A Consumer's Guide To Debt Collection

Consumer Credit
The extension of credit to consumers and the resulting debt has steadily increased in recent decades. Because businesses need to compensate for these losses, the cost of bad debt is often offset by raising prices. However, there is a limit to how high prices can be increased before businesses begin losing customers, when this limit is stretched bad debt can cause business failures and job loss.

ACA International, the Association for Credit and Collection Professionals, believes the best way to decrease debt and increase business stability is to educate consumers and dispel the myths about the credit and collection industry. This brochure offers consumers a glimpse of the steps creditors and collectors may take when collecting debt. Although this information will not answer all your financial questions, it may help you to better understand the reasons why one might want to work with debt collectors to eliminate financial problems.

Creditors
A creditor is any person who offers or extends credit creating a debt or to who a debt is actually owed. Although extending credit increases gross sales, it introduces the risk of major losses due to non-payment.

Most businesses that "charge-off" a percentage of sales as uncollectable have an established rate or procedure for this action. For most business, this rate typically runs from 0.5 percent to 1 percent on low-profit transactions and up to 5 percent on high-profit sales and services. If the charge-off rate exceeds 5 percent, it becomes necessary to find ways to improve controls over bad-debt losses, such as increasing prices or eliminating in-store credit.

Identifying Bad Debt
Recent industry studies show that the longer debt sits uncollected, the less likely it is that the creditor will recover it. Therefore, creditors will act quickly to recover collect past due accounts.

Recognizing the delinquent consumer – studies have shown that people with certain characteristics tend to have a high risk of defaulting on debt. Some of these signs include:

- Being habitually slow in repaying debts.
- Exhibiting irresponsibility concerning employment and family obligations.
- Running from debt.
- Showing a history of purchasing without the intention of paying.
- Having little or no credit history.

- **Reducing Bad Debt –** Most creditors have a standard in-house written policy for handling accounts. The policies usually include when to call new customers, when to call established customers and when to send collection notices.

Using such a policy, most businesses find the majority of credit users will pay as agreed. A certain number will pay after a mild reminder. Some consumers will encounter an economic change such as illness or loss of job that makes it difficult to pay. After a regular follow-up with these consumers, creditors gain an insight into the customer's financial situation, reason for non-payment, a promise to pay and eventual fulfillment of the promise. A small number of consumers, rarely over five percent, will require more attention but will pay eventually.

Owing on an account

If a consumer is unwilling to cooperate or is inflexible about finding a mutually agreeable payment schedule, creditors may demand payment in full within a specified time. If the debt is not paid or terms cannot be met, the creditor may place the account with a third-party collection agency or take legal action. A notice of the creditor's intent is usually sent by certified mail a few days after the last contact with the consumer.

When a consumer is first contacted by a debt collector, certain feelings may emerge, such as anger, hostility, confusion and anxiety. These feelings are often over powering and can cause communication between the consumer and the collector to breakdown. When first communicating with a consumer, the collector will attempt to explain to the consumer the benefits of establishing a new payment schedule. This is usually done by telephone or mail.

If the consumer fails to meet the terms of a loose payment arrangement, collectors will insist on a firmer payment schedule. The firmer payment schedule is often more specific and objective and can include long or short term extensions depending on the case.

Referring accounts to third-party collection agencies

Most accounts are referred for collection because they have gone unpaid for several months and the creditor has not received communication from the consumer. Third-party collection services, which use specialized phone systems, computers and software designed specifically for the collection industry, often are more effective than creditors at collecting payment on such delinquent accounts.

When deciding whether to turn an account over to a third-party collection agency, creditors may look for the following signs:

- A new customer who does not respond to the first billing notice. For some unknown reason, the consumer will not or cannot pay.
- Payment terms that fail. In some cases, irresponsible consumers pay when and if they want to. This group is responsible for 25 to 50 percent of the cost of collections.
- Consumers who makes repetitious, unfounded complaints.
- Consumers who deny responsibility.
- Delinquency that co-exits with serious marital difficulties.
- Repeated delinquencies that occur along with frequent address or job changes. This group is responsible for 90 percent of all "skips." A skip is a consumer who has moved without informing creditors or leaving a forwarding address.

Working with a third-party collection agency

Third-party collectors are directly regulated by the Fair Debt Collection Practices Act (FDCPA), which is administered by the Federal Trade Commission. The FDCPA sets forth strict guidelines designed to protect consumers from abusive, misleading and unfair debt collection practices.

Receiving a collection notice from a third-party collection agency means that you have probably lost all communication with the original creditor. To avoid getting even further in debt, remember these four steps when dealing with a third-party collection agency:

1. **Stay calm**. Just as you depend on income to pay your living expenses, the people who sell goods and services on credit depend on your payment to meet their own expenses. Remember, by the time your account has been turned over to a collection specialist, the creditor has probably carried the account for several months.

2. **Cooperate with the collection agency**. Although you may feel frustrated, take the time to listen to the collection specialist to find a solution to your payment problems. Failure to communicate suggests to the collection specialist that you are running away from your financial obligations.

3. **Contact the collection agency.** Under the FDCPA – the federal law regulating third-party collection agencies – within 30 days of receiving a notice informing you of your right to dispute the debt, you may send a written dispute of the debt or any part of the debt. The collector must then stop all collection efforts until sending written documentation that the debt is valid and owed by you. You may also send a written request asking that the collector cease communication with you. The collector may then contact you only once more, to advise you of what legal or other actions the collector may take, intends to take, or to state that you will not be contacted again.

4. **Know your rights under the FDCPA.** When working with a third-party collection agency, remember that a collection agent may not:

   - Make repetitive or excessively frequent phone calls to annoy or harass you.
   - Misrepresent the legal status of your debt, falsely accuse you of criminal activity or indicate that any document is legal process if it is not.
   - Threaten to take any action that is illegal or that the collector does not actually intend to take.
   - Use profane, obscene or abusive language.
   - Call you before 8 a.m. or after 9 p.m. (your time zone)

   Remember, the FDCPA applies directly to all third-party collection agencies, but only under certain circumstances does the law apply to in-house collectors – those collectors employed by creditors.

5. **State Laws.** Many states have laws providing protection beyond that provided by the FDCPA. Contact your State Attorney General's Consumer Division Office or your own attorney to learn more.

Conclusion

Throughout the years, misconceptions and stigmas regarding credit and collections have caused consumers to develop a negative perception of the industry. Today, however, most collectors are well-trained, sophisticated professionals who understand what motivates a variety of people, can quickly determine what will motivate a particular person and are able to communicate well with others. By working with a debt collector immediately, you can find a mutual payment schedule that will ease your financial troubles. Running away from a debt collector only adds to your financial stress.

For more information on consumer rights and credit and collection practices, visit ACA International's Web site at *www.acainternational.org* or call (952) 926-6547.

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