Starting and Managing a Collection Agency

ACA International – The Association for Credit and Collection Professionals, has developed this brochure to assist professionals interested in starting and managing their own collection agency. After reviewing the literature, ACA encourages you to consult with your own attorney and accountant to see what steps and resources you will need to get your agency up and running. This information is not intended as legal advice and may not be relied upon as legal advice.

What is a debt collection service?

When a consumer purchases a product or service on credit, the sale is not complete until payment is in the hands of the individual or company that extended the credit. Credit is now easier to obtain than ever, but obtaining and using credit leaves many consumers overextended and unable to repay the debts they have accumulated. Consumer debt has long been on the rise as people rely on credit cards, charge accounts and installment loans for their everyday purchases.

Unforeseen circumstances such as illness, death or job loss often plunge consumers into a situation in which a dramatic decrease in income makes meeting financial obligations difficult. Unfortunately, some consumers also run up debts without intending to pay them off. The accumulation of bad debts is often countered by businesses raising consumer prices. However, since there is a limit on how high prices can be increased before businesses begin losing customers, bad debt also contributes to business failure and job loss.

Third-party debt collection firms work with credit providers to secure payment of debts that – for whatever reason – have gone unpaid. Professional debt collectors locate consumers, determine why a debt is not being paid and try to work out a mutually agreeable payment plan.

What is the main difference between first-party and third-party collectors? Third-party debt collectors are directly regulated by the Fair Debt Collection Practices Act (FDCPA), which is enforced and administered by the Federal Trade Commission (FTC). The FDCPA sets forth strict guidelines designed to protect consumers from abusive, misleading and unfair debt collection practices. First-party collectors are credit grantors or collection firms servicing debt in the credit grantor's name and are covered by the FDCPA only under certain circumstances.

Establishing a collection service

Debt collectors will be the first to tell you that there is a big difference between working for someone and owning your own business. Many magazines and other publications list the collection industry as one of the fastest growing industries, but also lead readers to believe all they need to run a successful collection agency is a fax machine and a telephone. Starting and managing a professional accounts receivable management company takes much more than that. It requires significant investment in technology and facilities and a considerable amount of education and training to comply with the many federal and state regulations. If you are thinking about opening your own collection service, consider the following:

Do you understand, and are you willing to study, the mechanics of the credit industry?

To be a successful debt collector, previous experience in credit and collections is a necessity. You can read everything written on the subject, but nothing can replace the direct experience of collecting accounts.

Do you have sufficient start-up capital to operate the business until it becomes profitable?

More collection businesses fail because of inadequate capital reserve than for any other reason. You may project monthly revenues of several thousand dollars, but even that won't guarantee a profit. It will take time to establish a clientele and a steady stream of accounts that will enable you to cover your business expenses. Before you collect your first account, you should already have enough collection business secured to carry you for the first six months. The average industry-wide recovery rate was 18 percent during 2002, according to ACA International's 2003 Benchmarking/Cost of Operation Study. If your service is efficient, average operating costs are 25 percent of gross collections, according to the 2003 ACA survey. Using these statistics, you should be able to determine the overhead and the capital necessary to sustain your business. However, most collection professionals would agree that it takes about a year to attain these averages with new clients.

Will you be able to gain support in the business and professional community?

Gaining and maintaining clients and public support hinges on an agency's efficiency, sincerity and professionalism when dealing with the creditors, the consumers and the community. Creditor-clients rightfully expect their collection agencies to provide accurate statements, scheduled remittances and regular updates on the status of their accounts. Clients also expect debt collectors to preserve the creditor’s good name with consumers by exhibiting courteous, dignified conduct when talking with consumers.

Remember, debt collection is a service industry. Listening to your clients, meeting their needs and exceeding their expectations are vital to survival in a competitive marketplace. However, do not overestimate the level of commitment from your client. When establishing new accounts, determine consistent placement patterns and the accurate starting date of these placements. This way you will not encounter unnecessary expenses such as overstaffing. Also, decide beforehand how placements will be received – most clients will require electronic placements and remittance of funds. This will help determine your staffing needs and costs of operation.
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Do you have the patience and confidence necessary to collect from consumers?

