

# The Collector Chronicle

NORTH AMERICAN RECOVERY

September 2013

Utah's Collection Authority

## LAST MONTH'S LUCKY WINNER

The lucky winner of our client drawing for September is Rocky Mountain Anesthesiology in Ogden, Utah. They have been using our agency for over five years. We will be sending them a \$100 gift card to The City Creek Center in Salt Lake City. Enjoy!



## THIS MONTH'S PRIZE

This month we will be giving away a \$100 gift certificate to Walmart. Each client who sends new accounts during the month of September will have their name entered into a drawing. At the end of the month we will draw a name, and if it's yours, you'll win the prize.

***Don't miss out on your chance to win; send new accounts in September! Good luck!!***



## “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's double or triple the national average, and we're very proud of that. However, before we achieve such 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's 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 eventual 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.

But I'm getting ahead of myself. So, before I discuss the collection cycle in detail, I want to take a moment and explain what our *recovery rate* refers to. Our recovery rate refers to the percentage of the net amount placed that we've collected. To calculate our recovery rate we take the total amount collected divided by the net amount assigned. For example, if a client assigns \$200,000, and we collect \$76,000, the recovery rate is figured by dividing 76,000 by 200,000. The result is a 38% recovery rate.

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 we will eventually collect 6 of the 20 accounts during the full collection cycle. What does that mean? Well, it means that during the

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first 6 to 12 months we will collect an account or two right away. Then, 1 or 2 more within 12 to 24 months, and finally, the remaining accounts will take the full 36 months or longer.

The collection cycle can be broken down into three distinct groups:

- Group I (The first 6 to 12 months of the cycle): 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 without legal action.**

These debtors 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 collect.

Our business model ensures results because we require payment in full within 90 to 180 days. In some instances we will make exceptions and give a debtor up to 12 months, but that would be a very rare exception.

## **Group II: Accounts that pay during the initial 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 debtor time to respond or fight the action. This means we spend a lot of time waiting instead of collecting.

These debtors have steady jobs and after they have been sued, and a wage garnishment is in place, they suddenly realize how serious we are. They quickly find a way to pay their account in full. And for those that don't, we keep garnishing their wages until the account is paid.

## **Group III: Accounts requiring substantial use of the legal process.**

These accounts are the ones that take a lot of skip-tracing before we even find the debtor. Then, once we locate and sue them, the debtor "skips" again and we have to track them down before we can garnish their wages.

These debtors are the most difficult to collect from and are the ones that require more than 24 months to collect. 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 group accounts for the last 1/3 of the accounts we collect.

If we take a snap shot 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 to 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 are a major contributing factor on how consistent our results are. 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, you won't see big swings in the size of your check. Our collections will even out 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 year 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 achieve that goal.



The *Collector Chronicle* is published monthly by NORTH AMERICAN RECOVERY for prospective and current clients. Please direct questions or comments to the Editor, Dave Saxton, at: [DaveSaxton@North-American-Recovery.com](mailto:DaveSaxton@North-American-Recovery.com)

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