

Starting and Managing a Collection Agency

ACA International, the Association of Credit and Collection Professionals, has developed this article to assist professionals interested in starting and managing their own collection agencies. ACA encourages you to consult with your own attorney and accountant to see what steps and resources you will need to get your agency up and running.

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What is a debt collection service?

When a consumer purchases a product or service on credit, the sale is not complete until payment is in the hands of the individual or company that extended the credit. Obtaining and using credit leaves many consumers overextended and unable to repay the debts they have accumulated. Consumer debt has long been on the rise as people rely on credit cards, charge accounts and installment loans for their everyday purchases.

Unforeseen circumstances such as illness, death or job loss often plunge consumers into a situation in which a dramatic decrease in income makes meeting financial obligations difficult. Unfortunately, some consumers also run up debts without intending to pay them off. The accumulation of bad debts is often countered by businesses raising consumer prices. However, because there is a limit to how high prices can be increased before businesses begin losing customers, bad debt also contributes to business failure and job loss.

Third-party debt collection firms work with credit providers to secure payment of debts that—for whatever reason—have gone unpaid. Professional debt collectors locate consumers, determine why a debt is not being paid and try to work out a mutually agreeable payment plan.

What is the main difference between first-party and third-party collectors? Third-party debt collectors are directly regulated by the Fair Debt Collection Practices Act (FDCPA), which is enforced and administered by the

Federal Trade Commission (FTC). The FDCPA sets forth strict guidelines designed to protect consumers from abusive, misleading and unfair debt collection practices. First-party collectors are credit grantors or collection firms servicing debt in the credit grantor's name and are covered by the FDCPA only under certain circumstances.

Establishing a collection service

Collection agency owners will be the first to tell you that there is a big difference between working for someone and owning your own business. Many magazines and other publications list the collection industry as one of the fastest growing industries, but they also lead readers to believe all they need to run a successful collection agency is a computer and a telephone. Starting and managing a professional accounts receivable management company takes much more than that. It requires a significant investment in technology and facilities and a considerable amount of education and training to comply with the many federal and state regulations. If you are thinking about opening your own collection service, consider the following:

Do you understand, and are you willing to study, the mechanics of the credit industry?

To be a successful collection agency owner, previous experience in credit and collections is a necessity. You can read everything written on the subject, but nothing can replace the direct experience of collecting accounts.

Do you have sufficient start-up capital to operate the business until it becomes profitable?

More collection businesses fail because of inadequate capital reserve than for any other reason. You may project monthly revenues of several thousand dollars, but even that won't guarantee a profit. It will take time to establish a clientele and a steady stream of accounts that will enable you to cover your business expenses.

Before you collect your first account, you should already have enough collection business secured to carry you for the first six months. The average industry-wide recovery rate was 19.4 percent in 2007, according to ACA International's 2008 Agency Benchmarking Survey. The same survey noted that

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average income as a percent of gross revenue, which is the ratio of agency profit to gross revenue, was 11.3 percent in 2007. (This number is affected by a variety of factors, such as agency size and types of debts worked.)

Using these statistics, you should be able to determine the overhead and the capital necessary to sustain your business. However, it may take a year or more to attain these averages with new clients.

Will you be able to gain support in the business and professional community?

Gaining and maintaining client and public support hinges on an agency's efficiency, sincerity and professionalism when dealing with creditors, consumers and the community. Creditor clients rightfully expect their collection agencies to provide accurate statements, scheduled remittances and regular updates on the status of their accounts. Clients also expect debt collectors to preserve the creditor's good name with consumers by exhibiting courteous, dignified conduct when talking with consumers.

Remember, debt collection is a service industry. Listening to your clients, meeting their needs and exceeding their expectations are vital to survival in a competitive marketplace.

However, do not overestimate the level of commitment from your client. When establishing new accounts, determine consistent placement patterns and the accurate starting date of these placements. This way you will not encounter unnecessary expenses such as overstaffing. Also, decide beforehand how placements will be received—most clients require electronic placements and remittance of funds. This will help determine your staffing needs and costs of operation.

Do you have the patience and confidence necessary to collect from consumers?

