

Coastal Outsourced Solutions - On The Front Lines

A year ago, Coastal Outsourced Solutions was established as a wholly-owned subsidiary of First Citizens' Federal Credit Union aiming to attract other credit unions and small, community banks across New England as clients.

"We've perfected processes with back-office and support functions, and now we can leverage these – along with technology and our people – to improve the way our Coastal clients do business," explained Chris Howard, Coastal's Managing Director, who was hired to build out the subsidiary and guide its strategic development.

Coastal developed a carefully crafted series of concepts to share with prospective clients:

- We add tangible value to our solutions – improving your processes, performance metrics, customer experience and cost savings
- We form long-term partnerships and build sustainable solutions.
- We empower you to do more of what you do best.
- We take the time to understand your unique business environment and then tailor our approach accordingly.
- We don't settle for "out of the box" or "off the shelf" solutions.

Howard and Jack Sullivan, Coastal's Director of Sales and Business Development, studiously evaluated First Citizens' core competencies that could be leveraged by other primarily smaller credit unions as Coastal clients.

- Loan Servicing
- Indirect Auto Lending
- Human Resources
- Facilities Management
- Marketing
- Retail Sales & Operations
- Default Loan Servicing
- Compliance and Risk Management
- Commercial Lending
- Deposit Operations Improvement, Consulting & Analysis
- Residential Lending
- Technology

Results have been impressive.

One client, with assets of \$170 million, outsourced delinquency management and default loan services to Coastal. Within one year, it saw total delinquencies drop from 3.75 percent of all loans to 2.21 percent and net charge offs decrease by 23 basis points. The client's delinquent loan-to-assets ratio dropped from 2.49 to 1.3.

Yet another client has developed a \$20,000 monthly fee income stream for its 37,000 loan portfolio by leveraging Coastal's electronic payments solution.

In both these cases, clients also have reported improved customer experience, reported Sullivan. They also noted reduced compliance risks; improved cash flow; and cost savings in employee salaries, legal fees and facilities, said Sullivan.

“When you look at small and mid-size institutions, they are under tremendous pressures to remain profitable,” noted Howard.

“Revenues are not growing at the same rates as the expense curve. Regulations, including Dodd-Frank, are adding expense. As net margins continue to shrink and become more compressed, outsourcing becomes a very attractive option,” he explained.

In its first year, Coastal has focused primarily on servicing loans, collecting default loans and indirect auto loans.

“We understood that we could not, or should not, jump into a dozen lines of service overnight. Each one requires careful planning. It is not a matter of build it and they will come,” said Howard.

“We did a lot of work focusing on the New England region, talking to many financial institutions – not only credit unions, but also small banks – to determine what they needed in this challenging environment,” he said. “If a potential client wants the service, that’s the trigger point for us to mobilize.”

There are many competitors in the outsource space, many much larger. But Coastal – backed by First Citizens’ – possesses distinct competitive advantages, noted Howard.

For one, not many credit unions are entering the outsource industry.

“What differentiates us is that we are a credit union ourselves, and we completely understand every aspect of the industry,” said Howard. “We are not transaction oriented. Our model is to develop long-term sustainable relationships.”

In contrast, the largest outsource companies tend to offer one or two specialized services in a silo, mostly off the shelf. They are primarily publicly traded, and their goal is to sell at the highest margins, Howard said.

“Coastal is not outsourcing commodities. Our model is a comprehensive one,” he noted.

“From a client perspective, that is a huge advantage. No matter how good the service, there always will be times when a problem or hiccup occurs. That’s when communication, understanding and trust are critical. We won’t provide a service to a client’s customer that we are not precisely providing to our own customer.”

In one year, Coastal Outsourced Solutions counts 5 clients, primarily smaller credit unions elsewhere in New England, but not currently sharing First Citizens’ market. “In every instance, we create a Chinese Wall between them and First Citizens’, even as we leverage First Citizens’ experts and processes. What happens within Coastal stays there,” said Howard.

