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Debt collection company paying its dues

Debt-collection industry sees fast growth, furious debate

06:26 AM CDT on Wednesday, August 24, 2005

By PAMELA YIP / The Dallas Morning News

Thomas Backal calls his line of work the "ugly toe" on the big foot of commerce – "something that nobody wants to talk about."

Mr. Backal, 32, is chief executive of Anderson, Crenshaw & Associates in Dallas, which operates Debt Liquidation Group, a debt-collection company.

His 3-year-old firm, which he says could reach \$3 million in revenue this year, has found a niche in the fast-growing but still highly decentralized industry. There are about 6,500 "accounts

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NATALIE CAUDILL/DMN
Michael Harrison (left) and Thomas Backal of Anderson Crenshaw say the firm's debt collectors are tough but fair.

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receivable management" firms nationwide, including 1,100 operating in Texas and more than 100 in Dallas-Fort Worth.

Despite the industry's shaky public image, Mr. Backal and his competitors make no apologies for how they earn a living.

Indeed, they see themselves as serving an important role in the economy and say if everyone would live up to their obligations, there wouldn't be any need for debt collectors, or any complaints about them.

"We keep some companies in business," said Mr. Backal, who started his company in 2002 out of his home. "Without the creditor, the economy folds. We have to protect the creditor."

But consumer advocates and Americans who've alleged abusive behavior by debt collectors don't buy the savior role. They say the "ugly toe" of debt collection tramples their rights and bullies some people into paying money they don't owe.

Indeed, Anderson Crenshaw is the subject of so many unresolved complaints from consumers that the Better Business Bureau of Metropolitan Dallas Inc. has given it an "unsatisfactory" record.


Of the 221 debt-collection firms that the Better Business Bureau of Metropolitan Dallas has information on, 10 percent, or 24, have an unsatisfactory record, said Jeannette Kopko, bureau senior vice president.

Anderson Crenshaw is no longer a member of the BBB and so has stopped responding to complaints from it, Mr. Backal said.

"We're in disagreement with them over some of their procedures, and that's all I can say to that," he said.

Growing industry

As Americans' debt has grown, so has the debt-collection industry. "Wherever credit is extended, ultimately there's going to be a need for some type of a collection effort," said Mark

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E. Davitt, president of ACA International, the Association of Credit and Collection Professionals.

The industry generated \$15 billion in revenue in 2004, up from \$4.5 billion in 1994, according to Kaulkin Ginsberg Co. in Bethesda, Md., which advises debt-collection firms on mergers and acquisitions.

And as the industry has grown, complaints against it have, too.

In 2004, the number of consumer complaints received by the Federal Trade Commission about third-party debt collectors totaled 58,687, representing 17 percent of the complaints the FTC received about all industries. The figure is a 70 percent increase from 2003.

FTC officials cautioned against reading too much into the increase "in part because it's easier than ever to complain to us."

"If you look at the number as a percentage of overall contacts [that debt collectors have with consumers], it's a pretty small percentage," said Joel Winston, associate director of the FTC's Division of Financial Practices.

Still, he isn't dismissing the significance of the increase.

"We are certainly taking a very careful look at why this may be occurring and whether additional enforcement is appropriate," Mr. Winston said.

It's in the industry's best interests to rid itself of any bad apples, said Mr. Davitt, whose group encourages best practices and compliance with the law.

'Financial sweetheart'

Other factors contributing to the growth of the industry are the willingness of businesses to farm out collection efforts and the growth in firms that buy accounts receivable from creditors for pennies on the dollar and then try to collect the debt themselves.

That's what PRM Financial Services in Addison

does.

"It has been a financial sweetheart for a while," said Carol Freeland, executive vice president and partner at PRM. "You would only do this if you've become proficient and develop a good business plan around how to run a good recovery agency, where you can make something out of a negative. That does not mean that you're going to make huge amounts of money."

PRM Financial Services says ideally, it looks for credit card balances between \$400 and \$7,500 with a portfolio of 5,000-plus accounts each time it makes a purchase.

But it does have accounts that are less than \$400 and more than \$7,500. The 20-year-old company has a satisfactory rating with the Better Business Bureau.

Small companies that find a niche are typical of the industry.

"The vast majority of those in this industry are very small companies under \$8 million in annual revenue, just serving one doctor's office or just one creditor," said Paul Legrady, director of the research group at Kaulkin Ginsberg.

Or they focus on a particular kind of creditor.

"They may be looking at health care, utilities and communication services," said Dwain James, executive director of the American Collectors Association of Texas. "That way, they can train their people to focus on the laws and the procedures that govern that type of industry."

Experts say such firms might take a 20 percent to 30 percent commission out of the debts they return to creditors.

Anderson Crenshaw specializes in collecting debt for home security, extermination, landscape, satellite services and cellular telephone companies.

The firm chalked up \$1.68 million in revenue last year, a steady increase from \$868,000 in 2003 and about \$6,000 when it started.

Mr. Backal predicts revenue this year of \$2.5

million to \$3 million.

He said he plans to expand his staff from its current 60 to about 100 by next spring. Further down the road, he envisions multiple call centers in Dallas-Fort Worth.

Like many firms, Anderson Crenshaw pays its employees based in part on how much debt they collect. Companies say they go to great lengths to ensure that their collectors don't violate laws governing the industry.

For example, the Fair Debt Collection Practices Act prohibits a collector from contacting a consumer before 8 a.m. or after 9 p.m., unless the consumer agrees.

PRM Financial Services uses software that blocks a collector's call if it's made outside of those limits, Ms. Freeland said.

PRM also uses a "phonetically based listening system that evaluates every conversation and listens for certain things that must be said" by a collector, such as telling a debtor that the collector is calling regarding an unpaid bill, she said.

"Those are things that we use that help to keep us on the straight and narrow," Ms. Freeland said.

At Anderson Crenshaw and at PRM, collectors typically operate from a script, and they document phone calls and record them.

Out of line?

In their zeal, many debt collectors step outside the law, said Steve Tripoli, consumer fraud investigator at the National Consumer Law Center in Boston.

"This is a very brazen industry," he said.

But Michael Harrison, Mr. Backal's partner, said Anderson Crenshaw's debt collectors are tough but fair. They work from the assumption that the debts companies ask them to collect are legitimate.

Debtors serve up all kinds of reasons why they haven't paid up, Mr. Harrison said.

"We get hardened by the excuses," he said.
"We've heard it all."

Debt collectors are actually consumer advocates, Mr. Backal said, because if businesses can't collect on unpaid bills, they have to raise prices on honest consumers to compensate for the losses.

"We're doing a necessary job," Mr. Backal said.
"If people paid their bills, we wouldn't have a job."

E-mail pyip@dallasnews.com

Know your rights

What you can do:

Request verification of the debt in writing. The collector must provide documentation.

If you ask the collector to stop communicating with you, he can then only notify you of the specific action planned.

Ask the collector to contact your attorney instead of you.

To file a complaint against a collector:

Federal Trade Commission

www.ftc.gov; 1-877-382-4357.

State of Texas

www.oag.state.tx.us/consumer/complain.shtml

1-800-621-0508

Better Business Bureau

www.dallas.bbb.org; 214-220-2000

What a collector can't do:

Threaten violence or a criminal act against you.

Use obscene language.

Repeatedly call with the intent of harassing you.

Contact third parties about your debt (except to find out where you live, what your phone number is and where you work).

Tell others besides your attorney that you owe

money.

Call you before 8 a.m. or after 9 p.m. without your consent.

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