Gentle yet persistent effort is essential in the collection of past-due accounts. Losing your patience, regarding consumers as deadbeats and treating them with contempt are unprofessional, unsuccessful and potentially illegal ways to handle accounts. These attitudes may lead to lawsuits based on claims of harassment and threatening remarks. Successful collectors listen to consumers, determine their ability to pay and cooperate with them to arrange a workable payment schedule. By taking a simple, consumer-oriented approach, collectors experience a higher recovery rate and avoid legal difficulties, while gaining the respect of their clients and consumers.

Are you familiar with federal laws governing collections?

As a service industry there are many laws that govern the collection industry. The following is a list of a few key laws regulating the industry:

- Fair Debt Collection Practices Act (FDCPA) (15 U.S.C. § 1692 et seq.): Before making your first collection call or mailing your first collection notice, be certain your practices are in complete compliance with the FDCPA, the federal law governing collection activities of third-party debt collectors. Any violation of this federal statute can cause serious problems for your new agency. The Federal Trade Commission offers information and business guidance regarding the FDCPA. For more information visit the FTC web site at www.ftc.gov. ACA offers numerous seminars throughout the nation on the FDCPA. For more information on ACA’s educational seminars visit ACA’s Web site at www.acainternational.org. ACA’s Guide to the Fair Debt Collection Practices Act provides a section by section breakdown of the Act, including: the text of the statute; explanations; legislative description and intent; FTC commentary and informal staff letters; FTC consent agreements and lawsuits; and, summaries of court decisions under the Act. To order your copy, call the ACA Member Services Department at +1(952) 928-8000, ext. 711 or visit the store link on the ACA Web site.

- The Fair Credit Reporting Act (FCRA) (15 U.S.C. § 1681 et seq.) is a federal statute that regulates the activities of credit reporting agencies, users of credit reports and those furnishing information and data to credit reporting agencies. It also details consumer rights with respect to consumer credit reports. You should develop procedures to assure compliance with this law and be aware of how it can affect debt collecting, using and selling credit reports and furnishing information to credit reporting agencies. For more information on the FCRA, visit the FTC Web site at www.ftc.gov. To order the ACA publication “A Guide to the Fair Credit Reporting Act for Credit Collection Professionals,” contact ACA’s Member Services Department at +1(952) 928-8000, ext. 711 or visit the store link on ACA’s Web site.

- Health Insurance Portability and Accountability Act (HIPAA): Enacted in 1996, HIPAA significantly affects debt collectors, billing services and accounts receivable businesses that provide services to healthcare providers through three sets of regulations; the Electronic Transaction Standard, the Privacy Standard and the Security Standard. A covered entity (CE), as defined in the regulations, must enter into certain agreements with all of its business associates (BAs). A “business associate” is defined as any person or entity that performs or assists in the performance of any function or activity regulated by HIPAA, including payment, such as billing or collections.

Among other provisions, the Privacy Standard requires that a CE may disclose protected health information (PHI) to a BA and a BA may create or receive PHI on behalf of the CE only if the CE obtains satisfactory written assurance that the BA will appropriately safeguard the information. The HIPAA regulations include both required and optional provisions for such an agreement. The requirements are quite complex and have a substantial impact on the collection of health care debts. There is no “one size fits all” agreement. Each agreement must be specifically tailored to fit the specific services performed for each separate covered entity with which the collection agency, or other business associate, conducts business. Further, billing services that submit or resubmit claims to insurance companies, may be a “healthcare clearinghouse” and therefore fall under the definition of a Covered Entity. If so, the billing service will be required to comply with all aspects of HIPAAA and its regulations, not just the requirements of its business associate agreements. For additional information, visit the Department of Health and Human Services Web site at www.dhhs.gov, the ACA Web site at www.acainternational.org, obtain a copy of ACA’s HIPAA Implementation Guide (available through the Member Services Department and the ACA On-Line Store) and consult your own attorney.

Gramm Leach Bliley Act (GLBA)

The Privacy Rule: The GLBA Privacy Rule imposes a requirement on financial institutions (FIs) to provide its privacy policy and an opt-out notice to consumers with whom the FI has a customer relationship. The FI is required to provide the notices to these individuals at the time the customer relationship is established. The disclosure notice must include the FI’s policies and practices with regard to the disclosure of non-public personal information to affiliates and non-affiliated third parties. The disclosure must state how such information will be gathered and to whom it will be released.

