

As debt grows, collections boom

The weakening economy has hit consumers hard and debts are piling up, driving a boom in debt collections.

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NEW YORK (CNNMoney.com) -- As the economy sinks deeper into a slump, Americans find it tougher to come up with extra money to chip away at their debts. And as the debt piles up, more consumers are getting calls from debt collectors looking for payment.

Debt collecting is a booming industry. Outstanding consumer debt reached \$2.59 trillion in September, an increase of \$6.9 billion over August.

There are roughly 5500 debt collection agencies nationwide that made more than 1 billion contacts with consumers in 2007, according to ACA International, a trade association for the collection industry. And most industry experts expect those numbers to grow.

"The fact that debt doesn't go away as fast as it used to is contributing to the increase in debt collectors," said Mark Neeb, owner of The Affiliated Group, a debt collection agency in Rochester, Minnesota.

Neeb attributes the coming collection boom to two things: First, the methods that collectors use have improved significantly and made the process more efficient, leading to the development of a secondary market, where a number of consumer debts are packaged together and traded between firms. As a result, older debts continue to resurface as they're shuffled around among different groups. Second, because of the change in the bankruptcy law in 2005, debt has become harder to simply wipe away.

And as credit card issuers, mortgage lenders and other companies are squeezed by the credit crisis, they will increasingly turn to third-party collectors to recoup old debts. As a result, the collection industry is poised to see expansive growth, according to David Polino, Better Business Bureau president.

"It's going to take time to see a real spike in collections," said Polino. "But, it's obvious that we have a national economic crisis on our hands and that's going to force those that are behind on their payments into collections."

As the economy turns further south, cash-strapped consumers let debt repayment fall by the wayside and collectors have to work harder to collect on it - and are using more advanced ways to do it.

Collection agencies are increasingly turning to technology to help close the circle on delinquent debtors. Michael Banasiak is the president of Predictive Metrics, a company that specializes in computer models that help collectors determine which accounts are recoverable using various scores.

"We are telling collectors the probability of payment and what that amount is likely to be. We are helping consumers get rid of their debt, while helping collectors target those consumers who are more likely to pay."

How debts are collected

The collections timeline starts when a debt is sent to a collector after being 90 to 180 days past due. Collectors will initially try to contact the debtor via mail or phone. If they're unable to reach the debtor, they must turn to other methods.

In cases when the subject is unreachable, companies use a variety of tools to track down the debtor, including Internet searches, database searches and a practice called "skip tracing." In this case, a collector can look into a debtor's information to find friends, family members, neighbors or even employers who might be able to give the location of the consumer.

Skip tracing used to be done by hand, but these days advanced computer models are able to cull large amounts of data in a very short time, making the practice much more common. According to ACA International, in 1995 only about 25% of debt collectors used this technique. Today more than 90% skip trace.

Once a debtor is contacted, the collector works with the consumer to come up with a payment plan. Generally the terms of the plan are negotiable -- especially in today's environment. According to Mark Neeb at The Affiliated Group, creditors are more willing to skip the monthly payment plan models. As companies are increasingly strapped for cash, creditors are willing to collect lump sum payments, in exchange for reducing the total debt owed.

"The creditors are open. They are more interested in receiving what they can get in a lump sum today than they are in what they can get over a longer period of small payments."

Protect yourself

Even though some collectors are touting a new "softer, gentler" approach with consumers as a result of the downturn, not all of them follow the rules. With a boom in collections, experts expect the number of complaints to increase as well. Last year the Better Business Bureau and Federal Trade Commission combined logged almost 100,000 complaints against bad debt collectors.

The best way to protect yourself from unethical debt collectors is to know your rights. Here are a few laws that debt collectors must follow, according to the Fair Debt Collection Practices Act:

- Within the first five days of receiving your account, collection agencies are required by law to contact you and "verify the debt" -- provide documents that prove the debt belongs to you.
- If a customer requests verification, a debt collector cannot continue to try to collect until verification is provided.
- Collectors are only allowed to contact a consumer at home between the hours of 8 a.m. and 9 p.m.
- A collector cannot contact you at work, but they can legally contact your current employer to verify that you work for the company. They cannot ask for your work phone number, supervisor's name, dates of employment or other information.
- If, after a prescribed amount of time, a collector is unable to contact you, they can employ other tactics including Internet searches, Lexis-Nexis searches and credit bureau file look-ups. They then can contact friends, relatives and neighbors in the attempt to get in touch with you.
- The collector is not allowed to disclose anything about the debt to your associates, family or friends unless you have authorized it in writing. They may however, ask for a few digits of a social security number or an address to try and verify that you are the debt holder.