Choosing a Contingency Collection Agency

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The Ins & Outs of Contingency Debt Collection

You have heard reports of the economy bouncing back from one of the worst recessions in recent memory. But... that doesn't mean that consumers are always paying their bills. With those customers who do not respond to your business' correspondence, skip town or refuse to pay your business altogether, what can you do to increase your cash flow?

Contingency debt collections may just be the answer.

WHAT IS IT & HOW DOES IT WORK?

Contingency collections is used for customers that you are unable to reach and refuse to pay their past debt. It involves phone calls and written communications such as past due notices and certified letters - requiring no upfront or hidden fees. Collection companies that offer contingency operate under the mantra:

"If we don't collect, you don't pay."

It really is that simple. Therefore, it is in the debt collector's best interest to collect on your behalf. After all, debt collection companies have bills to pay, too. As part of the contingency method, there are other elements a collection agency will follow as part of a step-by-step process, including:

* Skip Tracing
* Legal Options
* Credit Reporting
* Asset Investigation
* Verbal Demands

SKIP TRACING - Consumers who fail to pay their debt will often "skip" town in hopes of avoiding paying your business. Skip tracing is a process that allows debt collection agencies to follow the debtor and hold them accountable using diplomatic means.

Skip tracing is essentially a data collecting and analyzing service, using such resources as credit reports, job application information, criminal background checks, utility bills, phone number databases, and social security, disability, and public tax information to find a person who skipped out. There are three types of "skips:"

* ***Out of Pocket*** - Difficult to locate, but not intentionally hiding, usually because of a job change, divorce or relocation. Generally strapped for cash, they react surprised when found.
* ***Intentional Skip*** - This consumer is often hiding from more than just debt, maybe family, police and the courts too. They do not want to be found and will go to great lengths to remain hidden.
* ***Fraud Account*** - No intention to pay from the beginning, used fraudulent information, maybe made a payment or two - if you're lucky. This is the hardest skip to locate.

LEGAL OPTIONS - After performing a skip trace, a collection agency can determine if taking a customer to court is the right course of action.

CREDIT REPORTING - If skip tracing methods prove to be ineffective in getting consumers to pay their debt, and the consumer is not taken to court, then a collection agency can ultimately impact the consumer's credit report. After all, why should consumers be able to run from their debt without any repercussions?

ASSET INVESTIGATION - Once skip tracing and credit reports have been conducted, an asset investigation may take place. This involves a nationwide search of public records to identify any and all assets held by a person or corporate entity. Typical findings of asset investigations include, but are not limited to:

INDIVIDUAL ASSET SEARCH

* Real estate and deeds
* Motor vehicle registration
* Criminal records
* Federal and State tax liens

CORPORATE ASSET SEARCH

* Real estate and deeds
* Judgments
* Bankruptcies
* UCC liens

VERBAL DEMANDS - This is where the collection agent makes phone calls to debtors using the information learned in the previous steps as leverage. Armed with the debtor's history, the agent is now able to effectively collect debt in better ways than a business using its own resources is able to.

Of course, one of the first questions you may have is, *"how much does contingency cost?"* The rate depends on many factors, including:

* ***Age of account***: Measured by the date of the last payment to the date placed

* ***Number of accounts placed***: Price discounts will often apply for larger volume and frequency of accounts placed

* ***Average debt balance***: The higher the balance, the lower the rate, vice versa

All factors considered, the contingency rate generally ranges from 20% - 50%.