Gentle yet persistent effort is essential in the collection of past-due accounts. Losing your patience, regarding consumers as "deadbeats" and treating them with contempt are unprofessional, unsuccessful and potentially illegal ways to handle accounts. These attitudes may lead to lawsuits based on claims of harassment and threatening remarks. Successful collectors listen to consumers, determine their ability to pay and cooperate with them to arrange a workable payment schedule. By taking a simple, consumer-oriented

approach, collectors experience a higher recovery rate and avoid legal difficulties while gaining the respect of their clients and consumers.

Are you familiar with the federal laws governing collections?

There are many laws that govern the collection industry. The following is a list of a few key laws regulating the industry:

Fair Debt Collection Practices Act (FDCPA) (15 U.S.C. Section 1692 et seq.): Before making your first collection call or mailing your first collection notice, be certain your practices are in complete compliance with the FDCPA, the federal law governing collection activities of third-party debt collectors. Any violation of this federal statute can cause serious problems for your new agency.

ACA's Guide to the Fair Debt Collection Practices Act (two volumes) provides a detailed analysis of the FDCPA, including relevant case law and FTC staff commentary and informal letters interpreting the Act's provisions. To order your copy, visit the ACA Online Store at <http://www.acainternational.org/store>.

ACA offers several seminars related to the FDCPA. To learn more about ACA's educational seminars, visit ACA's Web site at <http://www.acainternational.org/education>.

The Federal Trade Commission also offers information and business guidance regarding the FDCPA, available on the FTC's Web site at <http://www.ftc.gov>.

The Fair Credit Reporting Act (FCRA) (15 U.S.C. Section 1681 et seq.): The FCRA is a federal statute that regulates the activities of consumer reporting agencies, users of consumer reports and those furnishing information and data to consumer reporting agencies. It also details consumer rights with respect to consumer credit reports. You should develop procedures to ensure compliance with this law and be aware of how it can affect debt collecting, using and selling consumer reports and furnishing information to consumer reporting agencies.

ACA's Guide to the Fair Credit Reporting Act (two volumes) provides a comprehensive analysis of the FCRA, including relevant case law and FTC staff commentary interpreting the Act's provisions. To order, visit the ACA Online Store at <http://www.acainternational.org/store>.

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Health Insurance Portability and Accountability Act

(HIPAA): Enacted in 1996, HIPAA significantly affects debt collectors, billing services and accounts receivable businesses that provide services to health care providers through three sets of regulations adopted by the Department of Health and Human Services (HHS): the Electronic Transaction Standards and Code Sets, the Privacy Rule and the Security Rule. A covered entity (CE), as defined in the regulations, must enter into certain agreements with all of its business associates (BAs) to ensure the privacy and security of a consumer's protected health information (PHI). A "business associate" is defined as any person or entity that performs or assists in the performance of any function or activity regulated by HIPAA, including payment, such as billing or collections.

Although collection agencies are not generally regarded as CEs, an agency or attorney that collects health care debt is generally regarded as a BA of a CE.

To further protect the privacy and security of patient information, the privacy and security regulations under HIPAA were expanded pursuant to the Health Information Technology for Economic and Clinical Health (HITECH) Act. One of the main effects of the HITECH Act is the liability of a BA for violations of the HIPAA security and privacy provisions. Before the enactment of the HITECH Act, BAs were merely liable pursuant to the business agreement with a CE.

Under the HITECH Act, a BA is liable for many violations in the same way a CE is statutorily liable under HIPAA. BAs are required to comply with the Security Rule's administrative, technical and physical safeguard requirements and must implement security policies and procedures in the same way as the CE. Additionally, the HITECH Act requires BAs to only use or disclose PHI consistent with obligations under its business agreement with a CE. With these regulations, each agreement between a CE and a BA must be specifically tailored to fit the specific services performed for each separate CE with whom the collection agency, or other BAs, conducts business. These requirements under the HITECH Act subject BAs to civil and criminal penalties under HIPAA.

Additionally, security breach notification requirements under the HITECH Act require that when a CE becomes aware of an unauthorized disclosure of unsecured PHI, the CE must notify relevant media, the secretary of HHS, and each consumer whose unsecured PHI has been or is reasonably believed to have been used as a result of the breach unless

the PHI is rendered unusable, unreadable or indecipherable to unauthorized individuals through appropriate encryption or destruction. BAs are required to notify CEs of any unauthorized disclosure of unsecured PHI held on behalf of the CE.

