Created Equal

## Household Bills Most Likely Not To Be Paid

When asked to consider the prospect of having to choose which bills they would pay if they could not pay all, 98 percent of households are likely to not pay another bill so that they can pay their mortgage. With consumers prioritizing their bills, credit card, telecommunications and healthcare companies would be at greatest risk of rising delinquencies.

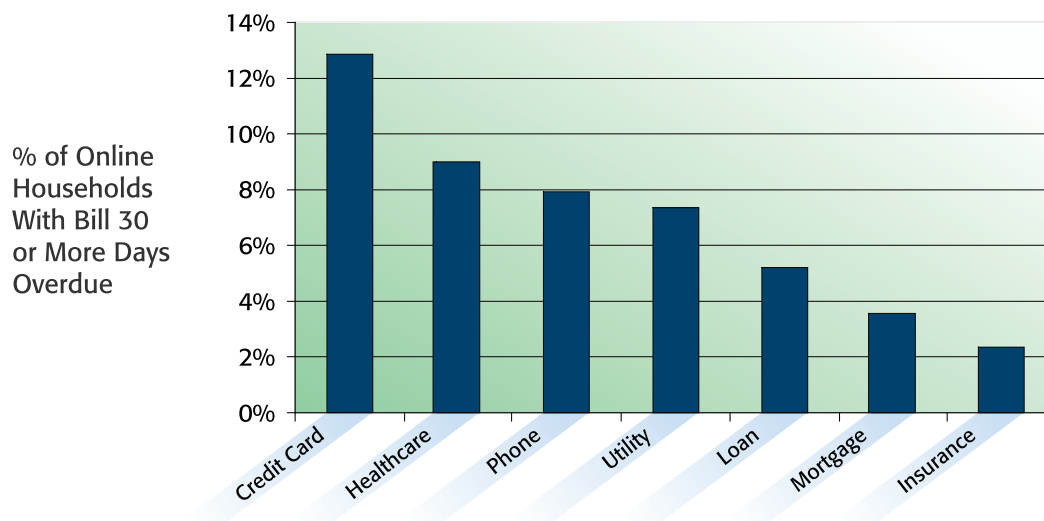


*If your household did not have enough money to pay all of your bills, which bill would you be most likely NOT to pay?*

# Survey of Households: Delinquent Bills Are Not Created Equal

## Household Bills 30 or More Days Overdue

Actual consumer behavior is consistent with their predicted behavior: one out of four households surveyed currently has at least one bill 30 or more days overdue. The credit card bill is the most commonly overdue and faces the highest risk for non-payment, with 13 percent of households 30 or more days delinquent in making their payment.



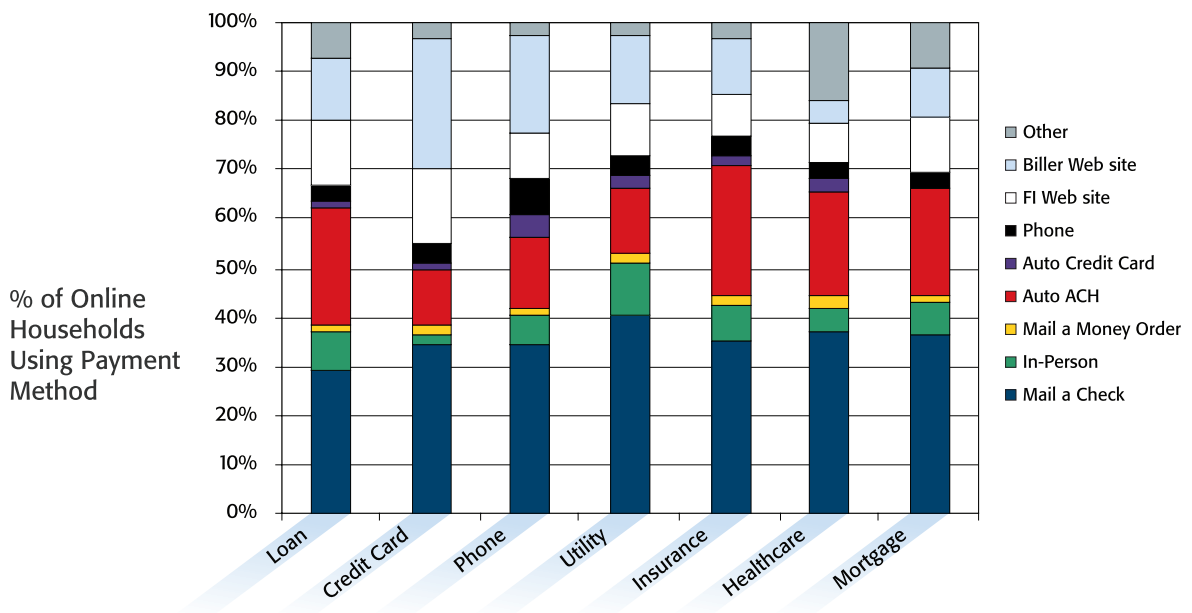
*If your household has any of the following bills that are 30 or more days overdue, please select all that apply.*

