

The Collection Connection



Do you represent a government entity having difficulty collecting on the delinquent receivables of your consumers? Are you finding you don't have the resources or the time to handle all the cases you are presented with? It could be time to take a look at your collection efforts and consider working with a debt collector.

For most government entities, using a debt collector to recover delinquent accounts is somewhat of a foreign concept. However, it can be a viable option for improving the return on receivables.

More and more government entities are turning to debt collectors to assist in recovering debt rather than having to write off thousands in uncollected debt.

By following the simple procedures outlined in this brochure, you will be able to collect more of your accounts receivable by learning to identify possible problem consumers, when to send accounts to a debt collector, what to consider if you decide to collect yourself and how to select a debt collector.

Predicting Potential Problems

Here are some of the situations to look for that will help you predict a potential collection problem and alert you to the high-risk accounts you should watch carefully:

- Has the consumer worked several jobs in a short period of time? People who change jobs frequently may be poor credit risks.
- Has the consumer moved often? Changes of address may be an indication of instability. The consumer may be more likely to try to "skip" out of the bill by not notifying you of his or her change of address.
- If obtaining the consumer's credit report, does the consumer have a high credit to debt ratio?

If any of these signals appear, you will do both yourself and the consumer a service by discussing the situation openly. Naturally, you will want to make allowances for hardship cases. Most consumers want to pay their bills and are relieved when you help them set up a payment schedule.

Collection Schedule

Speed and regularity are the keys to successful billing and collection procedures.

The average past-due account depreciates rapidly unless effective communication is maintained between the creditor and consumer at all times. Since time may be a refuge for the consumer looking for a reason to put off payment or not to pay at all, it is important to set up a fast, effective collection procedure.

The following billing and collection schedule, which has worked well for professional credit grantors, is recommended:

- Furnish a statement within 30 days of service or when bill was first sent. The best results are obtained by mailing the statement between the 10th and the 20th of the month.
- Send a second statement 30 days later.
- Mail a short, courteous collection letter 15 days after the second statement if no payment has been received.
- Make a courteous telephone call 10 days after the collection letter is sent.
- If the phone call is ignored, send a final letter stating that the account is being placed with a collection specialist.

What next?

There is a limit to the amount of time and effort you should expend attempting to collect a past-due account internally. That limit has been reached when you lose effective contact with the consumer.

Further collection efforts on your part most likely will be unsuccessful if any of the following conditions apply:

- Failure to respond to your statements, letters or phone calls.
- A lapse in payment arrangements for no valid reason.
- Repeated complaints.
- Denial of responsibility.

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- The consumer moves and does not give you the new address.
- Repeated changes in address and occupation.

If any of the consumers who owe money have past-due accounts that fit into these categories, it is time to refer the account to your collection specialist. Your collector knows how to recover your money while maintaining the consumer's respect and confidence in you.

Don't delay – the longer an account remains unpaid, the more difficult it is to collect.

Should You Do It Yourself?

Some government professionals and entities feel they can collect past-due accounts more profitably themselves. They want to save the fee charged by a collection service. Here are some of the costs involved if you decide to do your own collecting:

- Salaries
- Rent
- Utilities
- Telephones
- Postage
- Computers, software and other office equipment (This involves a big initial investment that depreciates quickly)
- Additional personnel costs (The cost of recruiting and training employees in addition to lost production during training periods should be included when calculating this cost, along with the cost of employee benefits)
- Accounting costs
- Possible loss of public image (By trying to perform the complete collection function yourself, you may risk increased liability and possible damage to your public image. Unless your staff is thoroughly trained in everything from consumer debt counseling to state and federal credit and collection laws, the potential exists to mishandle accounts and possibly lose confidence from consumers)
- Loss through lower recovery percentage (Figure the cost to you if your collection ratio is less than it might be if

you used a collection specialist. Your collection ratio must be at least equal to that of an outside collector in your area who is collecting accounts similar to yours. Also, the cost of doing your own collecting should be less than the percentage fee charged by the specialist. Otherwise, you have not gained much. If your costs exceed the collector's fee, you have lost money.)

Another option would be to outsource or contract out certain billing and collection functions. Collectors that specialize in government collections have the technology and trained staff to work those accounts much faster and cheaper than government personnel. The collector will also have a much smaller and more focused caseload than a government entity that may be collecting for many different departments. By outsourcing certain functions, government staff can concentrate more effectively on high balance accounts and other productive areas.

Selecting a Collector

ACA International, the Association of Credit and Collection Professionals is a 70 year old international trade organization of credit and collection professionals who provide a variety of accounts receivable management services. Headquartered in Minneapolis, Minn., ACA serves members in the United States, Canada and 55 other countries worldwide.

ACA has approximately 5,300 members including third-party debt collectors, debt purchasers, credit grantors, attorneys and vendor affiliates. Members agree to comply with all applicable laws and regulations, as well as the ethical standards and guidelines established by the association. For more information, visit ACA's Web site at www.acainternational.org.

ACA members also have access to extensive education programs that keep them up-to-date on federal and state laws relating to credit and collections and on the latest professional collection techniques.

Most collection services work on a contingency basis, meaning that if they collect, they earn a fee from the money collected. If they do not collect, there is no charge to you for their efforts. Some ACA members offer other types of compensation plans. ACA members would be happy to answer any questions you may have regarding fee arrangements.

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ACA members offer a complete professional collection service within their geographic trade area. In addition, they are able to forward accounts to another area, in situations where your consumer has moved, by using the annual ACA Roster that lists the approximately 5,300 member offices.

Proud Members

We are proud to say that we are members of ACA and through our membership in ACA, we can offer a variety of services and resources to help you manage your receivables, including education, information about collection laws, public relations and legislative programs and materials. In addition to general collection industry resources, ACA has also developed the Government Services Section. Created in 1994, the Government Services Section has a long history of providing ACA members with information, education and services addressing the specific needs of government collectors. Through us, many of these services and resources are available to you.

As a government servicer, you have an obligation to your consumers and yourself to make sure that those who are able to pay their bills do so. By setting up billing and collection policies and procedures – and by recognizing that time is the safest refuge for any consumer – you are well on your way toward fulfilling this obligation. We hope the ideas in this brochure will help you accomplish this goal.

When the time comes for you to turn your delinquent accounts over to a collection specialist, you can be assured that our office, a member of ACA International, will give you the finest possible collection service.

For More Information

If you would like to know more about ACA International or the Government Services Section call +1(952) 928-6547, e-mail gsp@acainternational.org or visit the Web site at www.acainternational.org.

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