

Inside



**DEBT
COLLECTION
SERVICES:
WHEN SHOULD
YOU USE
THEM?**



What You Should Know About Professional Collection Services

If you have exhausted every means at your disposal to collect unpaid invoices from your customers, you may end up wondering, "Do I need a collection agency?" Like many business owners who face a number of slow paying or non paying clients, your business would likely benefit from the services of a professional bill collection agency or attorney. A professional debt collection agency will collect payments for your outstanding invoices, usually for a percentage of the receivables they are able to collect.

Some businesses may rely on collection agencies more than others. A freelance graphic designer may only need to use a collection agency's services once during her entire career, while a larger company may require the services of a collection agency frequently.

Many businesses may never need to use a collection agency. However, in the event that you have a client, vendor or customer who defaults on payments, it is advisable to have a reliable collection agency available to pursue the non-payee.

You will encounter a variety of third party debt collectors, from small local agencies to larger, national companies. Others may specialize in certain types of debts, such as consumer debt collection or business debt collection. The best collection agencies credit their success to the persistent use of legal and diplomatic means to obtain payments on outstanding debts.

Every situation is different, and collection methods may vary with each collection agency. It is important to find an agency that will consider your company's unique needs, and will treat your customers in a professional and courteous manner.

A collection agency will probably use many of the same methods you have already tried. But with specialized phone systems, computers, and software, these agencies are often more effective and cost-efficient in obtaining payments on delinquent accounts.

Pricing for services will vary on the volume of business you bring and the amount you need to have collected. You can usually expect to pay between 25 to 30 percent of the debt amount collected, although some agencies will charge up to 50 percent.



You can also find attorneys who specialize in collecting unpaid debts for businesses. An attorney may charge an hourly rate, retain a third of the amount recovered, or both. Unless you think you will need to take your customers to court for non-payment, you probably do not need to hire an attorney.

How to Choose a Collection Agency

It is extremely important to select the right debt collection services for a very good reason; the agency will be dealing with one of your most important assets—your customers. It is also important to find a collection agency that can fill your company's specific needs.

Because there are so many options and providers to choose from, selecting the right debt collection agency can be a time consuming process. Here are a few things that businesses should look for when choosing the right agency:

- Price: Not all collection agencies will charge the same rate or in the same way. Most do, however, set their rates based on a percentage of the total amount to be collected. An agency may charge ten percent of the total collection amount to the business that hires it. Some collection agencies only charge once funds have been collected, while other collection agencies charge an upfront fee for their services.
- Reliability: Not all collection agencies are the same when it comes to reliability and effectiveness. One of the best ways to determine how reliable an agency is likely to be is to perform a simple background check through an Internet search or through the Better Business Bureau.
- Contracts: Some collection agencies offer contract work or retainers for their clients. In such a case, the agency may work a certain number of hours each month for a set fee. Businesses need to be sure that they require a collection agency's services before they sign a long-term contract or retainer contract so that they can be sure that they get what they pay for.



- **Methods:** It is important to ensure that a collection agency is able to use a variety of methods when contacting debtors. Collection agencies should not only be able to approach a non-payee diplomatically through letter writing and phone calls, but the collection agency should also be able to use legal courses of action, if necessary. Many collection agencies are part of law firms, which enables them to file legal cases easily when needed.

Find out as much as you can regarding the reputation of the collection agency, whether the company is licensed and bonded, and any professional organizations the agency is a member of. Try to get satisfactory answers to such questions as:

- Is the business well established and experienced?
- What are the collection agency's published contingent collection fees?
- What methods does the agency typically use when collecting debts?
- Is the company geographically accessible to your business?

Using this information, you should be able to find a reliable collection agency that is easy to do business with and who will treat your customers with respect. Whatever type of collection agency you choose, be sure to obtain a client list before you enter into an agreement with the provider. You can also contact the Commercial Law League of America for a list of certified collection services and legal experts. To be sure you get the best for debt collection services, InsideUp can help you obtain quotes from several reputable [collection service providers](#).

Collection Services Glossary

Acceleration Clause

A clause in contracts of debt which makes the entire amount due upon the debtors default.

Accord And Satisfaction

A settlement agreement by which a claim is satisfied and discharged.

Acknowledgment

When a claim reaches an attorney's office he must send an acknowledgment letting the forwarder know that the file was received by his office and that he agrees with the rates outlined.



Action

A suit at law or in equity.

Actionable

Affording grounds for a legal action.

Administrator

One appointed to manage and distribute an estate where the decedent has not left a will, or where for some reason an executor has not been appointed or qualified under the will.

Advanced Court Costs

Those funds advanced by the plaintiff so that counsel may pay the appropriate fees for the filing of suit and process of service.

Affidavit

A statement sworn to or affirmed before an official who is authorized to administer oaths - usually a notary public.

