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One industry that's booming: debt collection

Tony Pugh | McClatchy Newspapers

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WASHINGTON -- In the often murky waters of the debt collection industry, United Recovery Systems in Houston is considered a "whale hunter."

In its search for clients, United isn't looking for mom-and-pop businesses with a few hundred deadbeat customers. It wants bigger fish.

Its client roster includes national banks, international credit card issuers and domestic and foreign auto finance giants, each of whom count on United to make good on their bad accounts.

In the current economic climate, the "whales" are virtually jumping out of the water and into United's boat. A year ago, the company was reeling in \$540 million to \$560 million in new delinquent accounts each month. This year, it's \$937 million, said United's marketing director, Sean Keegan.

Patrick Lunsford, senior editor at InsideARM.com, which chronicles the accounts receivable industry, said the collections industry growth spurt is fueled by several factors, including falling real estate values that left homeowners unable to pay off their debt by tapping their home equity. In addition, more banks are simply giving up on delinquent accounts and declaring them as charge-offs, or losses.

Debt collectors are also in favor because debt buyers aren't paying what they once did for debt portfolios because there's such a glut right now, Lunsford said.

"This time the volume was so huge that we had to run out and hire collectors," said United's Keegan. "I can't put 4,000 accounts in this guy's file box for him to work this month. I have to go hire new people."

After beginning the year with 1,200 debt collectors, United has added 300 more and will add another 300 by year's end. That 50 percent work force growth isn't an aberration.

With bad credit card debt rising, along with foreclosures and job losses, billions of dollars are outstanding on millions of past due accounts, and creditors want their money -- now. Established collection agencies with track records of success are expanding their operations and hiring collectors, managers and support staff to keep up with demand.

"As banks scramble to bring in money, they're going to go with the companies they feel most safe with," Lunsford said. "They're not going to spend a lot of time trying

out new collection agencies, so companies with the strongest business relationships are getting the work."

Last week, Financial Management Systems opened a 350-person call center in Rockford, Ill. Thirty-four people already are employed, and 100 will be on board by year's end.

Last month, Windham Professionals announced plans to add 140 employees to its 60-person operation in East Aurora, N.Y.

In Texarkana, Ark., West Asset Management recently added 100 new customer service employees to contact homeowners on the verge of foreclosure. Premiere Credit of North America just opened a second operations center in Indianapolis and began a \$4 million expansion of its headquarters there.

Premiere, which specializes in student loan collections and government debt from traffic tickets to back taxes, bumped its workforce from 250 in January to 361 in August. It expects to employ more than 500 people in a few years.

The extra work has been a mixed blessing for the industry. There's more opportunity, but recovery rates are down because it's harder to collect during a recession when people don't have as much money.

"So it becomes a very tight management drill where agencies have to get enough collectors to work the accounts but, at the same time, to remain profitable, they have to bring more money in," Lunsford said.

United uses complicated scoring models to determine the 20 percent of accounts that will pay 80 percent of their debt, Keegan said. Those accounts go to their best collectors. Similar predictive software helps companies better gauge their recovery rates and make sound hiring decisions.

Many agencies miscalculate, however, and end up expending more on new employees than they attract in new revenue. A recent survey of collection firms by InsideARM.com found that roughly one-third had eliminated positions or laid off workers in the second quarter, up from 26 percent in the first quarter.

Lunsford said many reported that they were "spending more money to collect less."

Wary of that dynamic and the uncertain economy, IC System in St. Paul, Minn., has slowed its hiring after adding about 300 employees during the past few years, said the company's president and chief executive, Ken Rapp. Lower collection rates also have forced Rapp to terminate clients whose accounts weren't profitable.

He said collections usually improve this time of year when summer and back-to-school spending subsides. This year, however, that trend has faltered.

"We're seeing a modest improvement', but not like we normally see," Rapp said.

For consumers, one benefit of the troubled economy is that more creditors are willing to accept payment plan arrangements and debt settlements for a portion of outstanding account balances.

"They figure they're better off getting something than nothing," Rapp explained. "So we try to be more accommodating on setting up payment plans that we tended to stay away from when the economy was a little better."

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