He noted that Coastal’s initial clients are looking to shift their focus from the back office to the customer. “They are feeling the constraints, cost pressures and risks associated with compliance. They also find themselves dedicating all too much of limited personnel to collecting delinquent loans.”

At some smaller credit unions, staff must wear multiple hats – being responsible for everything from collecting bad loans to answering customer phone calls to human resources. That’s becoming ever-more burdensome given the pace and complexity of the financial landscape, he added.

Sullivan is very enthusiastic about Coastal's loan default services encompassing autos, home mortgages and home equity loans.

"We assume responsibility when our clients' loans extend past the grace period of 15 to 16 days past due," he explains. "We start with a gentle reminder and letter. Often, that's all a customer needs." In some cases, however, action extends all the way to repossession.

Coastal can rely on decades of experience within First Citizens' Federal Credit Union, where its executives and managers have handled billions of dollars in default portfolios during their careers, said Sullivan.

"As a subsidiary of a credit union, we understand that customers of a client must be treated with care and respect. We treat them the same way we do our own customers. You get more money with honey," he emphasized. "It's about partnership and communications."

Sullivan, who joined Coastal in 2015, has a long career in sales leadership and outsourcing, including years working for Rollins, Inc. as a supervisor responsible for 10 field offices across New York and New England.

"With my background providing outsourced services, I am very excited coming in at the ground floor and growing Coastal's client base," said Sullivan. "We can rely on extraordinary talent all through First Citizens', as well as its battle-tested processes and technologies."

With all its clients, Coastal is continuously communicating and listening, he emphasized. This includes quarterly meetings to evaluate progress, relying on established metrics. Specific goals and deadlines are established, then monitored.

Since he arrived, Sullivan has met with more than 60 credit unions and other financial institutions across New England. "There's been more listening and learning than selling," he said.

The most promising partners, he said, are those with assets ranging from \$200 million to \$500 million and are located beyond large cities. "These tend to find it tougher to recruit and compensate experts, who are in greater demand than ever when it comes to compliance and risk management, as well as technology.

Another area proving fertile is indirect auto lending.

The once steady and lucrative auto loan market has been upended. Two decades ago, credit unions could depend on loan rates ranging from 10 percent to 16 percent. Today, those rates are far less, while car dealers themselves are making many of those loans directly at the point of sale.

"Other companies in this market aggregate lots of dealers and lots of lenders in a Lending Tree-like way and just match them," explained Sullivan. "Coastal doesn't do business that way. We are not shot gun. Instead, we work closely with 15 to 20 select dealers across a given region to develop strong, continuous and sustainable relationships."

A dealer will get on the phone with Coastal while a buyer is in the showroom, and Coastal will work expeditiously to facilitate the sale. In addition, Coastal often will consider a loan beyond an arbitrary standard based on a dealer vouching for the buyer, explained Sullivan.

"It's a boutique approach for both the lender and dealer," he added.

One of Coastal's strengths – technology that supports services from payments to compliance – actually is an outgrowth of First Citizens' decision several years ago to outsource to another company – Connecticut Online Computer Center (COCC).

As Coastal brings on clients needing the same technology, its overall economies of scale grow – and that provides it with more leverage regarding COCC. That, in turn, results in lower overall costs and growing capacity that benefit all the institutions, explained Howard.

With Coastal's early success, it is tempting to ramp up faster, but Howard urges caution. "Yes, we are growing exponentially, but it is critical that we seek out only the right partners for us. We are not looking to be the Walmart of CUSO's (Credit Union Service Organization).

"Our model is to drive quality and value for a client. It's not necessarily bringing on more new clients all the time, but enriching the relationships we have with current ones," he emphasized. "At the end of the day, we can provide a one-stop relationship with our customer. As they become happy with one service, they may be inclined to contract others."



Jack Sullivan
*Director of Sales
& Business Development*

774-628-7846
Jack.sullivan@coastaloutsourcedsolutions.com

200 Mill Road Suite 100
Fairhaven, MA 02719

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