For additional information on HIPAA and the HITECH Act, visit the HHS Web site at <http://www.dhhs.gov>. To obtain a copy of *ACA's Comprehensive HIPAA Training: Practical Guidelines* DVD program or *ACA's HIPAA Implementation Guide*, visit the ACA Online Store at <http://www.acainternational.org/store>. Additionally, it is highly recommended debt collectors consult with an attorney to ensure compliance under these Acts.

Gramm-Leach-Bliley Act (GLBA)

The Privacy Rule: The GLBA Privacy Rule imposes a requirement on financial institutions (FIs) to provide their privacy policy and an opt-out notice to consumers with whom the FIs have a customer relationship. The FI is required to provide the notices "at the time of establishing a customer relationship." A consumer relationship means "a continuing relationship between a consumer and you under which you provide one or more financial products or services to the consumer that are to be used primarily for personal, family, or household purposes."

Therefore, a "financial institution" as defined under the GLBA would be required to send the privacy notice to the consumer upon establishing such a customer relationship with the consumer, which would occur prior to collection of the account.

The disclosure notice must include the FI's policies and practices with regard to the disclosure of nonpublic personal information to affiliates and nonaffiliated third parties. The disclosure must state how such information will be gathered and to whom it will be released. Disclosures of information between a creditor and a collection agency are exempted from the privacy notice and opt-out requirement because this type of disclosure of nonpublic personal information is necessary to effect, administer or enforce a transaction the consumer requested or authorized.

Of vital importance is the requirement the individual be given the opportunity to opt out of the FI's release of any information that falls into the GLBA's definition of nonpublic personal information. Nonpublic personal information is defined as (i) personally identifiable financial

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information; and (ii) any list, description or other grouping of consumers (and publicly available information pertaining to them) that is derived using any personally identifiable financial information that is not publicly available.

Personally identifiable information includes information that a consumer provides to a FI to obtain a financial product or service from the FI; information about a consumer resulting from any transaction involving a financial product or services between the FI and a consumer; or information a FI otherwise obtains about a consumer in connection with providing a financial product or service to that consumer

While traditional third-party debt collectors technically fall under the definition of “financial institution,” they generally do not have to comply with the privacy notice because a traditional third-party debt collection agency that is collecting debts for another does not have the requisite “customer relationship” with the individual consumer that would trigger the privacy notice and opt-out requirements. However, debt purchasers establish a customer relationship and are consequently subject to the regulations if they purchase debts from a FI, locate the consumer and attempt to collect the debt either directly or through a third party.

The GLBA Safeguards Rule: The Safeguards Rule requires each FI to develop a written information security program that is appropriate to its size, complexity, nature and scope of its activities and the sensitivity of the customer information at issue. The Safeguards Rule covers not only FIs that collect nonpublic personal information from their own customers, but also financial institutions that receive customer information from other financial institutions. The Safeguards Rule covers a wide range of entities, including: consumer reporting agencies, debt collectors, retailers that extend credit by issuing credit cards to consumers, check-cashing businesses and many other entities.

Soldiers’ and Sailors’ Civil Relief Act (SSCRA): The SSCRA is designed to give service personnel relief from obligations and liabilities they may have entered into prior to entering military service.

The SSCRA benefits service personnel in the Army, Navy, Air Force, Marine Corps and Coast Guard engaged in active duty. It also applies to National Guard members engaged in active federal service, commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration in active service. Members of the National Guard who are called to active duty for more than 30 days

in order to respond to a national emergency are also afforded the rights and protections of the SSCRA.

The Act also provides benefits to nonservice members who are primarily or secondarily liable with a service member on an obligation or liability. In addition, nonservice members who are dependents of military personnel are protected by the SSCRA.

The SSCRA affects many different types of obligations and liabilities, including leases, installment contracts, mortgage foreclosures and court proceedings. Some of the Act’s provisions are automatic, while other provisions, such as the cap on interest rates, require action by service members. In order to take advantage of some of the provisions, the service person must affirmatively assert their rights under the SSCRA and demonstrate how their ability to pay their debts or represent themselves in court is “materially affected” by their military service. This standard can be met if a service person’s duty location prevents them from representing themselves in court or if their military income is less than their pre-service income.

Although the SSCRA places some restrictions on collectors who are attempting to collect from a service member, the SSCRA does not prohibit the collection of a debt from a service member engaged in active duty.