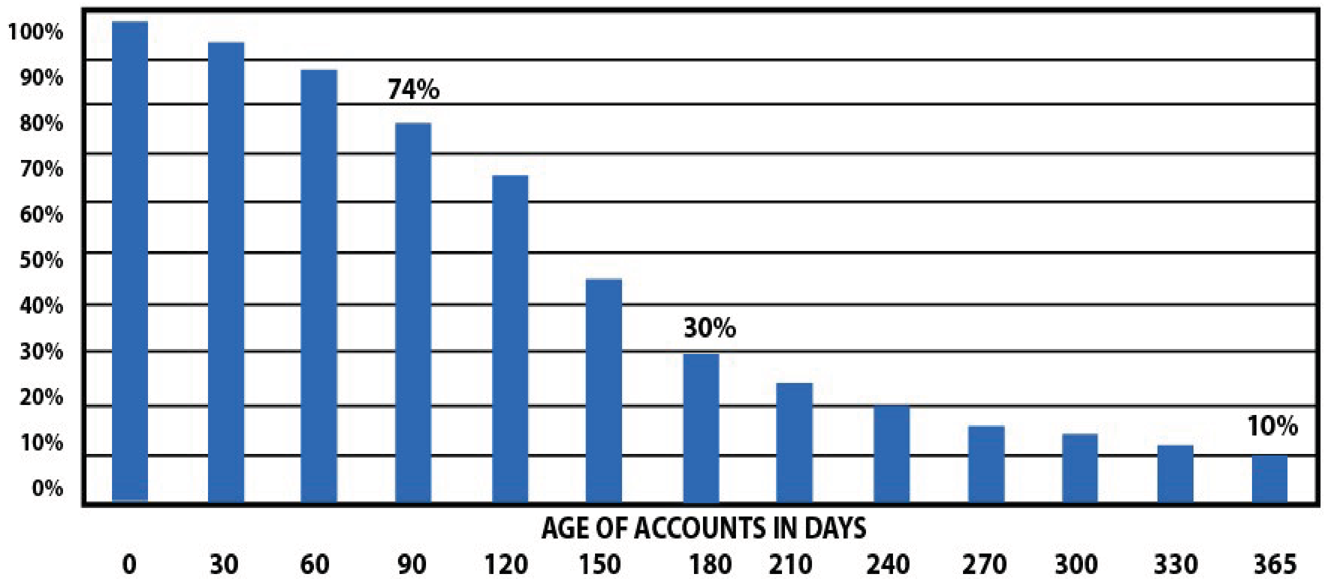
WHY USE CONTINGENCY?

Contingency debt collections is more aggressive than a flat-fee collection method. It is often used for the most stubborn customers and is the preferred method by businesses when:

* Customers won't pay
* Customers refuse to respond to a business' correspondence
* Your business has written off these bad accounts
* You need a more aggressive approach
* The customer has skipped town

WHEN SHOULD YOUR BUSINESS USE CONTINGENCY?

A contingency collection program is best used for customer accounts that are 30 days and older past due. Furthermore, as the chart below indicates, the longer an account goes unpaid, the harder it is to collect. For example, at 90 days delinquent, statistics show that only 74% of debt is collected. At 180 days and one full year, the collection rate drops significantly to 30% and 10%, respectively:



After all, why would a company want to pay out-of-pocket for accounts that are the most difficult to collect with the lowest chance of collectability? If a company could have collected this debt, it would have done so by now. Therefore, the smartest method to implement is contingency collections without paying an upfront, flat fee. You only pay if and when the agency collects.

WHO IS CONTINGENCY BEST SUITED FOR?

Contingency debt collection methods are best used on customers who have older debt because these accounts are typically the most difficult to collect. With that said, we have found contingency to be effective with both consumer *and* commercial debt.

CONCLUSION...

Contingency debt collections is often used because it does not require any upfront or hidden fees and uses both phone and written communications.

The aggressive nature of contingency collections allows agencies to skip trace customers and perform an asset investigation on them, among other things. There is no standard pricing structure because contingency weighs the age of the accounts, how many past due accounts exist and the average balance of each account. Finally, contingency collection methods are not limited to any one industry and are applicable to many business types.

Just because some customers are more stubborn than others does not mean they should get a pass on paying their past due bills. Your business has worked hard to earn sales, and you should not be forced to spend valuable time in collecting full payment. Don't be afraid to outsource your collections needs - let an expert handle it. You won't regret it!

About Optio Solutions

Optio Solutions, LLC is an accounts receivable management and debt collection agency offering diplomatic, customized, effective and flexible services designed to optimize pre-collections and collections.

Optio Solutions operates under a strict ethical code of conduct and is licensed in all 50 states. We earned the prestigious PPMS certification from ACA International, of which only 60 agencies worldwide can claim. We also maintain relationships with several other industry-related regulatory agencies including the Association of Credit and Collection Professionals and the California Association of Collectors. Optio Solutions is an accredited member of the Better Business Bureau (BBB) with an "A" rating. **Visit www.optiosolutions.com** for more information.

Optio Solutions, LLC.
1444 North Mc Dowell Blvd.
Petaluma, CA 94954

(800) 360-2827
clientrelations@optiosolutions.com
www.optiosolutions.com