Disclosures of information between a creditor and a collection agency are exempted from the privacy notice and opt-out requirement because this type of disclosure of nonpublic personal information is necessary to effect, administer, or enforce a transaction that the consumer requested or authorized. Of vital importance is the requirement that the individual be given the opportunity to opt out of the FI’s release of any information that falls into the GLBA’s definition of non-public personal information. Non-public personal information is defined as (i) personally identifiable financial information; and (ii) any list, description, or other grouping of consumers (and publicly available information pertaining to them) that is derived using any personally identifiable financial information that is not publicly available. Personally identifiable information includes information that a consumer provides to a FI to obtain a financial product or service from the FI; information about a consumer resulting from any transaction involving a financial product or service between the FI and a consumer; or information a FI otherwise obtains about a consumer in connection with providing a financial product or service to that consumer.
While traditional third-party debt collectors technically fall under the definition of “financial institution,” they do not have to comply with the privacy notice and opt-out requirements of GLBA unless the agency purchased the accounts, locates the consumer and attempts to collect the debt. A traditional third party debt collection agency that is collecting debts for another does not have the requisite “customer relationship” with the individual consumer that would trigger the privacy notice and opt-out requirements.

The GLBA Safeguards Rule: The Safeguards Rule requires each FI to develop a written information security program that is appropriate to its size and complexity, the nature and scope of its activities, and the sensitivity of the customer information at issue. The Safeguards Rule only applies to information about a consumer who is a “customer” of the FI. The Final Safeguards Rule covers not only FIs that collect nonpublic personal information from their own customers, but also financial institutions that receive customer information from other financial institutions. The Final Safeguards Rule covers a wide range of entities, including: consumer reporting agencies, debt collectors, retailers that extend credit by issuing credit cards to consumers, check-cashing businesses and many other entities.

Soldiers’ and Sailors’ Civil Relief Act (SSCRA): The Soldiers’ and Sailors’ Civil Relief Act of 1940 (50 App. U.S.C. §§ 501-593) is designed to give service personnel relief from obligations and liabilities they may have entered into prior to entering military service or for reservists or members of the National Guard being called to Active Duty. The Act also covers Coast Guard personnel, as well as Officers of the Public Health Service and the National Oceanic and Atmospheric Administration. The Act impacts leases, evictions, installment contracts and mortgage foreclosures, default judgments, civil lawsuits, as well as the execution of judgments. Some of the Act’s provisions are automatic, while other provisions, such as a cap on interest rates, require action by service members. In order to take advantage of some of the provisions, the service person must affirmatively assert their rights under the SSCRA and somehow demonstrate how their ability to pay their debts or represent themselves in court is “materially affected” by their military service. This standard can be met if a service person’s duty location prevents them from representing themselves in court or if their military income is less than their pre-service income.

Bankruptcy: Collectors and creditors must continually look out for consumers who file for bankruptcy to assure that automatic stay of bankruptcy is not violated. It is often difficult to determine when a consumer has filed bankruptcy. Formal notice is not required for you to “have knowledge” of a bankruptcy filing. Reasonable hints, clues and third-hand information about a potential bankruptcy filing should be followed up on to find out if the consumer has filed. If a consumer has filed for bankruptcy, the automatic stay of Bankruptcy Code, 11 U.S.C. § 362 goes into effect immediately upon filing and freezes all attempts to collect. Even an unintentional violation can lead to a contempt of court sanction. A willful violation of the stay can result in an award of punitive damages even if the actual damages are minimal.

Whether a consumer is seeking a complete discharge of all debts under Chapter 7 of the Bankruptcy Code or plans to pay off some of his/her debts through a reorganization plan under Chapter 11 or Chapter 13 of the Bankruptcy Code will impact how a collection agency should proceed. Regardless of the nature of the bankruptcy filing, the automatic stay still applies.

Can you meet the requirements of your state?

