White Paper

A Better Approach to Consolidating a Creditor's Legal Network

Eltman Law

Enforcement Execution Collection

Historic Changes in the Collections Environment Have Forced Creditors to Consolidate Their Legal Networks

Regulatory pressures are radically changing the credit and collections landscape, forcing both creditors and law firms to adapt. The aftermath of industry regulation has fundamentally challenged the way creditors manage their legal collections process and compelled several major players to reduce the number of law firms they work with.

There are many compelling reasons why leading creditors are consolidating their legal networks:

- **Increased regulatory scrutiny requiring closer management of law firms:** Government regulators have taken action to hold clients more accountable for the actions of their law firms. This puts added regulatory strain on creditors and requires them to closely manage any law firms that provide legal services for them.

- **Increased auditing costs:** Increased scrutiny from government regulators requires clients to audit their law firms more rigorously than before. This leads to increased auditing costs that continue to add up with each additional law firm that a client employs.

- **Cuts in internal budgets for managing law firms:** Many creditors have seen a dramatic decline in delinquencies which have led to reductions in collections budgets. This has forced collections departments to do more with less.

- **Declining placements:** Delinquencies have been declining on the whole since the 2008 financial crash. In addition, increased regulatory concerns have curtailed the debt buying market, no longer allowing delinquencies to be purchased at historical rates.

- **Merger and closure of law firms:** These regulatory changes have demanded that smaller or more marginal law firms adapt their business model to stay competitive. Many have instead chosen to merge into larger firms or simply close their practice.

- **Poor performance of marginal firms and/or networks:** Changing market conditions have had a negative impact on existing judgment inventories. Many firms have become too financially strapped to invest in judgment enforcement, and several merged firms show performance issues on older accounts.

- **Clients are now held directly responsible for their law firms' contact with customers:** Legal networks add an additional layer of communication liability between the client and their customers.

The Available Alternatives

Faced with a need to lower the cost of collections and lighten the load on legal network managers, creditors have a few consolidation options available to choose from.

- **Reduce the number of firms within the internal network:** On its face, this seems like the obvious solution. If a client uses too many law firms, they can simply reduce the number of firms they use. In practice, though, this approach presents significant unforeseen performance and compliance issues.

- **Retain a legal network:** A creditor that has managed its own network may consider using an outside legal servicer to outsource the management of its law firms. However, this approach can create a dangerous lack of accountability as accounts are distributed through the network.

- **Retain a national law firm:** Several large law firms have emerged with offices in multiple states that can serve as direct national coverage, rather than firm management middlemen.

- **Retain a national law firm that specializes in judgment management:** Some national law firms specialize in collecting judgments. Creditors can use a national judgment specialist to consolidate all of the judgments left unpaid by other firms with one firm.

Measuring The Effectiveness of Common Legal Consolidation Strategies

1. Reduce the Number of Firms in Your Network

This has certain benefits to a creditor. Marginal or high-risk firms can be cut, leaving a core of firms that the creditor is familiar with. This is a viable solution as long as the remaining firms have the capacity to comprehensively handle the transferred placements.

The problem is exacerbated when creditors eliminate firms holding a large number of judgments. This often leads to creditors placing these otherwise-liquid judgments with the remaining firms or simply warehousing them. Neither one of these is the best solution.

Most law firms are not equipped to do their best work on judgments that have been obtained by a previous attorney. These firms will accept judgments from a previous firm as an accommodation to their clients, but typically do not have the processes needed to liquidate judgments that they did not obtain themselves. These processes include, but aren't limited to, obtaining copies of the judgment, validating the status of each, confirming the balances, obtaining consents to change attorneys, and the myriad of other requirements to work a judgment entered by another firm.

Regardless of a local firms' performance, it is not advised that creditors warehouse their judgments internally. Not only are warehoused judgments a missed opportunity for liquidation, leaving judgments warehoused creates potential issues with collections and compliance. Creditors often find that the judgment balance they have on record underestimates the actual value by as much as 11%. Only a select few national firms have processes in place to verify judgment balances, validate judgment data points, and become aware of motions that may have been filed that would have vacated the judgment.

2. Hire a Legal Network

Contracted legal networks replace internal legal management staffs. This can be an attractive option to a manager faced with broad budget cuts, as an outside network can perform a variety of tasks previously performed by the inside staff. However, the industry trend is clearly moving away from this solution, as there are significant problems with this approach in the new environment:

- A network places a middleman between a creditor and the law firms that represent it

    - All compliance and auditing are at an arm's length from the owner of the accounts
    - Detailed account level reporting to the creditor is not typically available
    - Awareness of complaints, disputes or regulatory issues at the firm level are not always transparent to the creditor

- A network lacks expertise in managing the judgments inherited form prior firms
- Legal networks cannot compete with national law firms on performance in unpaid judgments

3. Retain a National Law Firm

Several large firms have recently emerged through either merger and acquisition or organic growth. These large firms allow a creditor to avoid many of the problems presented by local firms or legal networks, such as concentration risk and the inability to absorb judgments from eliminated firms.