After-Acquired Property

Property which a debtor acquires after the execution of a mortgage or other form of indebtedness and which secures such indebtedness.

Agency

An agency is a collection agency to which claims are referred for collection by creditors.

Agent

A person authorized by another, i.e., the principal, to act for him.

Appeal

A request to the U.S. District Court to review a decision of the bankruptcy court.

Arbitration

The determination of a dispute by a disinterested third person, or persons, selected by the disputants.



Assignment

The transfer of property rights by one person, known as the assignor, to another, known as the assignee.

Assignment For Benefit of Creditors

A transfer of all of a debtor's property to another person in trust to collect any money owed to the debtor, to sell property, to distribute proceeds, and to return any surplus to debtor.

Attachment

Taking property into custody of the court, either to satisfy a judgment ultimately to be rendered or as a method of acquiring jurisdiction.

Bankruptcy

This is what debtors file in bankruptcy court in order to protect themselves against creditors or show that they have no money to pay their bills.

Bill of Exchange

A written order, which may be negotiable or nonnegotiable, directing one party to pay a certain sum of money to the drawer or a third person.

Bill of Lading

Receipt and contract issued by a common carrier for the shipment of goods.

Bill of Sale

A written instrument by which one transfers his rights or interest in chattels and goods to another.

Bona Fide

"in good faith".

Bulk Transfer

The transfer of inventory or trade fixtures or a major portion thereof not in the ordinary course of business.



Chattel

Any type of personal property as distinguished from real property.

Chattel Mortgage

Security interest taken by the mortgagee in personal property of the mortgagor. A per-Uniform Commercial Code device.

Claim

A right to payment, whether or not fixed, contingent, liquidated, disputed or matured.

Closing Letter

This is the letter sent out by the attorney when the file is closed. This is very important to forwarders for their records.

Collateral Security

A separate obligation which is given to secure the performance of the primary obligation in a contract.

Collection Agency

Is a company that helps creditors get paid

Commercial Claim

A commercial claim is a claim which arises from an obligation to pay for goods sold or leased, services rendered, or monies loaned for use, in the conduct of a business or profession. An "average" commercial claim may be defined for general purposes as \$1500.

Commission

A commission is the compensation payable by a creditor and earned by a receiver for his services in effecting collection of a claim, in whole or in part, and is normally contingent and computed as a percentage of the sum collected. Legal Terms related to debt, credit and its recovery.

Conditional Sale

An installment sale in which the goods are delivered to the buyer, but title remains with the seller until payment is made for the goods.



Conflict of Interest

When the attorney cannot handle the file sent to him as he may represent the debtor on other cases or for personal reasons.

Consignment

The shipment of goods or chattels by means of a common carrier from one party known as the consignor to another known as the consignee; also, the transfer of property to another for sale by him.

Consumer Claim

A consumer claim is a claim which arises from an obligation to pay for goods sold or leased, services rendered, monies loaned for use, in the conduct of a natural person. An "average" consumer claim may be defined for general purposes as \$500.

Conversion

In bankruptcy, the converting of a case from one chapter to another.

Conveyance

The transfer of an interest in realty; a deed. Sometimes includes leases and mortgages.

Cost Advance

A cost advance is a sum of money advance by the creditor to the receiver, as a fund from which court costs are to be expended.

Counterclaim

A claim asserted by the defendant in opposition to or deduction from the claim of the plaintiff.

Default Judgment

A judgment granted when the defendant fails to respond or appear.

Defendant

The alleged debtor against whom action is brought.

Demand Letter

Letter sent by the attorney's office when a claim is received. It notifies the debtor that the client has hired an attorney to collect the debt.



Discharge

Discharge of debts is the goal of the debtor in a bankruptcy filing.

Dismissal

An order terminating the case prior to its normal end.

Equity of Redemption

The right of a mortgagor to redeem his property after the mortgage is past due.

Escrow

The delivery by a grantor of a deed or of personal property to a third person for delivery to the grantee upon the happening of certain conditions.

Execution

The sheriff's attempt to enforce a judgment by searching for assets to levy upon.

Factor

One who has received goods or merchandise for sale on behalf of another.

Filed Answer

Debtor indicates that he owes the debt and will pay it or he disputes the debt.

Foreclosure

The legal act by which the owner of a mortgage cuts off the rights or interest of the mortgagor in the mortgaged property.

Follow-up

A date an attorney gives a forwarder advising when he will be able to report with further information on a claim.

Foreclosure

The legal act by which the owner of a mortgage cuts off the rights or interest of the mortgagor in the mortgaged property.



Forwarder

An attorney, a collection agency, a credit bureau, a credit insurance company, or any other entity which acts on behalf of the creditor as its agent which refers claims to attorneys for collection.