Bankruptcy: Collectors and creditors must continually look out for consumers who file for bankruptcy to ensure that the automatic stay of bankruptcy is not violated. It is often difficult to determine when a consumer has filed bankruptcy. Formal notice is not required for you to “have knowledge” of a bankruptcy filing. Reasonable hints, clues and third-hand information about a potential bankruptcy filing should be followed up on to determine if the consumer has filed for bankruptcy. If a consumer has filed for bankruptcy, an automatic stay goes into effect immediately upon filing and freezes all attempts to collect. Even an unintentional violation can lead to a contempt of court sanction. A willful violation of the stay can result in an award of punitive damages even if the actual damages are minimal.

Whether consumers seek a complete discharge of all debts under Chapter 7 of the Bankruptcy Code or plan to pay off some of their debts through a reorganization plan under Chapter 11 or Chapter 13 of the Bankruptcy Code will affect how a collection agency should proceed. Regardless of the nature of the bankruptcy filing, the automatic stay still applies.

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Can you meet the requirements of your state?

Regulations often vary from state to state. Most states have laws governing the procedures for collecting delinquent accounts and have licensing, bonding and trust account requirements for debt collectors attempting to collect from consumers located in a particular state. Several states require debt collection agencies obtain a collection agency license. In addition, every state requires businesses to register with the secretary of state or file a Certificate of Authority, which allows you to transact business in the state. Further, a number of states require a registered agent, a resident manager, and/or a resident office, along with individual licenses for each debt collector or employee of the company.

State debt collection requirements are quite complex, vary from state to state and can cause considerable liability if not properly followed. For more information on state-specific laws, contact your local secretary of state's office or the state licensing authority.

ACA's Guide to State Collection Laws & Practices offers a compilation of state collection laws. To order a copy, visit the ACA Online Store at <http://www.acainternational.org/store>. It is also advised you consult an attorney regarding state-specific requirements.

Are you willing to spend a minimum of 10 to 12 hours a day, six days a week, with the business?

People who have started their own business will attest to the huge demands it makes on your time. Forget about nine to five. You are now responsible for every facet of the business: making out the payroll, training new employees, handling difficult clients, arranging to have the carpet cleaned—you name it. Your agency's future hangs on your attention to detail and your willingness to put in the extra time needed to make the business successful.

Collection and record keeping

Your procedures for setting up new accounts and monitoring action on current accounts are vital to the success of your collection business. Due to privacy laws, specifically regarding protected health information and nonpublic personal information, proper handling and storage of consumer data are critical to maintaining compliance and limiting liability exposure for you and your clients. A few good collection procedures include providing:

- An acknowledgment to your client for accounts received.
- An initial (written) notice to the consumer stating that you have been assigned the account and the consumer has the right to dispute the debt within 30 days. Be aware of required language—such as the mini-Miranda and validation notice—which must be included.
- A computer system that records all collection attempts and indicates when the account requires further action. If using collection software, this information should be available when the account is displayed on the collector's computer screen.
- A client accounting module that provides reports, such as the value of accounts referred to you by each credit grantor and your success in collecting their accounts. This helps you determine which clients are generating revenue for your company.
- Accurate collection form letters that meet compliance guidelines. These should be reviewed routinely to ensure compliance with state and federal laws. An attorney familiar with collection laws should also review your collection notices.
- An accounting system that provides complete and accurate information for you and your clients. It may be wise to consult a public accountant for help in setting up your records to be certain you are complying with federal and state tax and Social Security regulations.
- A separate trust fund at the bank for money you collect for clients. This precludes the likelihood of using clients' funds for your own expenses. At least every 30 days (or as required by state law or contractual requirements), remit the amount due to your clients after the commissions are deducted. Some clients may ask you to return the entire amount collected and then they will remit the commission back to you. In some states, you will be required to maintain a separate trust fund for each client.

Solicitation of accounts

The first step in obtaining new business is to get your company's name in front of as many potential clients as possible. Most owners will tell you that they started their businesses with personal contacts and networking, followed by marketing. The possibilities for marketing your firm are endless, but here are some ideas:

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- Participate and network in local organizations, such as the Chamber of Commerce or business referral organizations.
- Sponsor community events.
- Send direct mail pieces.
- Develop an ad campaign in local business publications.
- List your business in the Yellow Pages as well as online directories, such as <http://www.superpages.com> and <http://www.yellowpages.com>.