Placing too many accounts with a single firm can be risky. Problems that arise with a particular firm can become major issues if a creditor does not have an alternative. This problem can be avoided by retaining several large national firms in a competitive environment.

The inability to absorb judgments is harder to deal with. Just as smaller local firms are ill-equipped to absorb judgments from prior firms, large firms are seldom able to productively collect on these judgments. This problem becomes exacerbated when the judgments are spread out over many states, where the laws regarding judgment collection vary wildly as do the appropriate and available collections strategies.

4. Retain a National Law Firm that Specializes in Judgment Management

In response to market demand, there has been an emergence of firms that specialize in working judgments originally obtained by other firms. These firms have recognized the facts that collection firms often do not maximize collections in judgment inventories and rose to fill that niche for national creditors.

These firms eliminate all of the problems associated with local firms, networks, and general purpose large firms. They are experts in validating judgment information even when the prior firm is uncooperative. They are designed to reduce compliance risk that arises from inconsistent balances. They are experienced in finding and unlocking value in long inactive judgment inventories.

Industry Best Practices Require a Separate Judgment Collections Program

The current demand for consolidation arose alongside a similar trend among creditors establishing dedicated judgment management programs on top of their legal strategy. Fortunately for major creditors, a comprehensive legal strategy revamp can address both of these urgent needs.

There is a certain catch-22 that plagues credit issuers, debt buyers, and other firms that accumulate a high volume of judgments. While local attorneys may succeed at winning judgments, they are often unequipped to collect on these judgments. There are several reasons for this:

- Local firms usually do not have the investigative resources to locate assets to satisfy their judgments.

- Their business models tend to emphasize liquidating their accounts at dunning, service of suit, or upon filing of judgment. These firms are simply not organized to continuously mine their judgment inventories for opportunities that will drive payers and ultimately settlements.

- They are limited to the state where they are licensed and are powerless to pursue a debtor who moves out of state.

Creditors who recognize these common pitfalls not only get improved performance, but also consolidate their judgment process into a single firm to manage, rather than dozens across a network.

Eltman Law is the Leading National Judgment Enforcement Expert

Eltman Law specializes in collecting on judgments that were deemed uncollectible or simply fallen through the cracks at other law firms, making Eltman an ideal fit for creditors seeking to consolidate their legal network.

Eltman's process is uniquely designed to collect on judgments in back of law firms that have folded, merged, been acquired, or otherwise lost the paper trail on their judgment inventory. This process has been used to handle over one million accounts previously handled by other law firms, and past performance suggests that Eltman can add another 10% or more in liquidations on judgments obtained by former firms*.

Leaving judgments unworked keeps a potentially-liquid balance inching closer to its expiration date and increasing in possible complications. To capitalize on this opportunity and do so while mitigating any risk, Eltman Law does not take action on clients' accounts until running them through our robust verification and validation programs.

Warehousing allows thousands of otherwise liquid judgments to expire without a chance to collect them. Eltman does not warehouse its clients' judgments, and invests its own resources into retrieving and validating the necessary information to collect on these accounts with maximum compliance and efficiency.

With the industry in its current state, creditors require a single national law firm with a turnkey solution for collecting on accounts in back of original attorneys across multiple states. An ideal legal collections solution must provide the following benefits to its clients:

- A judgment recovery process that has proven its worth with hundreds of thousands of transferred judgments.
- The ability to obtain copies of judgments as will be needed to do post judgment executions in many states
- A robust judgment validation process that confirms judgment information and balances to reduce compliance risk.
- A dedicated Compliance department with full-time Compliance Counsel and Risk Officer on staff.
- An inventory management process that continuously recycles judgments through an industry-leading asset location process.
- Direct legal counsel in multiple states with no need for middlemen such as legal networks to stand between the creditor and its attorneys.

Eltman Law's Consolidated Legal Collections Solution

Eltman Law's Consolidated Legal Collections Solution allows underwriters & debt buyers to send 11 states of delinquent accounts to 1 industry-leading firm designed specifically to liquidate accounts in back of original attorneys. These 10 states represent over 70% of most judgment inventories. We have been practicing since 1947 and have adapted to changing market conditions. Now Eltman provides an innovative, industry-tailored solution for the needs of debt holders looking to consolidate their legal network

This new, non-network model for national legal collections avoids many of the common pitfalls major creditors and debt buyers face in their current legal programs. With this model, Eltman Law provides a one-stop legal collections solution that stretches across 11 states including NY, FL, CA, TX, and NJ.

**This data is taken from the more than one million judgments Eltman Law has managed in the past five years. Performance projections and netback calculations are based on actual historical performance but do not represent a guarantee of the performance of any future placement which will depend on the age of the portfolio, prior collection efforts and various other factors.*

For more information:

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About Eltman Law:

Eltman Law (www.eltmanlaw.com) is the industry leader in non-paying judgment management. With over 7 years' experience in the field of non-paying judgments and a sole focus on this industry, Eltman Law specializes in capitalizing on accounts previously considered inactive or without value. Our innovative process which includes deep data mining, industry asset investigations, and nationwide legal management, has been proven time and time again to be successful in liquidating on accounts that other firms thought had no value.

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