

The Collector Chronicle

NORTH AMERICAN RECOVERY

APRIL 2018

AMERICA'S COLLECTION AUTHORITY

LAST MONTH'S LUCKY WINNER

The lucky winner of our client prize for March is Madison Memorial. They have been using our agency since September 2017! We will be sending Trevor a gift card to the City Creek Shopping Center! Enjoy!

*City Creek
Shopping Center*

THIS MONTH'S PRIZE

This month we will be giving away a gift card to P.F. Chang's!

Each client who sends new accounts during the month of April 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 April!
Good Luck!!*

P. F. CHANG'S

SHOULD YOU SETTLE?

BY: DAVID J. SAXTON

PRESIDENT, NORTH AMERICAN RECOVERY

One of the most difficult situations a new collector encounters is trying to decide if he or she should settle an account. If you aren't familiar with the term, it means you accept less than what's owed and write off the remaining balance.

When I first started in collections, I struggled with the concept of settlements. I'd never heard of a situation where I didn't have to pay the full price for something. As it turned out, I was in for a big surprise.

Some consumers seem to think that since they hadn't paid their bill, ignored their statements, changed their phone number, and avoided the creditor, they would be allowed to pay less than what they owed. I also learned that some clients believe settling an account is a good idea. (It's the old adage about a bird in the hand is worth two in the bush.)

Here's what would happen: A consumer would call a client and offer to settle their account by paying \$2,000 instead of the \$3,000 they owed. It sounded like a great deal to the client because they hadn't heard from the consumer in years. They had essentially given up on the account. On top of that, the consumer would then follow up by saying the offer was only good for ten days or they would file bankruptcy—or something similar. If the account was current, the client wouldn't even think of settling, but since it was a collection account (and they hadn't received a payment in years), the client reasoned that \$2,000 was better than nothing, and would agree to settle.

However, more often than not, this would end up being a bad move and here's why: A consumer NEVER calls "out of the blue." There is always a good reason for their call. I promise you the consumer didn't wake up one morning and *freak out* because they had an unpaid bill. There is something else motivating the call. Usually, it's because they are trying to qualify for a mortgage, a car loan, or some other type of credit. However, since we had reported the collection account to the credit bureaus, the bad mark caused

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them to be turned down. Now they are trying to clean up their credit. In order for them to qualify, they have to do one of two things: (1) convince the client to settle; or (2) pay the full amount. That is why the client gets the "settlement call."

All the consumer really cares about is a clean credit report, and when the debt is settled, the consumer gets the loan, and the client never knows anything about it. I found this out the hard way when I settled an account in my early collection years. Two weeks after we settled, I received a call from a mortgage company asking to verify that the bill was paid. I asked why, and they said it was because the consumer was applying for a \$250,000 mortgage! From that day on I decided that if it was up to me I would NEVER settle an account again.

That worked for a while, until I discovered I needed to make exceptions sometimes. There are two situations in which I advise a client to settle. The first is when we sue the consumer and it looks like the case will end up going to trial. This very rarely happens, and the percentage of our accounts that go to trial is very small. However, when this situation arises, I attempt to settle before the trial.

The reason we want to settle is pure economics. We're confident we would win the case, but if the account is under \$7,500, the eventual return for our client is not worth the effort. Here's why. In a civil lawsuit, the plaintiff (us) must prove their case by a preponderance of the evidence. This means that the evidence we present must be more convincing than the consumer's. This takes a lot of additional time and expense for our clients.

The consumer, in turn, has the opportunity to tell their side of the story. We've found they sometimes "forget" what really happened and make less than accurate statements. This causes quite a bit of frustration for our clients. And even if the defendant (consumer) doesn't have a leg to stand on, and all of

their reasons for not paying are completely unfounded, they still have the right to call witnesses, present evidence, and testify.

The trial will take a full day, and when we factor in the pre-trial conference, the research and prep time, and the fact that at least two, or possibly three, people from our client's office will be required to attend the trial, we're investing a lot of our client's time in something that isn't guaranteed. When an account has a balance of \$7,500 or less, the maximum return for the client will be \$3,750. And when you consider things like two full days away from the office for two or three key employees—and the loss of new business because the employees are out—it makes sense to settle these accounts. However, accounts with balances well over \$7,500 are a different story. The time it takes for a trial on these is usually worth it.

The other instance you would consider settling is if you receive a call from a consumer's bankruptcy attorney. This is a good sign that they are, in fact, going to file. If the attorney offers a settlement, you should take it. Otherwise, if a consumer threatens bankruptcy, but doesn't have an attorney, it's probably just a bluff.

In conclusion, it's best to take the approach that you never settle. That way you will flush out the consumers who are bluffing. Then, when you do find yourself agreeing to settle, you will know that you've made the right business decision.

Have a great month!



The Collector Chronicle is published by NORTH AMERICAN RECOVERY for prospective and current clients. The owner, David Saxton, welcomes your questions or comments.

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