The Collector Chronicle

North American Recovery | January – February 2017 | America's Collection Authority

Last Month's Lucky Winner

The lucky winner of our client prize for last month is Utopia. They have been using our agency since 2014!

We will be sending Kellie a $100 Visa gift card. Enjoy!

$100 Visa

THIS MONTH'S PRIZE

This month we will be giving away a gift card to Ruth's Chris Steakhouse!

Each client who sends new accounts during the month of February will have their name entered into a drawing. At the end of the month, we will draw a name. If it's yours, you'll win the prize.

Don't miss out on your chance to win.
Send new accounts in February!
Good Luck!!

RUTH'S
CHRIS
STEAK HOUSE

"How Long Will It Take to Collect My Accounts?"

By David J. Saxton
President, North American Recovery

This is one of the first questions I'm asked when we begin collecting for a new client. A fair question, no doubt, but the answer takes some time to explain. This month I thought I'd describe in detail the "collection cycle" and show you how long it takes to collect a given group of accounts.

I want to start by first talking about our recovery rate. For most clients, it is double or triple the national average, and we're very proud of that. However, before we can produce these outstanding results, it takes a *lot* of time and extra effort. For a new client who isn't familiar with our particular business model, it might feel like nothing is happening during the first few months, and that can be frustrating. To prevent this, we meet with each new client at 30, 60, and 90 days to review our initial results and our expected recovery rate.

There are several factors that influence when a recovery rate reaches the anticipated level. However, on average, a client can expect to realize these results anywhere from 12 to 36 months after they first partner with our agency. But I'm getting ahead of myself.

Before I discuss the collection cycle in detail, I want to take a moment and explain what our *recovery rate* refers to. To calculate our recovery rate, we take the total amount collected and divide that by the net amount assigned. For example, if a client's net amount assigned is $200,000, and we collect $76,000, the recovery rate is 38%.

Talking about a client's recovery rate can be confusing if you don't understand how the collection cycle affects it. For instance, if we take a group of 20 accounts with an average balance of $1,500, we will have a total amount assigned of $30,000. Then if we use the recovery rate of 30%, we can expect that, after the collection cycle has been completed, six of these accounts, totaling $9,000, will have been collected. For this example, let's say these 20 accounts are all that a client is ever going to assign. Continuing with this example, we project collecting 6 of the 20 accounts during the full collection cycle. What does that mean? Well, it means that during the first 6 to 12 months, we will collect an account or two right away. Then 1 or 2 more accounts within 12 to 24 months, and finally, the remaining 1 or 2 accounts will take the full 36 months or longer.

The collection cycle can be separated into three distinct groups:

- **Group I** – The first 6 to 12 months: Collections before legal action.
- **Group II** – 12 to 24 months: Collections in the first stage of legal action.
- **Group III** – 24 months and beyond: Collections taking the entire legal process and beyond.

Let's go over each group in detail.

Group I: Accounts We Collect <u>Without</u> Legal Action

These consumers are the ones that respond to our calls and letters because they don't want their credit damaged or they don't want to be sued. This group makes up about 1/3 of the accounts we will eventually collect.

When these consumers express interest in paying, we allow them to set up whatever payment plan is convenient for them. This virtually eliminates complaints or unhappy consumers. Preventing complaints is an importation part of our business model, and working with consumers this way plays a big part in accomplishing our goal of zero complaints.

Group II: Accounts That Pay During the <u>Initial</u> Stage of Legal Action

Accounts in this group are usually collected within 12 to 24 months. This group makes up another 1/3 of the accounts we collect.

It takes anywhere from one to two years with these accounts because the legal process has so many built-in delays designed to give the consumer time to respond or contest the action. This means we spend a lot of time waiting instead of collecting. These consumers have steady jobs, and after they have been sued and a wage garnishment is in place, they realize how serious we are and they quickly find a way to pay their account in full. But for those that don't, we keep garnishing their wages until the account is paid.

Group III: Accounts Requiring <u>Substantial</u> Use of the Legal Process

These accounts are the ones that take a lot of skiptracing before we even find the consumer. Then, once we locate them and transfer their account into our legal model, the consumer "skips" again. We then have to start over with our skiptracing and track them down again before we can garnish their wages.

These consumers are the most difficult to collect from and are the ones that require more than 24 months. However, we will usually have collected something and have a good idea of how much longer it will take to collect the remaining amount at the 24-month mark. This last group accounts for the final 1/3 of what we eventually collect.

If we take a snapshot of our progress at 12, 24, and 36 months, our recovery rates will usually be 10%, 20%, and 30% respectively (if our eventual maximum recovery rate is 30%). During this period, there will be many months where we send a very good-sized check to a client, other months where we send an average or small check, and still others where we might not send a check at all. This is due to the cyclical nature of collections and the scenario described above.

As a client, you play a major role in the consistency of our results. Why? Well, if you assign once or twice a year, you will see results like I outlined above: your check amount will fluctuate from a big check to nothing at all. It will appear that we are inconsistent in our results when, in fact, we are being very thorough.

However, if you assign on a regular basis—such as every month—you won't see big swings in the size of your check. Our collections will even out after 24 months of assignments because each month we will receive new accounts, and there will always be several accounts in each part of the collection cycle. But most importantly, in the *paying* part of the cycle. Your checks will be consistent, and after about a two years of regular monthly assignments, your checks will always be big. ☺

When it's all said and done, we both want the same thing: a big check for you each month. If you send accounts every month, we will collect them, and together we will achieve that goal.

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