# Survey of Households: Delinquent Bills Are Not Created Equal

## Consumer Bill Payment Preferences

When asked how they paid their regular monthly bills, households report that more than half of their bills were paid electronically.

September 2007 Household Bill Payment Methods



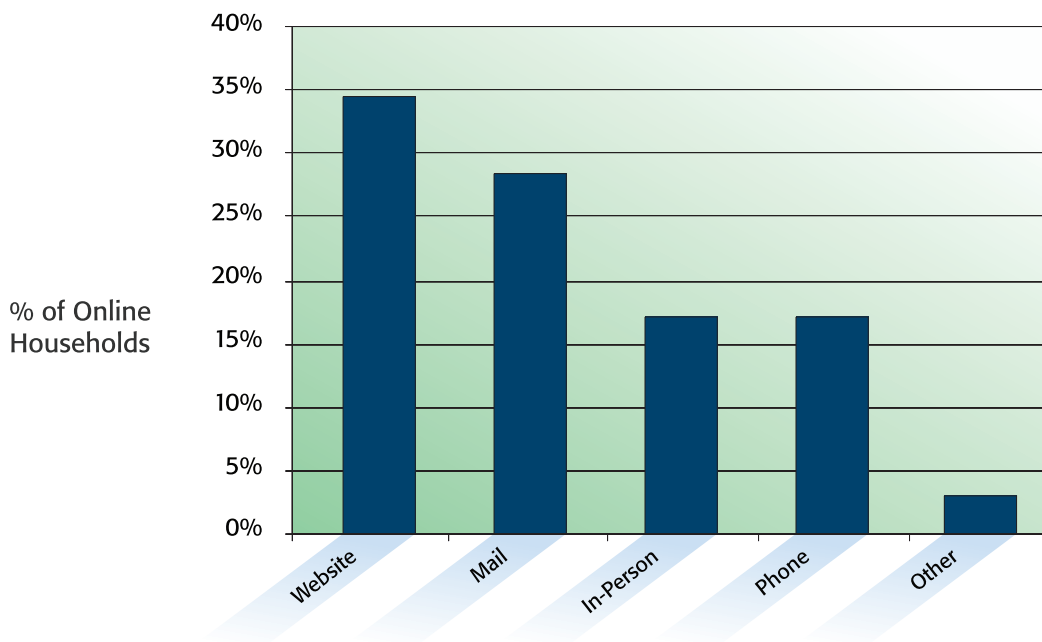
*If your household made a payment last month, how did you pay it?*

# Survey of Households: Delinquent Bills Are Not Created Equal

## Household Delinquent Payment Preferences

Consumers indicate the same preferences for curing their delinquency via the web. Compared to the phone, in-person and mail, households would prefer to use a website to pay a delinquent bill. While paying regular monthly bills on the web is very popular, the number of households who said they prefer to pay a delinquent bill on the web is 39 percent higher than the number of households who currently pay their regular monthly bills on the web.

