

Debt collectors are calling, but borrowers aren't picking up

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Published: December 3rd, 2008



Last year the credit crisis seemed like a debt collector's dream.

Desperate banks flooded collection firms with business as more and more borrowers fell behind on loan payments. Collectors padded their pockets and talked up expansion plans.

But then the broader economy took a spill, credit became tighter, home prices fell further and unemployment jumped. The [National Bureau of Economic Research](#) confirmed what many economists already knew – the country is in a recession.

Now collectors say they're straining to get any money from consumers saddled with debt, who struggle to balance their budgets

and fight off foreclosure.

"It's a different situation now," said Mitchell Nathanson, president of debt collector Nathanson Law Firm in Lynbrook. "The volume is up; obviously we're getting a significant number of accounts, but it's harder to collect from people."

Nathanson, whose firm focuses on collecting consumer and medical debt, said his recovery rate, the percentage of accounts that actually end in a payment, has fallen from 10 percent to between 6 percent and 8 percent.

Collectors nationwide are taking a hit, in large part because of increased layoffs and rising unemployment.

"It's as simple as when people aren't working they don't have money to pay their debts and they definitely don't have money to pay old debt that's been sent to collections," said Patrick Lunsford, senior editor at insideARM, a Rockville, Md.-based collection industry newsletter.

Lunsford said in the past, consumers could also tap home equity to pay debt, but that option has more than likely disappeared.

Nathanson said he's felt the squeeze and therefore has pulled the plug on a plan to increase headcount. He added that it's not only consumers who are delinquent. Nathanson said banks and other creditors aren't paying him because they are either going out of business or don't have the money to write the check.

The recession has forced collectors to change their collection tactics.

"We're seeing a lot of them do payment plans more readily," Lunsford said. "When the economy is good, they don't like to do that because then they have to wait for the money to trickle in to get their commission."

Nathanson said he's much more willing to work out payment plans now, but he still can't convince consumers to pay anything at all.

"I see people with blinders on who say 'I can't afford anything; therefore I'm not paying anything,'" he said.

Richard Klein, president of RHK Recovery in Plainview, said he's had to send more of his accounts to third-party lawyers. That's another strategy that makes collectors cringe. Klein, whose company focuses on business debt, said he has to pay attorneys' fees and give them a piece of any money retrieved through litigation.

"I don't really like to do it because on the bottom line I make less of a commission," Klein said.

Lunsford added that collectors also lose out by paying court filing fees and a fee for the lawyer to appear in court.

But Klein said many banks, lenders and other creditors are sending accounts to collection agencies earlier than they used to.

That's good news for collectors who say it's much easier to collect on recent debt. And while consumers' credit will take a hit when their debt is given to a collection agency, they now have the benefit of more lenient collectors.

"In this industry it's very easy to not have a heart because you hear so many sob stories, but it's different now," Nathanson said. "We're playing a lot less hardball than we used to."

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