Forwarding Contract

A forwarding contract is the agreement entered into between the creditor (or the forwarder as the agent of the creditor and with the creditor's consent) and the receiver, specifying among other things the commission agreed upon between the receiver and the creditor as the receiver's compensation for effecting collection, in whole or in part, of a claim.

Garnishment

A directive from a court or other related authority directed to a third party to keep possession of property belonging to a defendant in a lawsuit in the event it is needed to pay off a debt, or to keep a portion of wages owed a defendant in a plan to pay off a debt.

Guarantee

To assume the liability for such debts of another in the event of his default.

Guaranty

A contract by which one undertakes to be liable to the debt of another person in the event of his default.

Indemnity

Compensation paid for damage or loss sustained or anticipated.

Insolvency

Condition of a person who is unable to pay his debts as they fall due. The general term is to be distinguished from a person who is bankrupt and whose liabilities exceed assets.

Joint Liability

Liability imposed upon two or more persons.



Judgment

This is when the court awards the client an amount officially owed by the debtor.

Judicial Lien

A lien obtained by judgment, levy or other legal proceeding.

Letter of Credit

A promise by a debtor's bank to pay the creditor upon presentation of specified documents.

Lien

The right to satisfy a debt out of certain property owned by the debtor.

Negligence

The failure by a reasonable person to use sufficient care, diligence and skill which he is required to use for the protection of others from injury or damage.

Non-Contingent Suit Fee

Money sent to the attorney for filing a law suit. The money is kept by the attorney whether or not the debt is collected.

Non-Dischargeable Debt

Certain debts are not included in the debtor's discharge. Some are automatically excluded. Others to be excluded require action by the creditor.

Nulla Bona

Return of writ of execution by the sheriff after a search has been made and no assets found.

Plaintiff

The party complaining in an action or proceeding.



Preference

Paying or securing to one or more creditors, by an insolvent debtor, of all or a part of a claim to the exclusion of other creditors. Also a right acquired by a creditor by statute or legal proceeding to have his claim satisfied out of the debtor's assets before other creditors.

Real Property

Land and everything that is permanently affixed to it.

Receiver

An attorney who becomes employed by a forwarder/creditor for collection of an account. As attorney for the creditor, to collect the same. Upon agreement of collection for the claim, the attorney-client relationship exists between the receiver and the creditor.

Reclamation

A term used in bankruptcy to denote a right or proceeding on the part of a person having title to property to recover the same when it is in possession of the bankrupt, debtor, receiver or trustee.

Rehabilitation (of a debtor)

A wage earner's plan; a type of partial bankruptcy where a debtor keeps property and pays a court-established portion of a debt.

Remittance

When a debtor makes payment to the attorney, the attorney puts the money into his account to clear. After it has cleared, the attorney makes a remittance to the forwarder, which is less his commissions.

Reorganization (under Bankruptcy Act)

Debtor reorganizes, rather than liquidates, and creditors claim future earnings of the bankrupt, rather than property presently held.

Replevin

An action to recover the possession of personal property taken or withheld from the owner unlawfully.



Satisfaction

The discharge of an obligation by paying a party what is due.

Security Interest

Any interest in property acquired by contract for the purpose of securing payment or performance of an obligation.

Settlement

This is when the debtor offers a sum of money or products to settle a debt.

Skip

This is when the debtor leaves the area in which he incurred the debt and cannot be located.

Skiptracing

A service an attorney uses in order to locate the debtor.

Status Report

This is a regular report that the attorney must write to the forwarder informing him of each and everything that is being done to collect the file.

Statute of Limitation

A law which limits the length of time within which a suit must be commenced before the right to sue is lost.

Suit Fee

Those moneys due counsel for professional services rendered for initiation of civil action. These moneys may be made, in whole or part, contingent. They are in addition to collection commissions.

Suit Filed

This is when an attorney files a law suit in the local court to have the court rule on the validity of the claim.



Suit Requirements

An attorney sends suit requirements to the forwarder when he feels a law suit should be started. This consists of court costs (filing fee), a suit fee and his commission percentage.

Summons

A writ or notice requiring a person to appear before a court to answer a complaint.

Trial Date

Once the law suit is filed, the court sets a trial date when the matter will be heard by a judge.

Turnover Proceeding

A summary proceeding authorized under the provisions of the Bankruptcy Act requiring a bankrupt to turn over property to a receiver or trustee for administration. It may also be used in connection with property belonging to the bankrupt held by a third person.

Usury

The charge of illegal interest.

Venue

Used to indicate the county, district or other place where a case is or will be tried. In many cases the law specifies the venue with particularity, such as the county of residence of one of the parties. The venue may be changed for the convenience of witnesses or other reasons.

Writ

An order issued from a court in the name of the sovereign or state directing the person named to comply with the directions contained therein. Under the common law all actions were instituted by the issuance of a specific form of writ and no cause could be instituted unless a recognized form of writ was executed therefore.