The web also received high marks from households for the other tasks involved in resolving a delinquent account. It ranked as one of households' top two preferences in each of the following categories: notifying a biller that they have already paid their overdue bill, setting up a payment plan, negotiating the amount of the payment and updating personal contact information.



*If you had an overdue bill how would you prefer to make the payment?*

# Survey of Billers: Sharing the Delinquency Budget

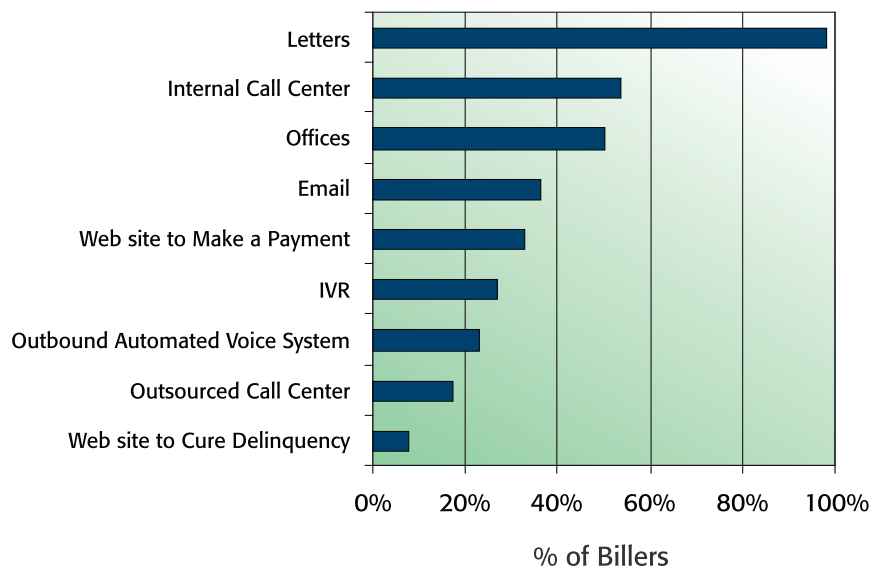
## Billers Expectations About Consumer Difficulty

A majority of surveyed billers report that they expect the economy to make it harder to collect payments from their consumers next year. Only two percent of billers surveyed expect the economy to make it easier to collect payments in 2008. These findings were consistent across biller categories.

It follows that billers anticipate the cost of collection to rise: 84 percent of billers expect to spend more on collections in 2008 than they will have by the end of this year. "Spending more" has traditionally meant adding staff to make more call attempts, but staff addition introduces its own problems: recruiting, training and compliance. Indeed, billers say that among their principal concerns, after the consumers' ability to pay, staffing and compliance concern them most.

## Not Meeting Consumer Preference: Current Biller Collection Methods

Only eight percent of billers offer a website that goes beyond accepting payments to allow consumers to cure their delinquency. This means that the overwhelming majority of billers are missing out on a significant opportunity to improve how they meet consumer preferences for making delinquent payments.

