THE GUIDE TO SELECTING A DEBT COLLECTOR

How to Find Potential Collection Agencies & The Top 10 Criteria for Evaluating Debt Collectors.
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About Kaulkin Media & insideARM.com
Selecting a debt collection agency can be a daunting task. There are well over 5,000 of them in the United States alone. They range from individuals to large corporations with over 20,000 employees. You hear lots of negative things about the collection of debt in the news and certainly don’t want to be on the wrong end of one of those reports, nationally or even locally.

Yet your cash flow is at stake. You have legitimate receivables to collect, and a professional debt collection agency is trained to do it properly. How can you find a collection agency, and more importantly, how do you identify the best service provider as opposed to just the best, or most aggressive, or only marketer?
Check out the national collection industry associations. In the U.S. these include:

For all types of accounts:

ACA International’s member directory, which you can search by type of debt and industry:
http://www.acainternational.org/memberdirectory.aspx/

National Association of Retail Collection Attorneys’ find-a firm-tool:
http://www.narca.org/?2010/1/find.html/

For commercial (business to business) accounts specifically:

Commercial Law League of America’s Commercial Collection Agency Association (The CLLA has a fairly extensive certification process as part of their membership):
http://www.clla.org/clla_sections/ccaa_list.cfm/

International Association of Commercial Collectors: http://www.commercialcollector.com/

Look into your own industry groups (i.e., dental association, medical association, utility association, retail association). Collection firms are often affiliate - or vendor - members of these associations, and therefore pass at least one hurdle by demonstrating some level of commitment to your specific industry. They may also have references that you recognize.

You could also simply search Google for something like “collection agency” and “Minnesota” and “parking fines;” or “collection agency” and “New Jersey” and “dental.” The more specific you are in your search, the narrower your results will be, which can be helpful in identifying an agency that is a specialist in your field.
Now you have a list of potential agencies, but how do you choose the one that's right for you?

Your collection agency should represent your organization in a responsible and professional manner, and provide a satisfactory rate of recovery while maintaining your public image. As with any service, you'd like to get the highest return for the lowest cost possible. However in the case of debt collection, this decision involves more than just giving your business to the lowest bidder - it requires careful consideration. “You get what you pay for” is often overlooked when hiring collectors and this can lead to lack of results (best case) or significant damage to reputation (worst case).

There are many criteria to consider. For very large creditors, like major banks, credit card companies or utilities, the process can (and should) be extensive. For the majority of businesses or organizations, here is a compiled “Top 10” list of the most important criteria.

Your selected agency should be:

1. Fully licensed (each state has its own laws about this), bonded and insured. They should be able to provide you with evidence.
2. Experienced in your specific industry, such as hospitals, physicians’ offices, dental practices, utilities, municipal governments, student loans, or commercial/B2Bs. Ask for multiple references in your industry.
3. Experienced in the type/age of debt you need collected (15 days past due is a different animal than 180 days past due), as well as the average balance size.
4. Willing to provide reviewed or audited financials. Some agencies have been known to use clients as a source of capital; this is not what you want.
5. Willing to provide detailed information on the collections process. Exactly how will your customers be contacted, how often, and in what manner? What is their strategy for working all of the accounts (even the smaller balances vs. simply cherry picking the most attractive files)? Are calls monitored on a regular basis to ensure compliance with laws as well as the overall quality of client interaction?
6. Willing to set up an independent trust account for payments from your customers to prevent co-mingling of your funds with others’.
7. Easy to communicate with, including providing you with a clear fee schedule, an accessible single point of contact, a reliable, simple method of transmitting files electronically, and a plain English agreement that explains all terms clearly, including how and when you will be paid.
Prepared to provide regular reports on their activity. Ideally, they’d provide you with electronic access to your account at all times so that you can review progress. At a minimum, your contact person should provide reports on at least a monthly basis. Ask for a sample of what these reports will look like.

Willing to engage in a detailed discussion of their training program. How do they train collectors? Is there training beyond the initial new hire period? Is there coaching on the floor on an on-going basis? Are calls recorded and regularly reviewed? This is critical, as the collectors are the people who will be talking with your customers and leaving a positive or negative impression – which your customers will be very willing to share with their neighbors.

