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Struggling debt collectors to debtors: Let's make a deal

Collectors, recovering less, become quicker to settle, quicker to sue

By Connie Prater

As credit card and other debt delinquencies have risen over the past six months, collecting on overdue and bad debt has declined sharply, industry observers say. The economic downturn and job losses have forced many debt collectors to try new tactics for getting money from cash-strapped debtors.

Among the new strategies:

- Accepting down payments on amounts owed instead of demanding payment in full.
- Stretching out payments over several months to give debtors a chance to pay off their debts slowly.
- Negotiating to receive a fraction of the amount owed if paid within a week or 10 days.
- Offering to report the debt -- if paid quickly -- as "paid in full" on the credit report instead of as a settlement, which remains on a debtor's record for seven years.



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Not every new strategy is easy on debtors: Rather than waiting for debtors to come up with payments, many debt collection agencies report they are taking legal action sooner and filing lawsuits to get court judgments upfront -- a step that typically comes as a last resort after other efforts have failed.

Industry struggling to collect

Debt collectors say their industry is struggling just like the rest of the economy. In an odd twist, the debt collection business is booming when you look at the number of new debt collection referrals that have arisen because more consumers can't pay their credit card and other bills. But, because more consumers can't pay their bills, debt collectors are often coming up empty-handed on collections.

"If people aren't working, they're not paying off their debts," says Patrick Lunsford, senior editor at insideARM.com, a collection industry newsletter. According to a [survey](#) conducted by his parent company, Kaulkin Ginsberg Co., a Rockville, Md., accounts receivable management industry consulting firm, nearly nine out of 10 debt collection agency representatives indicated they are very or somewhat likely to change their collection strategies because of the economy. The survey was conducted Sept. 30 through Oct. 21 and included 752 responses from banks, credit issuers, debt collection agencies, debt buyers and vendors.

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"We've got a lot more to work with, but it's harder to collect," says Bethellen Keefe, owner of Alpine-BAK Collections, Inc., a Fort Lauderdale, Fla., debt collection agency. "We're a lot more willing to take a good faith payment and check back with them or get small increments."

'Some money now'

An old-school tradition in the debt collection business -- demanding all or nothing in payment -- has fallen. "During the good times, the mantra was 'settlement in full,'" says Lunsford. "They wanted the entire amount settled upfront in cash right now. Now they're saying, 'Give us some money now and give us six monthly payments.' "

Keefe says she assesses debtors' ability to pay and their financial status. "The biggest excuse I'm hearing is that people are out of work. We start by asking for the full balance, then I try half. Then the most I can go is four months. If it's a larger balance, the max we offer is six months to pay it off in full."

Adds Lunsford: "A steady flow from a debtor is better than nothing. Now they're just a lot more agreeable to payment plans."



Debt collectors are interested in trying to help people work their way out of these financial problems.



-- Rozanne Andersen
Debt collection trade group

Rozanne Andersen, executive vice president and general counsel of ACA International, the largest debt collection industry trade group, says her members are working harder to collect what they can.

"They're trying to identify other sources of money that the consumer may be able to tap into, particularly in the [health care debt](#) market. Maybe charity care funds or a secondary insurance policy are available. They're working hard to find ways to make it possible for consumers to pay even a portion of the bad debt."

Another industry change: More traditional debt collection agencies are being hired by creditors to handle billing operations. "Creditors are finding that the entire accounts receivable end of their business is very expensive to run," Andersen says. "Debt collectors are finding that businesses want them to help even earlier in the collection process -- even before the consumer defaults on one of their payments."

Michelle Dunn, CEO of Michelle Dunn's Credit and Collections Association, a collection agency trade group, says she is getting more calls from business owners wanting advice about how to collect from nonpaying customers. "They are asking me things like, 'If my customers have credit from me and they lose their homes or their jobs, what should they do?' Business owners just don't know how to respond to that or how to work something out to get paid."

Her advice to business owners:

- Get paid at the time of service.
- Change payment terms so due dates are earlier.
- Offer early payment discounts to customers who pay early such as 1 percent or 2 percent off the bill if paid within 10 days.
- When an account reaches 30 days, take action.
- Don't extend credit blindly.

"In some cases, you just can't collect anything from the person. They've lost their job or their home," says Dunn. "I've heard of people living in a car. If someone is in that situation, you really can't set up a payment plan with them. They don't have \$5 to give. You can't get blood from a stone."

The legal route

Lunsford, from insideARM, says some creditors, especially debt buyers, are taking the legal route more often and filing lawsuits to collect money owed to them. If successful in winning court judgments, creditors may be able to [garnish wages](#) or freeze debtors' bank accounts. One collection agency in the Kaulkin survey indicated they had a 30 percent increase in accounts sent to litigation. Lunsford notes collectors believe many consumers may be hoarding their cash -- saving up for what could be difficult economic times ahead. They may tell debt collectors they have no money. "When consumers say they don't have cash right now, they do. They're kind of holding on to it. Once they get a judgment, they get access to the money."

Even if debtors don't currently have money to pay debts, the judgment "secures the right to obtain the money at some later date when the consumer is able to pay," Andersen says.

Across the industry, there has been consolidation and mergers of larger companies with smaller agencies, Lunsford and Andersen say. Although the cost of debt has gone down some 30 percent to 50 percent over the past 12 to 18 months, Lunsford says the credit crunch has dried up a lot of financing needed to purchase large debt portfolios.

Adds Andersen: "We're hearing -- whether they are small agencies or large collection agencies or debt buyers -- they are experiencing a decrease in their recoveries. They are taking steps to diversify a bit, expand the services they offer and establish new methods of communicating with consumers. They're trying to ride this out."

The difficult business climate has forced many collectors to pare down their operations (there have been layoffs at smaller agencies) and tackle the burgeoning load of cases more efficiently. Lunsford says that means "going after the most collectible accounts upfront and trying to get that really, really quickly. If you have more placements, you're going to have more low-hanging fruit."

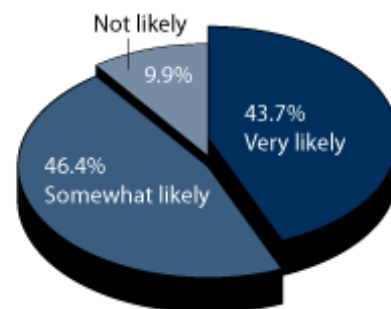
Andersen says cash-strapped consumers are making choices about which bills to pay and which to put off given their limited resources. "They definitely would pay a utility bill to prevent their heat from being turned off or their cell phone or car first before the debt."

Her advice to consumers with unpaid debts: "If it is your obligation to pay, face it and then work out a payment arrangement. They are willing to work with people. The debt collectors are interested in trying to help people work their way out of these financial problems."

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How likely are you to modify your collection strategies given current economic conditions?



Source: Kaulkin Ginsberg Co. Based on survey of 752 accounts receivable management industry representatives Sept. 30 to Oct. 21, 2008.