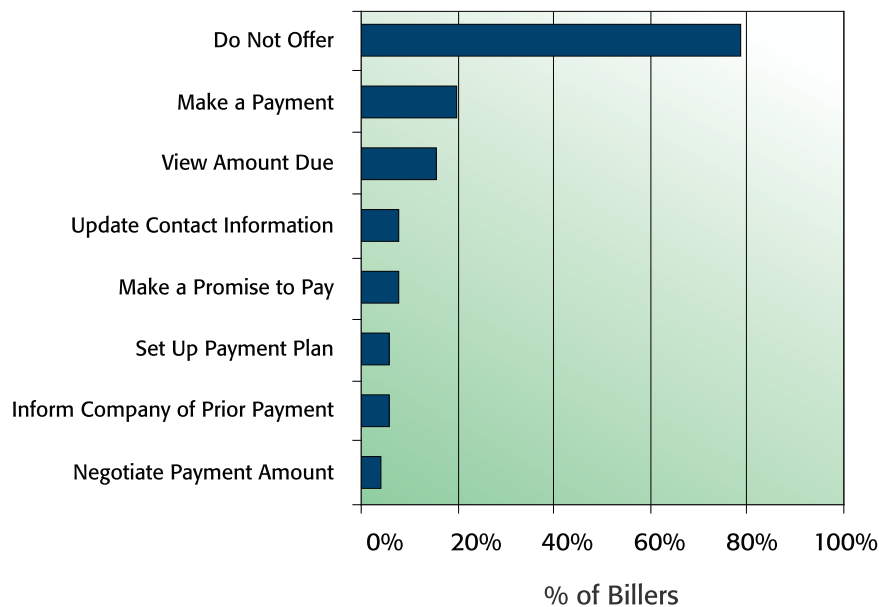


*What methods does your company use today to communicate with people you are trying to collect from?  
(select all that apply)*

# Survey of Billers: Sharing the Delinquency Budget

## Few Billers Offering Website for Delinquent Consumers

Of the 22 percent of billers who do offer a website for delinquent consumers, making a payment and viewing the amount due are the most common options offered. Few billers enable their consumers to resolve delinquencies on their own in a convenient and non-confrontational manner. Having the ability to update contact information, make a promise to pay, set up a payment plan, inform the biller of a prior payment or negotiate the payment amount presents consumers with more options to cure their delinquency than being faced with a pay-all or pay-nothing situation.



*What capabilities does your website for delinquent consumers offer? (Select all that apply)*

# Summary

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## Opportunity Exists For Billers to Gain a Share of the Delinquency Budget

Given the impact of today's mortgage market and cost inflation, consumers are finding it difficult to meet financial obligations and find themselves forced to prioritize the monthly bills they pay. Billers need to compete harder than ever before to get their share of households' monthly budget, whether they are collecting on-time or delinquent payments. Those who can offer consumers a convenient and preferred option for resolving delinquency will be able to maximize their share of payments. Households have shown, both in survey responses and recorded behavior, that they prefer to use a website to resolve their delinquent accounts.

Given the low percentage of billers currently offering a specialized website to resolve delinquency, billers that are quick to offer this option and better meet consumer preferences will have an advantage in receiving their share of the delinquency budget.

Prior Online Resources studies have shown that billers that have implemented a specialized website for resolving delinquent accounts have seen consumers behave according to their stated preferences: about 20 percent of the users of a self-curing web experience do so during hours that collection operations are not traditionally open. Almost half the users had not been successfully contacted by the biller in the prior six months, if ever, and two-thirds of them were late-stage delinquent accounts. Web users have higher rates and amounts of payment against higher average balances. Consumers' choice of the web increases over time: the web has about twice the activity today that it did a year ago<sup>1</sup>.

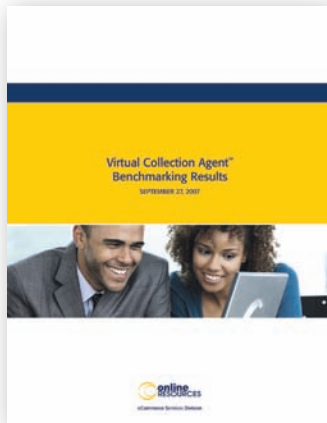
Consumers also like the "financial advisory" nature of these specialty websites. Many consumers turn to the web for education on topics like credit counseling and bankruptcy, or for setting an appointment to be contacted by an agent. In turn, they cure their delinquency through traditional web channels by, for instance, mailing a check. Billers have received calls from delinquent consumers thanking them for the delinquent-account site. Some consumers return to the specialty site each month to pay during their delinquency.