Once your name is in circulation, follow up with personal contact. Because debt collection is a service industry, you must be skilled at selling yourself as well as your services. Be a good listener. Ask potential clients to explain their needs and discuss what your company can do to help.

When describing your services, be specific. Clients are demanding more and more services than just the core third-party collection practices of the past. Outsourcing is an area of the accounts receivable management industry that is growing rapidly as clients analyze the services they will retain for their accounts receivable work. Therefore, arm yourself with facts about your staff and its capabilities, your planned regular remittance, trust accounts you provide for the client, bonding coverage and affiliations with other firms across the nation.

Be friendly and positive—the type of individual with whom the client will enjoy doing business. After the initial contact, you'll need to develop a good working relationship with your clients to continue to receive their business. Call occasionally to discuss the progress of their accounts and ask for their advice on how you can do a better job for them. Sometimes it's the little things that matter with clients. By going out of your way for them, you convey that their business is important to you.

As clients increasingly automate their operations, you must be prepared to follow suit. If they place their accounts online or adopt Electronic Data Interchange standards, you will need to be equipped and prepared to respond to their changing needs—or risk losing their business.

Always be on the lookout for prospective clients. Remember, marketing studies have shown that a satisfied customer can be your best advertisement.

Purchasing supplies

If you think furnishing a home is expensive, wait until you start buying office equipment. Chairs, desks, lamps, shelving, carpeting, computers, telephones, autodialing equipment, fax machines...the list is endless and could quickly drain your budget. Assess your immediate needs and begin with only the essentials, gradually upgrading as you go along.

You can find serviceable, used office equipment in most stores carrying business products. Don't forget: If your budget is very limited, some stores will allow you to lease office equipment.

Because much of your business will be conducted by phone, it is important to find a telecommunication system that fits your needs. Find a system with several telephone lines and voice mail service, so clients and consumers have greater access to your business. Compare and contrast the various systems on the market by making a list of your specific needs and inviting vendors to demonstrate how their systems can meet your requirements. Be sure to compare several vendors for local and long-distance telephone services; Internet, DSL and advanced data services; and national directory assistance and conference calling charges. Due to the nature of the business, telephone costs will be one of the highest expenses your company will incur.

Technology

Competitive marketplace pressures are forcing all businesses to produce more for less and the collection industry is no exception. In an increasingly competitive environment, agencies are forced to boost productivity and recovery rates while trimming expenses—or risk losing their clients to another firm. The technology revolution has made this possible by expanding the capabilities and functions of the collection office. Today, running a collection business without a computer system is almost unheard of.

Investing in various technologies, such as collection-specific hardware and software, Internet services, Electronic Data Interchange and automated dialing systems, enables offices to improve productivity by allowing collectors to spend less time on paperwork and more time on the phone with consumers. Technology also gives managers faster and easier access to information on accounts, client records and daily finances. However, this is also a huge investment and very costly to maintain properly.

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Most collection software packages in the modern collection office:

- Electronically place new accounts.
- Acknowledge new accounts.
- Create a master file of delinquent accounts and consumers.
- Electronically transfer funds from consumers and to clients.
- Electronically forward files between agencies.
- Record information to keep active files current.
- Transfer accounts from the active file to a forwarding file.
- Conduct general business functions, such as payroll and accounting.
- Reduce time spent on busy signals and no answers.
- Maximize consumer contacts.

Many collection software packages also feature:

- Online skiptracing to locate consumers.
- Online capabilities for client access to information and reports.
- Web site integration.
- Autodialer or predictive dialer compatibility.
- Integration with telecommunication systems, such as IVRs and outbound call centers.
- Virtual collection systems that allow consumers to negotiate and pay online.

Aside from the building where the agency is housed or rented, technological assets are usually a firm's largest single investment. Before purchasing any collection software system, an agency owner should make a thorough assessment of both present and future needs. The selection process can be broken down into four steps:

- Define your requirements.
- Define your selection criteria.
- Identify the alternatives.
- Evaluate all available alternatives.

Insurance requirements

Most clients will also require that you carry proper insurance, including Errors and Omissions (Professional

Liability), General Liability (usually purchased as a part of a Business Owners' Package that will also include property insurance), Workers' Compensation (statutory coverage required by all but a few states) and Commercial Crime (Employee Dishonesty). Many clients will specify their required coverage limits for these policies.

These insurance policies make up the basic commercial insurance portfolio needed by a collection agency.

