



## CONSIDERING A COLLECTION AGENCY? MAKE AN INFORMED DECISION.

*There's a vast array of choices when it comes to deciding which collection agency is right for you.*

### Experience Counts

When choosing a collection agency, you should be assured that the collection agency has experience specializing in collecting accounts receivable in your industry. For example, an agency unfamiliar with industry specific terminology, regulatory issues or client's and their customer's concerns cannot be as effective as one that has served that industry for years. Knowing proper terminology helps our collectors to quickly relate information to the debtor, helping them to better understand the charges due.

### Trust

It is imperative that your collection agency secures the money that it collects on your behalf. The following three security issues should be addressed prior to your decision to use an agency:

**1) A Trust Account:** Your agency should deposit all the dollars it collects on your behalf into a trust account kept separate from their operating account. When an agency co-mingles your money with theirs, there may be a temptation to "borrow" operating funds from your gross collections in anticipation that more of your receivables will be collected throughout the remainder of the month.

**2) Insurance:** Your agency should carry adequate "Errors and Omissions" insurance in order to protect your interests in the event they engage in any practice in violation of the Federal Fair Debt Collection Practices Act, which might result in a lawsuit against your organization.

**3) Bond:** As additional security against an agency absconding with your funds, you should require that they be adequately bonded so that you have recourse in the event the agency goes out of business or otherwise attempts to keep money which rightfully belongs to you.

### People Who Care

Your collection agency should provide a scope of services that complements your specific needs and requirements. For example, your agency should provide a *Client Services* support staff responsible for a variety of tasks such as: assisting in the account assignment process by traveling to your office(s) to copy charts and files if necessary, being available to respond to your inquiries regarding any individual account or following through with special requests like customized reporting.

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# GRANT & WEBER

Receivables and Resource Management

## Assurance

A qualified collection agency should employ in-house legal counsel. In-house counsel can easily and cost-effectively file lawsuits on your behalf when a debtor who acknowledges they owe money and have adequate assets to pay their bill, refuses to cooperate and, forces the agency to utilize the court system in order to protect your financial interests. The value of using in-house counsel, versus contracting with a law firm, is that the agency can be more aggressive in their recommendation to litigate since they are more in control of the costs of litigation.

## Distinctive Work Standards

You must be confident that your collection agency is as effective as possible with regard to the recovery of your delinquent accounts receivable. The best way to determine the effectiveness of your agency is to audit your accounts to make sure they are systematically worked and that the appropriate amount of attention is given to each account, regardless of the balance of the account.

All collection agencies should be able to provide details about the collection methodologies they employ and the standards they strive for, thereby providing you with a basis upon which to determine their effectiveness.

## Results

The rate that a collection agency charges is much less important than the overall collection effectiveness and service which the agency provides. Your organization should be much more willing to contract with an agency focused on maximizing the return of

your dollars than with an agency simply offering a lower rate. The following "Net-Back" example illustrates why we submit that rate is a lower priority than the items previously listed:

Agency A	Agency B
	Assignments
\$1,000,000	\$1,000,000
	Total Collections
\$ 150,000	\$ 100,000
	Contingency Rate
40%	20%
	Contingency Fee
\$ 60,000	\$ 20,000
	Net-Back
\$ 90,000	\$ 80,000

In reviewing this example, it is easy to quickly assess that it would make more sense for you to contract with *Agency A* which charges a 40% rate rather than to contract with *Agency B* which only charges a 20% rate. The rate that an agency charges directly impacts the level of effort they can put forth on every account, thereby **increasing the probability** that they will collect the accounts receivable owed to your organization.

In summary, your organization needs to be diligent in its efforts to determine which collection agency will perform best. Our hope is that in using this guide, you will be better able to make an appropriate decision with regard to choosing the most productive agency and maximize the recovery of your delinquent accounts receivable.