

The Collector Chronicle

NORTH AMERICAN RECOVERY

January 2012

Utah's Collection Authority

LAST MONTH'S LUCKY WINNER

The lucky winner of our client prize for December is Utah First Credit Union out of Salt Lake City, Utah. We work with AI and they have been using our agency for nearly seven years! Congratulations!! We will be sending AI two tickets to a Utah Jazz game. Enjoy!



THIS MONTH'S PRIZE

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

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

NORDSTROM

LEGAL ACTION: EXPENSIVE, BUT WORTH IT

BY DAVID J. SAXTON

President, NORTH AMERICAN RECOVERY

If a collector wants to be successful he or she must have the option of taking legal action against a debtor. It's just a fact of collections; some debtors won't pay unless they are sued. We aren't shy about suing debtors, and it helps us have a recovery rate more than double the national average.

This month I wanted to give you an idea of the expenses involved in suing a debtor. I'll start with the amounts our law firm, Olson Shaner, charges. They have two different rates: \$175 per hour for work performed by an attorney and \$75 per hour for work done by a paralegal.

When we refer an account to their office, they immediately start charging fees. The first thing they do is have an attorney review the file. Next, a summons and complaint is prepared and sent out for service. Once it's served, the complaint is filed with the court. If the debtor doesn't respond to the complaint within the allowed time, a default judgment is submitted; and, when granted, our attorney's office sends a copy to the debtor.

So, from the moment they receive the account until they obtain the default judgment, our law office will incur approximately \$275 in attorney's fees. But, if the debtor disputes the debt or raises a defense, the fees can really add up.

For example, if the debtor calls our attorney's office disputing the bill, files an answer to the complaint, or does anything else that requires a response by our law firm, they will add additional fees for the extra work.

Debtors don't understand that calling *our* attorney's office costs them money. They are confused about how things work and usually ask our attorney for legal advice. But, since our law firm is representing us, it would be a conflict of interest for them to

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advise the debtor of their rights or tell the debtor how they should respond to legal documents, so all they can do is tell the debtor to pay in full or hire their own attorney. This is frustrating for some debtors, but our law firm is representing us (and in turn representing you), so they are looking out for our best interests.

In addition to the attorney's fees, we have two other fees we must pay. The first is the fee we pay to have the summons and complaint served upon the debtor; this ranges from \$13 to \$45. The next is the fee the court charges to file the complaint; this costs between \$75 and \$360, depending on the amount owed.

When we add the service fee and complaint filing fee to the attorney's fees, we end up with a minimum of \$363 in costs just to obtain the judgment.

Okay, so we've spent a substantial amount of money to get a judgment, but how are we going to collect it? Well, there are a couple of options, but the preferred remedy is a wage garnishment. Just filing the garnishment will sometimes result in the debtor paying the account in full. If not, the employer is going to withhold money from the debtor's paychecks over the next four months and send that money to us. This is usually enough to pay the account in full, but if one garnishment doesn't do it a second one usually will.

How much does a wage garnishment cost? Well, we have to pay the debtor's employer \$25 (varies by state) for their time, the court filing fee is \$45 or \$50 depending on location, and the process server charges a \$12 to \$30 service fee for a total of up to \$105. Then there are the attorney's fees. A garnishment is a very complicated document requiring a substantial amount of initial preparation and tight follow up every two weeks over a four-month period.

The result is an additional \$280 in attorney's fees when all is said and done. (And that's \$280 for *each* garnishment.)

When we add it all up, we get a total garnishment cost of up to \$385. If we add the garnishment costs to the initial \$363, we end up with approximately \$748 in "legal costs" to collect an account. That's expensive!

But, we don't let that stop us from suing a debtor if he or she refuses to pay-in-full. In fact, 75% of our collections comes directly from our legal accounts.

We are, however, very careful and make absolutely sure that we are going to recover these costs. And a big part of that has to do with your office. If you have each customer sign an agreement that allows us to charge the debtor for attorney's fees and court costs, it improves the chances of the account being collected.

If, however, you don't have your customers sign a contract with these terms, we may not be able to sue those accounts. Generally, if an account is under \$1,000 and we cannot pass these costs onto the debtor, we won't be able to sue the account because it will be too expensive. (You should still send these accounts to us because we will report the debt to the credit bureaus, but if the debtor refuses to pay we won't be able to sue the account.)

If you have all your customers sign a financial agreement with the necessary terms you are set. Most of our clients have very good agreements, and if you're one of them don't worry.

But, if you think you need some help with an agreement, talk to your attorney and work toward establishing a solid contract. Then have every customer sign it. Doing this will help improve your collections; and, in turn, we'll do an even better job on the accounts you send us.



The *Collector Chronicle* is published monthly by NORTH AMERICAN RECOVERY for prospective and current clients. Please direct questions or comments to Dave Saxton at the address or number listed below. *Edited by Bryce Packham.*

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