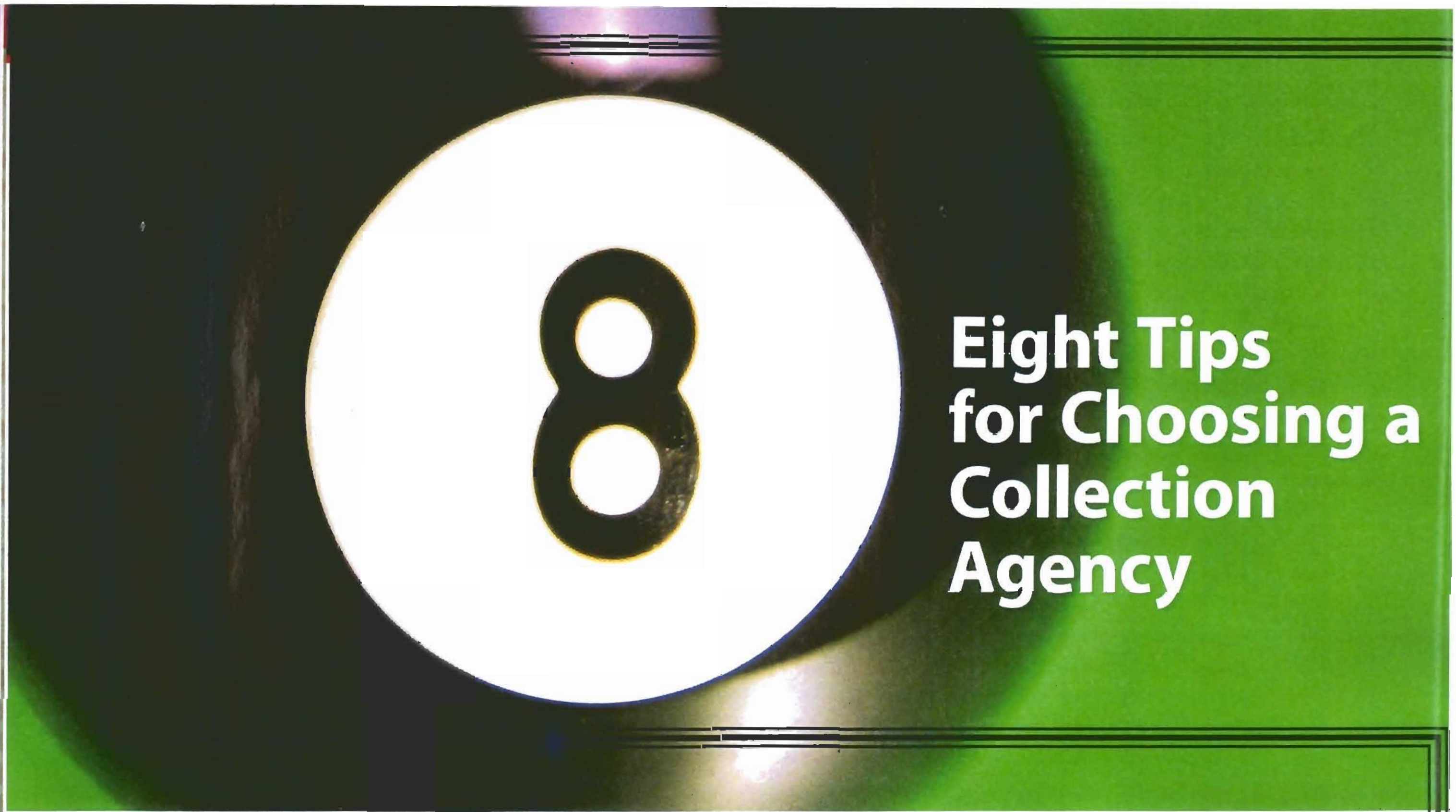

Eight Tips for Choosing a Collection Agency

By Steven Gan

Debt collection, whether commercial or consumer, is one vital part of a comprehensive credit risk management system.

When we hear the words "credit risk management," we may have a general idea of the meaning, but for the record, a comprehensive credit risk management system will use a wide range of "before and after" credit risk products, services, systems and solutions. This system is designed to fulfill three objectives for a company:

1. Safeguard its assets—cash, account receivables and inventory.
2. Support the company's sales and marketing goals.
3. Strengthen the internal risk management system.

The way you go about choosing a debt collection agency is a vital part of strengthening your company's credit risk management system. I believe that if you do not have an internal collection department that can efficiently handle slow paying and outstanding accounts, you are doing yourself an injustice. By all means, outsourcing the function to a qualified collection agent or attorney—as soon as possible—would be a very prudent business decision.

Before even trying to understand if a collection agency is a good fit, take some time to understand if your business's collection needs fall under commercial, consumer or both areas. For example, if your collection needs are for hundreds of medical cases against individuals, your needs will best be fulfilled by using a "call center type agency" that specializes in handling these types of cases. Conversely, if you have commercial cases for mining equipment with balances in the hundreds of thousands of dollars, you probably would benefit by using an agency or attorney that specializes in the collection of commercial claims in this field.