Bond requirements

In many states, you will be required to maintain a statutory bond. The amount of the bond is dictated by state statute. The bond is on file with the state with your various licenses and is used in the event you fail to remit funds back to your creditor clients. A bond is different from insurance in that the owner of the company agrees to pay back any losses that arise from claims against the bond. In addition, because you will be collecting funds that belong to your clients, clients may require you carry a Client Contract Bond. A Client Contract Bond applies to a specific contract you have in place with a client.

Legal assistance

You should be aware of the collection procedures you can administer and which procedures must be handled by an attorney. You must also be informed about state laws and regulations regarding the following:

- State requirements.
- Special text requirements for collection notices.
- Instituting lawsuits.
- Statutes of limitations.
- Responsibility of a spouse for the other's debts
- Responsibility of minors for their own debts.
- Your rights in bankruptcy proceedings.
- Judgments against salary and property to repay the debt.

Plainly stated, it is imperative to obtain competent credit and collection legal advice before making your first contact with a consumer. Your attorney can also advise you on wage and hour restrictions, bonding and licensing requirements, your personal liability as a collection firm operator and other regulations affecting business in your community.

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Selecting a location

Take a close look at the community where you intend to locate your business. Determine if the local economy is active and diversified enough to make your collection firm profitable. A community that depends greatly on one industry—steel or agriculture, for example— would be hit especially hard during a slump in that industry. The aftershock of this slump could put you out of business. As a general rule, there should be at least 500 credit grantors for each collection service in a given market area.

Try to locate your office in or near the city's financial district. If you plan to specialize in a particular type of account, you may wish to locate near your potential clients. For example, if you are handling medical accounts, you could be housed in a building occupied by medical professionals.

Whether you are building or leasing, be sure to consider the possibility of future expansion. Every business owner is striving for controlled growth, which may require more space for additional equipment and staff. Check with your local Chamber of Commerce to see if it offers funds for economic development and employment opportunities.

Choosing a name

The name of your business should be dignified, easy to remember and distinguishable from names of other businesses. Select a title that reflects the services you perform. It is illegal to use a name that implies affiliation with a government agency. Also, unless you operate a bona fide consumer reporting agency, the FDCPA may prohibit you from presenting yourself as a consumer reporting agency and using the phrase "credit bureau" or similar terms in your agency's name. Please note state laws may further restrict options for naming your agency.

Buying a collection firm

Rather than starting your own firm, you may be interested in buying an existing business. This will demand more start-up capital. However, you could acquire an established clientele, a group of experienced employees and the firm's good reputation in the community. These positive attributes may offset the additional cost and allow you to hit the ground running as a collection manager.

Several complex legal issues may arise when purchasing a collection agency; therefore, ACA strongly encourages

consulting an attorney and a mergers and acquisitions advisor that specializes in credit and collection companies before making a purchase.

To find a collection firm for sale in your area, check the business section of your local newspaper or the classified section of *Collector*, ACA's monthly magazine. To order an annual subscription to *Collector*, visit the ACA Online Store at <http://www.acainternational.org/store>.

The asking price for a collection firm reflects its annual commission earnings, the number and quality of clients, the economic outlook for the region, the quality of its workforce, growth prospects and the value of the office equipment. The following are some guidelines for determining if a business is priced correctly.

Valuing a collection company

The basic guideline to determine the value of a collection company is to calculate the company's EBITDA (earnings before interest, taxes, depreciation and amortization). The calculations are made using figures for a complete fiscal year. The formula for calculating EBITDA is as follows:

Profit before taxes	\$ _____
Add:	
• Interest Expenses	\$ _____
• Depreciation (amortization)	\$ _____
• Controlling Shareholder's Compensation (salary & bonuses)	\$ _____
• Controlling Shareholder's "Excess Benefits"*	\$ _____
• Other Nonrecurring Expenditures	\$ _____
	Subtotal: \$ _____
Subtract:	
• Cost to Replace Departing Shareholder(s) (Salary and bonuses of person taking over departing shareholders responsibilities)	\$ _____
	EBITDA: \$ _____

* *Excess benefits are expenses paid by the company that normally benefit the owner, but would no longer be paid by the buyer. Examples include country club dues, excessive auto expenses, personal entertainment, meals, personal travel, etc.*

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The price paid for a collection company is most often negotiated as a multiple of recast EBITDA. A range of 3.5 to 6 times the recast EBITDA would cover most collection companies in the United States. Typically, larger companies achieve the higher multiple while smaller companies achieve the lower multiple. The “recast” element of EBITDA adjusts that earnings stream for excess shareholder compensation and benefits as well as any nonrecurring expenses incurred by the business.

