

## **January 2019 Newsletter**

### **Everything You Didn't Want To Know About Collections (And Really Didn't Want To Ask)**

#### **Part One – The Ugly Truth about Collections**

*Our view of debt and individuals who have debt, but cannot or will not pay their debt has changed dramatically since the days of debtor's prison and indentured servitude.*

Obviously, accumulating debt and the incentive to pay one's debts changed and the need for a professional approach to recovering unpaid debt gave birth to the collection industry that exists to this day. As one might expect, it is a highly maligned industry despite being heavily regulated at both state and federal government levels. For the longest time, collection agencies would employ any method possible to collect debt for their clients including, but not limited to lying, threats and harassment. Today, these methods are all against the law and have been for a very long time, but they can still happen.

As usual once government gets involved unintended consequences are bound to occur and today the collection industry is under assault from both government and parasitic attorneys. The result of this is that it is difficult for collection agencies to operate and ultimately recover debt effectively for their clients. The collection industry has thus morphed into something quite different and the best practices employed by the industry to deal with government and litigation have created an ugly truth that I will share with you, but first I want to give you two examples of assault by government and attorneys that is germane to Nevada.

First, with respect to government, one of the most prominent politicians within the last 20 years in the state of Nevada (who shall go nameless) stated publically about 5 years ago that it was he or she's goal to get rid of every collection agency in the state of Nevada. It was their opinion that all people that had debt and couldn't or wouldn't pay were victims and that any entity that wanted to recover debt that was owed to them should be deprived of having a professional debt collector collect their debt.

Second, about 6 years ago an attorney firm in the state of Nevada (who shall go nameless) filed approximately 40 lawsuits in one day against various collection agencies, hitting some of them more than a dozen times. The accusations were for the most part completely false, but since the goal wasn't to go to court and prove the accusations it didn't matter. The game was and is to settle for between \$3000 and \$5000 a pop since defense of the accusation would cost the defendant far more. Do the math. An average of \$4000 a pop times 40 pops equals \$160,000. Not bad for days work, huh?

The aforementioned may indicate that I am trying to make you feel sorry for collection agencies, but I can assure you that is not my intention. I am simply pointing out the reality that collection agencies face and how this reality influences how collection agencies operate today. Please note

that I am talking about legal collection agencies that are licensed, not the criminals who misrepresent themselves to con the public into giving them money. I think we have all heard about these unsavory characters who usually prey on the elderly and say they are with the IRS etc.

Non HOA collection agencies operate by collecting money through past due notices and making calls to debtors, using negative credit reporting as the leverage for the collection. Because every call can result in a potential lawsuit, reducing the number of calls and increasing the effectiveness of each call becomes paramount, so most collection agencies employ some sort of sorting tool or tools that identify which accounts are most likely to pay. This reveals the ugly truth and that is that the collection agency is motivated to collect on the accounts that are the most beneficial to the collection agency, not their client. Not all clients will be treated equally and not all accounts within the client's portfolio will be treated equally. The result is what is known as "creaming". Collection agencies cream the accounts placed with them which is one of the reasons that the national collection average is less than 4%. In other words, collection agencies only actually collect less than 4% of all the potential debt given to them.

Please note that what I have described does not apply to HOA collections. This first part in the series was to provide some information about collections in general as well as provide some context before we move onto the next three parts.

- April            "Why HOA Collections are Different"
- July             "Where HOA Collections in the State of Nevada is Today"
- October        "What you should be Looking for in a Collection Agency"