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Facing Shortfalls, Calling In Old Debts

I got to know Marvin Kaulkin by smoking an occasional cigar together at Bethesda Tobacco, a popular spot in lower Montgomery County.

His Rockville firm, Kaulkin Ginsberg, has 25 employees and advises collection agencies on how to improve their businesses. Clients include Sallie Mae, TRW and GE Capital, according to its Web site.

With the economy tanking and banks freezing up, I called Kaulkin Ginsberg and chatted with President Mike Ginsberg (Marvin probably was enjoying a smoke nearby) about what he is seeing in the marketplace.

Ginsberg said that although the current credit crisis and subprime mortgage debacle are creating pain throughout the United States and the rest of the world, they're creating opportunities as well. Asset recovery is Kaulkin Ginsberg's specialty. In other words, debt collection.

"With the changes on Wall Street, with the bank bailout and the U.S. government taking ownership rolls in the nine largest banks, it's inevitably going to mean a lot of business to us," he said. "There's going to be increased recovery efforts, which will keep Kaulkin Ginsberg busy."

Ginsberg said the Washington area's lower unemployment rate means most people are paying their bills — so far. "My sense here locally is that unlike other areas, people are

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Many Enlist Tax Collectors to Offset Losses

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staying in their houses and we are seeing less foreclosures locally," he said.

But, he added, "if the recession continues to grow, it's going to start negatively impacting the Washington community."

The public sector is already reeling. State and local governments are having a tougher time borrowing cash, meaning something in their budgets has to give.

"When governments, especially at election time, are faced with a choice of cutting spending, raising taxes or collecting past-due debts, I am quite sure many will choose what's behind door number three," Ginsberg said. "In fact many state and local governments are already turning to collection agencies."

More than 80 collection contracts were put out for bidding from April through June, he said.

Then he gave me some specifics about the Washington region.

Prince William County's Department of Finance Tax Administration is reviewing contractor proposals to collect some \$1.3 million in delinquent tax accounts. Virginia state law says the county may use private collection agencies to collect any local taxes other than certain real estate taxes.

Even libraries are getting in on the act. Public libraries in Staunton and Waynesboro, Va., west of Charlottesville, last year began referring to collection agencies any unpaid library fees that exceeded \$25 and were delinquent for more than 42 days. Since 2003, these and other libraries in Augusta County have lost more than \$100,000 from unreturned items. That figure represents more than half of the county's annual budget for new library materials.

While some companies and governments pay a fee to a collection agency to manage delinquent accounts, others sell their bad debts to get immediate cash. Credit card issuers usually sell their bad receivables, while telecommunication, health-care companies and others tend to hire a debt-collection agency, betting they'll get more money.

Ginsberg said Montgomery County, one of the wealthiest counties in the country, recently sold about \$5 million in tax debts of residents and business owners to debt purchasers, which buy the accounts and own the debt. They keep what they collect. Prince George's County recently sold about \$14 million in tax debts, up from the \$10 million it put up for sale in 2007.

Companies are also cracking down. Ginsberg said that these days, companies won't wait 90 days to hire a collection agency. Instead, many are going after unpaid bills after 60 days or fewer. In a healthy economy, companies might not try very hard to collect those bills because it can be costly. Or they might write off the uncollectible receivables from their books completely.

But now, with cash tight and business slowing down, companies are going after the bad debts to



Consultant Mike Ginsberg said the government put out over 80 collection contracts from April to June.

raise needed cash. They are going after the receivables even if it means getting just 10 cents on the dollar.

"We tell them they have to be fluid," Ginsberg said. "They need to recognize these are challenging times. You have to communicate earlier with a debtor and not be combative."

Ginsberg said he will give the same advice to the parties that will aim to collect hundreds of billions of dollars in unpaid debt left in the wake of the economic meltdown.

"Like all significant economic change, it creates opportunities for those who have the stomach to deal with it," he said.

In a healthy economy, most people tend to pay their bills pretty quickly. In a downturn, they find excuses. Result: The collection industry, whose revenue is based on how many delinquent bills they can collect, suffers in a recession because it's simply harder to collect the bills.

"People tend to think the collections industry is recession-proof," Ginsberg said. "The only things that are recession-proof are death and taxes. Debt collection is recession-resistant and tends to lag behind the major indicators. It goes into recession later and comes out quicker."

On the other hand, he said, "the collection industry is a very good barometer of economic conditions when we come out of the recession because you can tell when people are working, paying their bills and spending again."

Thomas Heath's "Value Added" column focuses on Washington's entrepreneurial set. It runs weekly on the WashBiz Blog at www.washingtonpost.com/washbizblog.