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consumerfinance

January 2007

Another Collection Instrument For NSF-Fee Scofflaws

From the Office of Irony: People who rack up non-sufficient-funds fees sometimes don't pay them. But banks are becoming more aggressive than ever in finding ways to collect.

By Lee Conrad

Thousands of banks now have another option when it comes to collection of non-sufficient funds in checking accounts.

Last month, bank consulting firm Sheshunoff Management Services struck a deal with collections agency American Profit Recovery to help collect NSF fees from checking-account scofflaws who ignore the fees, even though they were spared a bounced-check fee. And those NSF fees can accumulate to a level where a bank needs to take action, says Matt Moskowitz, a partner with American Profit.

Companies that sell the NSF-collection programs to banks want to see as much as possible recovered, Moskowitz says, because their revenue is based on that recovery. Other companies in the NSF space include Impact Financial Services, Strunk & Associates and John M. Floyd & Associates.

Lisa Cone, director of marketing at Sheshunoff Management, says it chose American Profit partly because it has a flat fee for each account - usually between \$10 and \$12 per account in the first round of collections. Most agencies charge between 30 percent to 50 percent of the total fee for this first tier, he says. For the second level-where he says it can be more aggressive-his company charges a percentage of 15 to 20 percent of the total fee. She says the firm also has a reputation for "gentler treatment" of consumers and sports a better-than-average success level of collecting: around 50 percent, compared to an industry average of 11 percent.

Part of American Profit's success is its strategy of involvement earlier in the lifecycle of a questionable debt, usually by the end of the first month a fee isn't paid, says Cone. The "gentler" reputation is one the firm strives to achieve, Moskowitz says, although he acknowledges that once an account hits the secondary tier, the process can include using skip tracing or a placing a black mark on the customer's credit report. These tiers usually last for several months.

Paul Legrady, research director at Kaulkin Ginsberg, says the collections industry is getting a lot of interest from new entrants, including some law firms, private-equity backed firms and large corporations forming their own specialized divisions.

A bank will generally try to collect a debt with in-house efforts for about three months before calling in a collection agency for the first tier of official delinquency, says Legrady. That first round can last up to about a year, at which time the bank will place the debt with another agency for a second tier, or secondary placement. There can be yet another round before a bank simply writes off the debt. During this whole process, the bank still owns the debt, though it could also sell the debt to a specialized buyer that, unlike the collection agency who works on retainer for a specified time, keeps anything collected.

Legrady says that the accounts-receivable management industry generated \$15 billion in revenue in 2004-the latest year for exact numbers-and that number has likely grown slightly in both 2005 and 2006.

Moskowitz noted that the industry is likely to expand in both good and bad economic times. In good times, there is a general surge in credit across the board, and some of that debt will inevitably turn sour, he says. And in bad times, while the overall level of credit is not as high, the percentage of consumers who fail to pay will increase, boosting the

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collections and debt-buying industry.

Consumer debt increased 3.5 percent in the third quarter to hit \$2.4 trillion, according to numbers from the Federal Reserve. In September alone, the level declined 0.5 percent. Of the total, revolving debt accounted for \$857.4 billion; non-revolving debt stood at \$1.5 trillion. In 2001, total consumer debt was \$1.9 trillion, with revolving debt at \$716.4 billion and non-revolving debt at \$1.2 trillion.

Moskowitz says he is well aware of the shady reputation of collections, but he says that is an outdated view while the business has changed into a sophisticated service industry. That said, he also does not cut consumers who have fallen into the second tier of collecting much slack, since he believes they have no intention of paying. "This was a good service offered by the bank," he says of NSF programs. "And these people need to pay." (c) 2007 U.S. Banker and SourceMedia, Inc. All Rights Reserved. <http://www.us-banker.com>
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