There is no simple answer for determining the multiple or capitalization rate. The more common factors that determine the EBITDA multiple are:

- **Predictability of cash flow.** The greater the predictability of the earnings stream, the larger the multiple and the lower the percent.
- **Concentration of clients.** The greater the percentage of business applicable to one client, the lower the multiple.
- **Management in place.** A higher value is placed on companies with greater quality of management depth.
- **Company size.** The larger the company, the higher the multiple.
- **Equipment.** The more technologically advanced the company, the greater its worth.
- **Quality of client base.** Long-term clients create a higher value compared to companies with a high turnover of clients.
- **Other factors.** Geographic location, years in business, quality of inventory of accounts in-house, level of perceived owner identity versus an easily transferable client base, the state of the economy and specific market niches all play a part in this subjective equation of value.

The valuation of a collection agency is a subjective exercise that cannot be accomplished with simple rules. The above calculation and information can be used to get an idea for how much a company is worth. Determining the value of a collection company requires the skillful analysis of the specific attributes of each company. The valuation of any business enterprise is not an exact science and many economic, industry-specific and company-specific factors determine the final valuation. A professional consultant with experience in valuing collection firms should be used for a more definitive value.

Joining a professional association

Membership in a national, professional association of credit and collection firms will give you standing in your profession and respect in your community. Associations are valuable resources for educational materials, market research and updates on laws and regulations. They also provide a forum for you to exchange ideas with your peers in the industry.

ACA International, the Association of Credit and Collection Professionals, is an international trade organization of third-party debt collection businesses and credit granting companies, with more than 5,000 members providing credit and collection services. Headquartered in Minneapolis, ACA serves members in the United States, Canada and more than 60 other countries worldwide. In addition to placing you in a worldwide network of credit and collection companies and offering a number of other benefits and resources, your membership in ACA offers you:

- Access to the insurance, bond and licensing products and services, subject to eligibility determined by an application process, offered through Collectors Insurance Agency Inc., a subsidiary of ACA International.
- A telecommunications group purchasing program, including local, long-distance, data, voice and directory assistance services.
- Discounts on business resources, including office and computer supplies, forms, envelopes, advertising calendars, brochures, popular business-related books, air express delivery, car rentals and more.
- Educational opportunities, including degree and certificate programs, seminars (in-person and online) and teleseminars on a variety of credit and collection issues and numerous meetings.
- Access to the Professional Practices Management System (PPMS), a management system for collection agencies based upon developing, implementing and adhering to a set of industry-specific professional practices and policies.
- Access to ACA Online, a website containing a wealth of industry information and resources.
- *Collector* magazine and numerous newsletters and brochures.
- *ACA News Link*, a weekly electronic newsletter that provides up-to-the-minute information regarding the credit and collection industry.
- Access to ACA's many legal compliance resources.

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- Representation of your interests before state and federal legislatures.
- Attorney training and education on the laws and regulations affecting the collection industry.
- Access to ACA's Fastfax service, which allows members to request faxes or download PDFs on a number of important industry issues, including asset buying, electronic payment transactions, bankruptcy, legal compliance, garnishment regulations, international collection, state-specific compliance information and more.

For additional information about ACA membership, contact:

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A growing business

The credit and collection industry is solid and growing steadily. By 2016, the U.S. Bureau of Labor Statistics predicts employment in the debt collection industry will exceed half a million workers, up 23 percent from 2006. Collectors have also benefited from a new kind of relationship with their clients. Today's collectors are not merely a last resort for past-due accounts; rather, they are advisors and partners to their clients, helping them extend credit wisely, identifying risks and recovering delinquent bills when the communication system breaks down with individual consumers. Collection agencies are experts in credit and collections.

Because of their direct participation in the credit market, collectors are now recognized as vital players in the economy. Debt collectors return more than \$40 billion per year to the U.S. economy, helping businesses keep prices down and saving the average American family \$354 annually.

Receiving billions of dollars annually for collection from retail, professional and wholesale businesses, ACA members make the difference between profit and loss for a number of industries. As long as there is credit, there will be a need for collection services.