Consumers are evidencing these preferences across multiple debt-types including unsecured loan, utility and healthcare bills, first- and third-party collection efforts and pre-charge-off and post-charge-off accounts. These most recent results found that visitors to the website paid a dollar amount three times more than the portfolio average and paid four times more often than the portfolio average.

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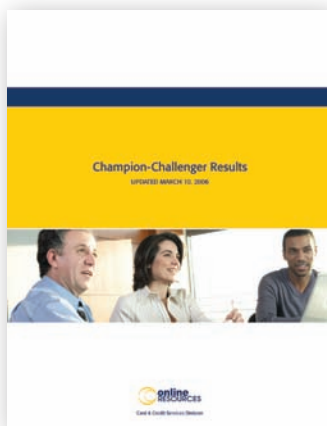
1. Online Resources Corporation production results.

# Further Research



## Online Resources 2006 Benchmark Study

A 2006 benchmark study of four top-twenty card issuers using the Virtual Collection Agent™ looks at the cost savings of web-based collections, as well adoption and payment trends.



## Online Resources 2005 Champion-Challenger Report

A Champion-Challenger report features a Top 3 card issuer, examining cumulative flow rates, loss avoidance and operational savings.

Both are available at: [http://www.orcc.com/card/research\\_report.asp](http://www.orcc.com/card/research_report.asp)

# Methodology

Two separate online surveys were conducted to understand consumer and biller collections. The consumer household survey was conducted in conjunction with MarketTools, Inc. Survey responses were collected from October 5, 2007 until October 25, 2007. Survey respondents were recruited and invited to participate by MarketTools, Inc. Survey invitations were sent via email with a link to a website containing the survey questions. To encourage participation, MarketTools, Inc. offered respondents 50 bonus points they could redeem for prizes. Responses were received from a nationally representative sample of 1,006 online households. 79 percent of U.S. households use the Internet according to Harris Interactive's 2007 poll.<sup>2</sup>

Age	
18–24 years	12%
25–34 years	19%
35–44 years	21%
45–54 years	19%
55+ years	29%

Gender	
Female	52%
Male	48%

Annual Household Income	
Less than \$35,000	42%
\$35,000–\$49,999	15%
\$50,000–\$74,999	19%
\$75,000–\$99,999	12%
More than \$100,000	13%

For the biller survey, responses were received from 57 companies that accept bill payments from consumers. Survey responses were collect from October 19, 2007 until October 30, 2007. Participants were recruited from Online Resources' network of financial institutions and billers. Survey invitations were sent out via email with a link to a website containing the survey questions. The respondents were asked about their knowledge of their company's

2. Harris Interactive, "Four in Five of All U.S. Adults—an estimated 178 Million—Go Online." November 5, 2007

# Methodology

accounts receivable and collections. The three respondents who indicated they had no knowledge of their accounts receivables and collections were excluded. The remaining 54 responses included banks, credit unions, utilities, healthcare companies, card issuers, collection agencies and mortgage companies. Two-thirds of the respondents had annual revenue of less than \$50 million.

Annual Revenue	
Less than \$1,000,000	18%
\$1,000,000–\$49,999,999	47%
\$50,000,000–\$499,999,999	8%
\$500,000,000–\$999,999,999	3%
\$100,000,000–\$20,000,000,000	18%
Greater than \$20,000,000,000	5%

71 percent of the respondents have less than 50 employees collecting delinquent and charged-off accounts.

Employees Collecting Delinquent and Charged-Off Accounts	
0–10	56%
11–50	15%
51–100	4%
101–1,000	19%
More than 5,000	6%

# About Online Resources Corporation

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Online Resources powers financial technology services for thousands of financial institutions, billers and credit service providers. Its proprietary suite of account presentation and payment services are branded to its clients, and augmented by marketing services to drive consumer and business end-user adoption. The Company serves more than 10 million end-users and processes \$100 billion in bill payments annually. Founded in 1989, Online Resources ([www.orcc.com](http://www.orcc.com)) is recognized as one of the nation's fastest growing companies.

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