I know this seems obvious, but I have found that many companies pick their collection support based on who they *know* instead of what they *need*. Here are eight tips to help you choose a collection agency.

1. Is the company is legally and professionally legitimate?

This idea is no different than trying to understand the creditworthiness of your customers. You certainly don't want to be held responsible should a legal problem arise in the course of the agency's efforts to collect a debt on your behalf. Since you need to obtain proof that the agency is licensed and bonded in the states where they are providing their collection services, don't be bashful about asking the agency to send you a copy of its license and certificate of insurance for Errors & Omissions.

Inquire whether the agency was involved in any lawsuits or paid any fines due to wrongful collection activities, and ask about its membership in the Association of Credit and Collection Professionals, the Commercial Law League of America, or other professional associations. This would be an important point of evaluation because their membership would indicate a basic adherence to professional standards.

Note that the collection of consumer debts is specifically addressed by the Fair Debt Collection Practices Act (FDCPA), adopted to eliminate abusive debt collection practices by debt collectors, to ensure that debt collectors who do not use abusive practices are not competitively disadvantaged, and to promote consistent state action and legislation in this area. The Federal

Trade Commission has primary responsibility for enforcing the FDCPA, which applies to persons, including attorneys, who use any means of interstate commerce or the mail in any business having debt collection as its principal purpose, or persons who regularly collect or attempt to collect debts owed to another. The law also applies to any creditor who, while collecting his or her own debt, uses a name that suggests a third party is trying to collect the debt.

2. Secure references.

Is the agency or attorney providing collection services to other companies in your field, and is it possible to call one or two customers to get their impression? Talking with other companies, especially those in the same industry, will give you one of the best assurances for the performance and reliability of this agency or attorney.

3. Gauge delinquent account placement.

What are your present internal collection policies and procedures, and do you normally outsource to an agency when an account becomes delinquent? Understanding at what point you need to place an account with an agency will result in how well the agency can perform on your behalf. For example, let's say that you have one collector at your company who is trying to collect on several hundred cases per month. Under your present system, if your collector cannot manage the accounts efficiently, then it's best to sit down with your agency, segment the pool of accounts to be placed and then place them on a timely basis that will allow the agency to support you to the fullest.

Too often, companies wait months before they outsource an account. A rule of thumb is that an account that is already six months delinquent only has a 50 percent chance of being collected; at one year, the account only has a 20 percent chance. Every company has to decide at what point it will be more cost effective to place the account with an agency rather than attempt to collect it in-house.

4. Complexity of your product or service.

The more complicated the product you are selling, the higher the skill the collector needs to have in dealing with the collection issues. Is your company selling a complicated product or service that requires time to manufacture and deliver, or are you selling a stock item off the shelf rather quickly? A collector friend was recently asked to resolve an outstanding debt on a "modified atmospheric meat packing machine" in which the debt of $90,000 was being disputed. In order to handle the claim effectively, the collector had to go to the creditor's location and learn about the operation of the machine, educating himself to a level where he could understand the dispute. If the collectors at the agency you choose have neither the capability nor interest to understand your business, it's best to pass on choosing them.

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5. Know the agency capabilities.

Confirm the total number of collectors, the type of training they would receive to handle your accounts, the number of accounts handled per collector per month, and the average overall collection rate. If you are planning to outsource 5,000 retail accounts per month under $1,000 each, and the agency only has three people, there is no way the agency could effectively handle your accounts. Generally speaking, a good collector working in sync with a sophisticated computer system could probably handle between 500 to 800 retail cases per month.

6. Timely and efficient reporting.

Can the agency give you an update of any account, at any time, that you passed to it for collection? These days, many agencies developed their collection systems that allow clients to access the system through the Internet by password. The collection system should allow you to see the status of each account; confirm how much has been collected to date; show the past payment remittances to your company, and basically allow you to understand every aspect of the service of your accounts from placement through collection.

7. The agency should become a partner

What is the agency's commission structure? Almost all agencies and collection attorneys work on a success basis, and generally, the rate is between 15 and 25 percent. However the more cases placed with an agency on a regular basis, the cheaper the rate becomes. To what extent does the agency or attorney become integrated as a part of your internal collection system? If your company places claims at a very early stage in which the cases are called under your company's name (normally a soft call service), the rate can be as low as 2 percent of the claim value up to $100.00. In addition to the rate, if the agency can print up and send out past-due notices under your company's name, the agency is indeed becoming your collection outsourcing partner.

8. Communication is king

Every agency should have one person at the company who will respond to your inquiries and requests on a regular basis, as well as have another person for backup. So many agencies these days don't even know their customers, and there can often be a very impersonal feeling when one calls to the agency.

It takes six months

These eight tips should give you a basic outline of what to look for when choosing a collection agency, which is, again, one vital part of maintaining a strong credit risk management system. Although it's necessary to do a certain level of due diligence, in the end, I believe it will also take at least a six-month trial period to understand if there is a good fit between your company and the agency.

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