

## Choosing a Collection Agency that Fits You

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According to the U.S. Census Bureau, more than 5,000 collection agencies operate in the United States. To find one best suited to your business model, creditors must first establish reliable performance measures and clear expectations for the collection agency.

Most creditors evaluate their third party collection agency clients based on the number of accounts placed versus the number of dollars collected. Doing the math might sound simple enough, but several other factors can affect a creditor's decision to continue placing accounts.

Brian Griffin, general manager of the receivables division at Lincoln Technical Institute in Plymouth Meeting, Pa., said after working student loan accounts internally, his company places them with one of four or five third-party collection agencies. He evaluates dollars collected year-to-date as well as the average dollars collected on an account. Griffin noted it's also important to examine the percentage of accounts paying on a total portfolio.

"It's not just dollar amounts, but how many of them [the collection agency is] turning from nonpaying to paying," he said. "That helps me determine which agencies are performing better and who to send more paper to."

In the current economic climate, it's increasingly common for collection agencies to accept partial payments from customers, which Griffin said has changed creditors' expectations regarding liquidation rates. "They know everyone is in a predicament," he said. "So right now, it's fighting over the dollars out there."

Christine Montgomery, director of credit and collections at ARS Rescue in Memphis, Tenn., said her company looks at two performance measures:

1. Collection performance, regardless of the date the account was placed.
2. Straight placement and collections.

The first measure examines performance based on how much was placed and how many dollars the collectors negotiate down. For example, if a creditor places \$100 with an agency and collects the full \$100, the performance level would be 100 percent. However, if the collection agency and consumer negotiate the debt down to \$80, the performance level would be 80 percent.

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The second measure provides the exact number of dollars placed versus the percentage of dollars collected. In addition to analyzing the numbers, some creditors visit the collection agency to get a feel for the company culture and management style, and to see first-hand how its systems work.

“You’re on the collection floor so you can witness the level of professionalism,” Griffin said. “You can monitor their performance from afar, but [as a visitor] you get to see how they run their agency when you’re there.”

Montgomery agreed that site visits give creditors a chance to witness collection tactics in action. “If they let me walk their floor, I can see how the collectors are treating our customers,” she said. “To me, that’s a direct indication of how their management team is treating them. A well-run agency has goals, star performers and all kinds of incentives for them to do a thorough job because I want to keep my customer when this is all over.”

Many creditors also evaluate the collection management team’s ability to communicate with clients and respond to requests and questions. Additionally, creditors should consider how well agencies understand and comply with all applicable state and federal laws. Collection agencies that know the law will better maintain the creditor’s image when collecting overdue accounts. “It’s one thing to have it in the contract, but it’s another to know that they’re getting it,” Griffin said.

Lincoln Technical Institute also evaluates how well agencies understand the type of paper they’re collecting, which can save both time and administrative costs. Collecting on crstudent loan accounts, for example, requires a working knowledge of specific regulations.

“It’s important to me that they understand the regulatory issues surrounding the debt,” Griffin said. However, sometimes creditors prefer that third-party collectors have experience handling a wide variety of accounts-not just one particular market. “The collector is exposed to more experiences by not just working one type of account,” Montgomery said. “They can apply the strategies they learned with other types of paper to my accounts.”

ARS Rescue also looks for third-party collection agencies that offer consumers online access to their account information. Allowing consumers to view their account status in real-time can streamline the collection process. Finally, Griffin noted that it’s important to work with agencies that share your business ideology. Establishing a healthy business partnership with collection agency clients can help things run more smoothly.

Although there are many ways to measure success in third-party collections, maintaining an open line of communication is a key component to any creditor-agency relationship. ■

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