A low-risk provider. Is the agency:

- “Clean” on a Google search? If multiple complaints emerge on the first or second page of the results, check closer.

- A member of one or more national industry trade associations. Membership is one indication of professional integrity. Better yet, look for current, active participation. Are company executives active in the association? Are they truly invested in the industry? Do they make a productive and positive contribution?

- Active in a local Chamber of Commerce?

- Listed with the relevant BBB because of problems?

CONSIDER THIS

At the end of the day, you want to do business with a professional organization. Does the agency use a high-pressure sales approach that makes you uncomfortable? Does your salesperson become impatient or evasive when you ask the questions above? If so, chances are they use a similar approach to collections. While you certainly want your agency to be forceful, in the long run, you will not come out ahead if they are intimidating and overly aggressive.
4. WHAT TO ASK THE REFERENCES

Checking references is always challenging. It’s difficult to know what to ask that will produce truly useful information. In most cases, the key is to be able to get very specific about what you want to know. Here are 9 really good questions to help ensure that the time you spend speaking with references will be productive for you.

1. What is the average size of the account balance that the agency worked for you? (You want to confirm that the reference’s portfolio approximates yours, which will make their results more relevant to you.)

2. What kind of collection results (recovery rate) did you get from the agency? Note how the answers compare with what you were told by the salesperson. Recovery rates can be skewed to look better by counting/not counting certain accounts.

3. Is this agency easy to deal with? For instance, do they deliver on all the promises made during the sales process? Is your contact person accessible, knowledgeable, and helpful?

4. Does the agency offer good advice regarding settlement offers, or do they seem solely focused on maximizing their own commissions?

5. Do you get reliable and accurate reports on the promised schedule?

6. Does the agency pay you on time?

7. Does the agency offer ideas on how to reduce your bad debt in the first place, or to improve the process up front?

8. Do you feel that the agency truly does understand the industry and your customers, or was “industry experience” just something written on the brochure?

9. Have you received complaints from customers about the agency’s collection practices?
Collection agency performance is ultimately tied to you, the client. The best results come from a true client/agency partnership. While you can and should require all of the professional practices listed above, your level of professionalism is equally as important.

1. Check references! Back to the first point in this brief – you don’t want to find yourself on the wrong side of a news article, having hired a firm that is not reputable.

2. To the greatest extent possible, provide organized, accurate account information and proof of debt. This includes transaction documents, invoices, proof of delivery, purchase orders, receipts, etc. Debtors have the right to request proof of the debt. If your agency doesn’t have it, they will be at a disadvantage.

3. The success rate of your collections will be affected by the age of the receivable when placed. The longer you wait to place the account the lower the chances of recovery. The Department of Commerce indicates that 30% of accounts that reach 90 days will not be paid or collected. (Note also that the older the debt, the higher the commission rate will be.)

4. Do not place the same account with more than one collection service. Make sure that if you change collection agencies, the account is only being worked on by one service.

5. Consider what information you collect on your credit application, sales agreement, and other documents. Improving your upfront process will increase the chance of successful in-house collections. If third party help becomes necessary, your chosen agency will have the ability to skip trace, contact and collect with more efficiency.

6. Identify your expectations of the agency based upon the nature and age of the debt. How will this be measured so both parties have realistic expectations as they enter the relationship? Establish specific timelines, at least in the beginning, to assess whether the relationship is working.

7. Be as accessible and easy to work with as you’d expect from your collection agency partner. This leads to the fastest resolution of issues and the best recovery performance.
The mission of insideARM.com (ARM stands for Accounts Receivable Management – also known as “debt collection”) is to shift the public conversation about the ARM industry in order to help creditors and collection professionals reduce risk, lawsuits, and bad press; we'd like to change consumer perception that speaking with collectors should be avoided.

With over 70,000 subscribers our website and newsletters reach collection agencies and law firms, debt buyers, creditors, suppliers of technology and services to these groups, regulators, industry investors, and many other interested parties.

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