

# The Collector Chronicle

NORTH AMERICAN RECOVERY

June 2011

Utah's Collection Authority

## LAST MONTH'S LUCKY WINNER

The lucky winner of our client prize for May is Smith's Food King in Salt Lake City, Utah. We work with Michael Larm and he is one of the clients who came over when we purchased Collection Services Bureau of Utah. Congratulations!! We will be sending Michael a gift certificate good for a one night stay at The Anniversary Inn. Enjoy!



## THIS MONTH'S PRIZE

This month we will be giving away four tickets to a Salt Lake Bees baseball game. Each client who sends new accounts during the month of June 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 June!  
Good luck!!***



## THE "COLLECTION CYCLE" BY DAVID J. SAXTON

President, North American Recovery

When we begin collecting for a new client it takes time before our recovery rates reach the level we're known for. A slow start can be frustrating to a new client when our sales literature boasts of great recovery rates. If these results are not seen within the first three to six months our clients might wonder what's wrong. We assure them that nothing is wrong of course, but if a client does not understand what the collection cycle is and how it influences their totals, it's still frustrating.

So this month I want to address this subject and explain what the collection cycle is, and why it can take from 18 to 36 months before we establish consistent recovery results for you.

But, before I start talking about the collection cycle, I want to take a moment to explain what recovery rate refers to. Recovery rate is defined as the percentage of money we collect for a client. To determine a recovery rate, we take the total amount collected for a client and divide that by the total dollar 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. In this example it's 38%.

A recovery rate can be confusing if you don't understand how the collection cycle affects it. For example, 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—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 the client is ever going to assign.

Okay, we know we are going to collect six of the 20 accounts during the collection cycle. So what does that mean? Well, it means that over the next 18 to 36 months, (which is the average amount of time it takes to achieve maximum results) we will collect some accounts right away, some within six to 18 months, and the others will take the full 36 months or longer.

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

- Group I (The first six months of the cycle): Collections before legal action.
- Group II (Six to 18 months): Collections in the first stage of legal action.
- Group III (Months 18 to 36 and beyond): Collections taking the entire legal process.

Let's go over each group in detail.

## **Group I: Accounts we collect without legal action.**

These debtors are the ones who 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.

We take an aggressive approach to collections, so if a debtor is going to pay before we sue, he usually does within 90 days—and for sure within six months.

## **Group II: Accounts that pay in the initial stage of legal action.**

Accounts in this group are usually collected between six to 18 months. This group makes up another 1/3 of the accounts we collect.

It takes about a year 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 on the account rather than collecting it.

Even though we had to sue these debtors, they are the ones with steady jobs. After they are garnished they realize how serious we are and they pay their account in full. If they do not pay, it takes about one to three garnishments to collect the full balance.

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

These debtors are the most difficult to collect from

and can take between 18 to 36 months to collect. This group makes up the last 1/3 of the accounts collected.

These accounts are the ones that require a great deal of skip-tracing before we even find the debtor. Once we are able to locate and sue them, the debtor "skips" again so we have to track them down before we can garnish their wages.

If we take a snap shot of our progress at six, eighteen and thirty-six months, our recovery rate will be 10%, 20%, and 30% respectively. During the three-year period there will be about 12 months where we send a good-sized check to our client, 12 months where we send an average to small check, and 12 months where we don't send a check at all, but not in that order. For example, in the first four months only a few debtors pay so the checks are very small. The next two months our client doesn't even receive a check. Then for the next three months, our client receives three large-sized checks. This is due to the cyclical nature of collections and the scenario described above.

As a client, you can make a difference in how consistent our checks are. If you make one assignment 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.

If, however, you assign on a regular basis you will not see big variations in the size of the check we send each month. Our collections will even out because each month we will receive new accounts, and there will always be several accounts in each stage of the collection cycle, and 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 significant.

When it's all said and done, we both want the same thing: a large check for you each month. So if you send accounts every month, we will make sure we are collecting them and together we will achieve that goal.



The *Collector Chronicle* is published monthly by NORTH AMERICAN RECOVERY for prospective and current clients. **The editor for this newsletter is Theresa Anderson.** Please direct questions or comments to Dave Saxton at the address or number listed below.

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