

HOW TO CHOOSE THE VERY BEST COLLECTION AGENCY

***E**ight critical steps to take before choosing any collection agency that will determine which ones will be successful partners and increase your bottom line, and which ones are guaranteed to give you fits, harass your customers, and cost you thousands of dollars every year...*



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The daunting task of choosing a professional collection service to manage your delinquent accounts and other related tasks can be frustrating, challenging and very time-consuming, but where do you start? Sure, you need an agency that represents your company in a courteous, responsible and professional manner, yet you also must have one that can collect more money - faster - with least amount of hassles.

The fact is - you need to be very careful. Any successful agency relationship must be based on not just on who quotes the lowest commission rates, but on strong customer service and reputation as well. Your decision demands thoughtful consideration of a number of other factors that will significantly affect your results, your experience, and ultimately - your bottom line.

After all - you're selecting a business partner that you will probably work with for a number of years - not just a vendor who will stop by to take an order once a year!

In an effort to help you sort out what's important, we've created the following guide. In this guide, you will find the key issues that can help your businesses detect which agencies will make you more profitable, and which ones are guaranteed to waste your time, tick-off your customers, and leave you pulling your hair out in frustration.

PRE-SCREEN CANDIDATES

An effective way to begin the process of screening potential agency partners is to use a pre-selection questionnaire or survey. This process will help you save time and pare down the agencies that are best suited for your type of accounts. It will answer the basic questions asked of every candidate before you request formal proposals. A sample listing of basic questions to ask is provided below, but you will want to customize the questions to your specific industry or situation. Ask questions* such as:

1. How long has your company been in business?
2. Who are the main principals in your organization?
3. What type of accounts does your agency collect?
4. Any other any areas of specialty?
5. How many collectors and other staff do you employ?
6. Do collectors handle their own skip tracing, or is there other staff that handles skip tracing?
7. How many accounts per collector do you normally work?
8. Can the client remotely monitor collectors' activity?
9. What territory do you collect in? What states are you licensed in?
10. Identify the location(s) of your office(s) that would most likely handle our accounts.
11. List your office hours. Are Saturdays and Sundays required?
12. What information do you request from the client?
13. Will you accept second placements?
14. Do you report debtors to credit bureaus? Which bureaus?
15. Do you provide on-line access to account information for client remote access?
16. Please list your skip tracing facilities and procedures.
17. Describe your legal policies and procedures.
18. Please list four references we can call.
19. What volume of monthly placements would make our company a key client in your office?
20. Detail your current workload and describe how our accounts would impact your organization.

Notice that rates are not even mentioned, as there are more important things to consider at this point in the process. In evaluating the questionnaire, you will want to assign points to the responses based on their importance to your decision, and then ask the highest scoring agencies to submit a formal proposal.

* Courtesy of "The Agency Examiner", June 2000, Resource Management Services, Inc.

UNDERSTAND THE RELATIONSHIP BETWEEN COMMISSION RATES AND RECOVERY RATES

Many agencies claim to do you a service by quoting a low commission rate on their collections. *The fact is, when this happens, you should question why that rate is so low!* Discuss recovery percentages and commission rates with your prospective agencies. The percentage rate of commission is much less important than the agency's percentage of return on the total dollars you refer for collection.

For example, if you place \$5,000 worth of accounts at a 25% commission rate and the agency only collects \$1,500, you will recover \$1,125 from these bad debts. If you place the same amount with another agency at a 35% commission rate, but the agency collects \$2,500, you will recover \$1,625. Even though the commission rate is greater, you collect much over 44% more with the second agency, even though their commission was greater, because the agency's recovery rate is higher.

Remember that the commission rate by itself is meaningless - net return is the key.

Many collection agencies can quote low rates because they don't invest in quality people, systems and procedures to make sure you're getting the best return for your dollars. Collection agencies that provide the highest and most effective services are committed to continuously improving and developing their operations through investment in quality.

DETERMINE THE AGENCY'S REAL CAPABILITIES

Collection agencies leverage their employees' skills, experience, and resources to provide professional accounts receivable management services for numerous industries. Agencies can offer services such as pre-collection programs for accounts that are close to becoming past-due, or skip tracing to locate accounts that may no longer be associated with the information you have on record. In addition, some agencies provide third-party billing services - including processing, printing and mailing statements - while others offer business administration and accounting services. Still other agencies provide additional services from consulting, telemarketing, and fund-raising, to reminder and follow-up appointment calls, temporary office administration, and much, much more. When looking for the right fit with an

agency, you should consider what kinds of needs you will have, and find a company that can offer everything you are looking for.

Another important issue as you consider agencies is their level of technological resources and sophistication. Over the last few years, there have been many new and exciting developments that allow collection agencies to provide higher quality services to their clients. With that in mind, you want to consider how your systems and technology will interface and contract with a company that is willing to invest in technologies to provide a higher level of services in the marketplace. You will find that more often than not, those companies provide a much more seamless transfer of information, saving you time, money and hassles of dealing with missing or altered data.

