



CONSUMER FACT SHEET – DEBT COLLECTION

Background

A debt is passed to an agency for collection once all other means of collection by the original creditor have been exhausted. The original creditor may be a bank, building society, credit card company, a utility, mobile 'phone company, or even the government and its various agencies such as HMRC, the DVLA, DWP etc.

Size of the debts may vary. Although some consumers may wonder why they are being pursued by a debt of c£100, if a government department or utility is chasing 50,000 such cases then the total amount outstanding is £5 million!

The debt at this point may be typically six months old. It can be younger ('fresher'); it can be older.

The debt is not 'sold' to an agency. It is 'placed' with an agency for collection on the creditor's behalf, and they will act in the full knowledge of the creditor as their 'agent'.

The agency will typically operate on a 'no win no fee' basis: it will be paid a commission on what it recovers, hence the term 'commission' debt.

The process

The process debt collection agencies follow is similar to those employed by the creditor's own in-house teams.

Initial contact is usually by letter, confirming the debt owed and instructing the debtor to make contact with the agent to settle the outstanding balance.

If the initial contact is ignored, further correspondence may be sent, and the risk of legal action may be suggested.

Concurrently, the agent will attempt to contact the debtor by 'phone, email, and more frequently now, text messages will also be sent. The agent may attempt to contact the debtor at home in the morning or evening – i.e. outside of usual working hours – and sometimes at work if previous attempts at dialogue have been ignored.

For larger balances, the agent may consider the use of a doorstep collector, but again usually only if all other means of making contact have failed. Doorstep collectors are usually local to the area, and highly trained in all aspects of face-to-face debt recovery.

The ultimate sanction is litigation, but again this tends to be selective, based on the amounts outstanding, and the estimated chance of recovery.

Creating the dialogue

At every stage of the process, the agent is attempting to create a dialogue with the debtor. It is trying to distinguish between those that cannot pay, and those that will not pay.

Ignoring the contact is unlikely to be received favourably by the agent or the original creditor, and is more likely suggest an unwillingness to pay rather than genuine financial distress.

It is essential that the debtor does not stick their head in the sand. Ignoring contact will create more problems than it solves.

Why are debt collectors used?

In-house credit management teams tend to be busy people. As well as collections, they have other responsibilities. Debt collectors, however, have only one focus. Collections. They are expert at it. Their employees are experts at it, and have experience and exposure to thousands of debtors and debt scenarios every week.

It is a fact of life that some consumers simply do not take a debt seriously until it is passed into the hands of a third party. At that point, the debt attains a new level of 'seriousness', and on many occasions the very first contact by an agency is sufficient for a debt to be settled.

Debt collection agencies also have a depth of resource that is simply not practical in an in-house team. As well as trained negotiators, they also have specialists in litigation, field investigations and doorstep collection. Whilst some see doorstep collectors as intrusive, others are known to favour a personal contact in order to discuss their debt and agree a repayment plan.

Unfortunately the media tend to confuse doorstep collectors with bailiffs (see *Consumer fact sheet - Bailiffs*). They are also predictably but quite wrongly compared to certain cinema villains – a misrepresentation that does little to add to mature debate.

FOR FURTHER INFORMATION PLEASE CONTACT THE CSA – 0191 286 5656

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