LEARN WHAT THE AGENCY KNOWS ABOUT YOUR MARKET

In order to be effective, a collection agency must have the skills and knowledge needed to successfully collect on your particular type of accounts. For example, collectors working in healthcare collections must have a complete understanding of applicable insurance rules and regulations, as well as medical language and terminology. Similarly, collectors working in commercial collections must be familiar with the practices and regulations and environment that exist in that complex environment. Needless to say, each collection environment and market must be handled differently, and it is very important for agencies and credit managers to know this and act develop and implement your specific collection program accordingly.

INVESTIGATE COLLECTION POLICIES AND PROCEDURES

The policies and procedures a collection agency uses to work your accounts can have a significant impact on your business as well. A quality collection agency should have their procedures documented and be willing to share them with you upon request. You should then familiarize yourself with these procedures, including when it begins working an account, the correspondence scripts, letters and schedules, and its collector training and incentive programs.

As an important part of the screening process, you should schedule an on-site visit to any agency you are seriously considering. Often, a planned site visit to a prospective agency will reveal a great deal about its operating procedures and business environment. You should,

however, be careful of the "best foot forward" smokescreen. You will want to make sure you:

1. Pay attention to details such as the number of empty collector desks or workstations - an indicator of an agency's capacity to service your accounts.
2. Ask for a detailed demonstration of the collection system and procedures.
3. Ask employees questions to gain an understanding of the work environment.
4. Evaluate the management procedures and quality controls.
5. Go by the customer service department.

CHECK REFERENCES AND COMPLIANCE CREDENTIALS

Always make sure to check the references of any agency you consider working with. Whenever possible, personally contact at least two of the agency's current clients, preferable in the same industry that you operate. Ask specific question to gauge whether or not the relationship is successful and how satisfied they are with the level of customer service they have received. You may also want to check with the agency's local Chamber of Commerce or Better Business Bureau to determine its reputation when dealing with clients as well as debtors.

Compliance with the Fair Debt Collection Practices Act (FDCPA) is critical to third-party debt recovery service providers. Any reputable agency should have documented policies and procedures to insure that they stay in compliance with these federal guidelines. Ask to see these and insist on their existence. In addition, you will want to make sure the agency complies with all applicable state and local licensing and bonding regulations. If licensing or bonding is not required in your state, find out how long the agency has been in business - *experience is often a good indication of quality.*

Finally, find out if the agency is a member in good standing with any national or state trade associations such as the American Collectors Association (ACA). For example, you should demand that your agency is certified through the ACA's Professional Practices Management System (PPMS), the industry equivalent of ISO-9000 quality assurance. Professional association members also agree to comply with all federal and state regulations, as well as its code of ethics.

DISCUSS COLLECTOR HIRING, TRAINING AND MANAGEMENT PROGRAMS

Ask the prospective agency about its practices in the area of hiring, training and managing its collectors. The cornerstone of any collection operation is the collector, and you want to look for an agency partner that utilizes the "*Effective Collector Equation*".

Effective Collector Equation:

$$\textit{Experience} + \textit{Training} + \textit{Monitoring} + \textit{Incentives} = \textit{Effective Collectors}$$

When hiring collectors, a quality collection agency will seek highly motivated individuals who can work flexible hours and will thrive in a competitive, professional environment. Prior collection experience for all candidates is preferred, and many times, collectors are required to complete a "personality profile" - developed specifically for the collection industry - that identifies the personality traits that provide the highest likelihood of success for a telephone collector. Collectors should be reviewed on a weekly basis as to the number of successful telephone contacts, claims paid, claims billed, phone attempts, etc, by management.

In addition, successful agencies offer their collectors solid compensation plans, together with lucrative incentive programs and benefits. As a result, they can usually enjoy an extremely low turnover rate, which gets you the most effective collections rate possible.

DEMAND INSURANCE

In order to be safe, request to see a certificate for acceptable Errors and Omissions Liability Insurance (E&O) from any collection agency you are considering. A good sign of a reputable and responsible agency, E&O insurance often extends coverage to the creditor in addition to the collection agency. Often, creditors can face legal ramifications and liability from violations by their collection agency. Ask specifically about coverage on claims by debtors for such violations as libel, slander, wrongful eviction, wrongful entry, false arrest, harassments, and invasions of privacy or interference with business. E&O Insurance also should specifically cover violations of the FDCPA or Fair Credit Reporting Act (FCRA).

We realize that contracting with a debt recovery service is a big step for you, with many different factors to consider. We also know that you are trying to maximize your debt recovery, not trying to figure out how a collections agency works. The above suggestions give you an excellent roadmap to follow in your search for the best possible partner agency for your specific needs.

Realize that competition among collection services is excellent for you as the client. It contributes to a higher level of professionalism, efficiency and customer services in the entire collections industry. By thoughtfully considering your specific needs, and the capabilities and qualifications of each agency, you can maximize your accounts receivable income and ensure that your customers are handled properly.

Remember, careful selection of a third-party collection agency strengthens your bottom line and helps you retain customers, leading to a bigger bottom line for you.

The above information is not intended to be legal advice or replace the legal advice of your own counsel. It is presented here for informational purposes only, and any specific questions should be answered by your own attorney or other legal representation.

Parts of this report were excerpted from information provided by The American Collectors Association (ACA) - an international trade organization with approximately 5,300 members, including third-party collection agencies, creditors, attorneys and vendor affiliates. Headquartered in Minneapolis, ACA serves members in the United States, Canada and 58 other countries worldwide.