Regulations often vary from state to state. Most states have laws governing the procedures for collecting delinquent accounts and have licensing, bonding and trust account requirements for debt collectors attempting to collect from consumers located in a particular state. Several states require that debt collection agencies obtain a collection agency license. In addition, many states require that a business register with the Secretary of State or file a Certificate of Authority, which allows you to transact business in the state. Further, a number of states require a registered agent, a resident manager, and/or a resident office, along with individual licenses for each debt collector or employee of the company.

The requirements are quite complex, vary from state to state and can cause considerable liability if done incorrectly. Contact the local Secretary of State’s Office or the state Licensing Authority for state-specific information. The publication, “ACA’s Guide to State Collection Laws and Practices,” offers a state-by-state guide to various consumer collection laws, to order a copy contact ACA’s Member Services department at +1(952) 928-8000, ext. 711 or visit the store link on ACA’s Web site. You should also consult your own attorney regarding state specific requirements.

Are you willing to spend a minimum of 10 to 12 hours a day, six days a week, with the business?

Anyone who has started their own business will attest to the huge demands it makes on your time. Forget about nine to five. You are now responsible for every facet of the business: making out the payroll, training new employees, handling difficult clients, arranging to have the carpet cleaned…you name it. Your agency’s future hangs on your attention to detail and your willingness to put in the extra time needed to make the business successful.

Collection and record keeping

Your procedures for setting up new accounts and monitoring action on current accounts are vital to the success of your collection business. Due to privacy laws, specifically regarding Protected Health Information (PHI) and non-public personal information, proper handling and storage of consumer data is critical to maintaining compliance and limiting liability exposure for you and your clients. A few good collection procedures include providing:

- An acknowledgment to your client for accounts received.
- A first (written) notice to the consumer stating that you have been assigned the account and that the consumer has the right to dispute the debt within 30 days. Be aware of required language – such as the Mini-Miranda and Validation Notice – which must be included. For more information on the Mini-Miranda and Validation Notice, contact ACA’s Member Services Department at +1(952) 928-8000, ext. 711 to request a copy of “A Guide to the Fair Debt Collection Practices Act” and consult your own attorney.
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- A computer system that records all collection attempts and indicates when the account requires further action. If using collection software, this information should be available when the account is called up on the collector’s computer screen.

- A client accounting module that provides reports such as listing the value of accounts referred to you by each credit grantor and your success in collecting their accounts. This helps you determine which clients are generating revenue for your company.

- Accurate collection form letters that meet compliance guidelines. These should be reviewed routinely to ensure compliance with state and federal laws. An attorney familiar with collection laws should also review your collection notices. The ACA Members Attorney Program (MAP) can refer you to an attorney in your state; you can search the MAP Rosters on ACA On-Line at www.acainternational.org or contact MAP at (952) 926-6547 for more information.

- An accounting system that provides complete and accurate information for you and your clients. It may be wise to consult a public accountant for help in setting up your records to be certain you are complying with federal and state tax and Social Security regulations.

- A separate trust fund at the bank for money you collect for clients. This precludes the likelihood of using clients’ funds for your own expenses. At least every 30 days (or as required by state law or contractual requirements), remit the amount due to your clients after the commissions are deducted. Some clients may ask you to return the entire amount collected and then they will remit the commission back to you. In some states, you will be required to maintain a separate trust fund for each client.

Solicitation of accounts

The first step in obtaining new business is to get your company’s name in front of as many potential clients as possible. Most owners will tell you that they started their businesses with personal contacts and networking, followed by marketing. The possibilities for marketing your firm are endless, but here are some ideas:

- Participate and network in local organizations, such as the Chamber of Commerce or Business Referral Organizations
- Sponsor community events
- Send direct mail pieces
- Develop an ad campaign in local business publications
- List your business in the Yellow Pages

Once your name is in circulation, follow-up with personal contact. Because debt collection is a service industry, you must be skilled at selling yourself as well as your services. Be a good listener. Ask the potential client to explain his or her needs and then discuss what your company can do to help.

When describing your services, be specific. Clients are demanding more and more services than just the core third-party collection practices of the past. Outsourcing is an area of the accounts receivable management industry that is growing rapidly as clients analyze the services they will retain for their accounts receivable work. Therefore, arm yourself with facts about your staff and its capabilities, your planned regular remittance, trust accounts you provide for the client, bonding coverage and affiliations with other firms across the nation.

Be friendly and positive – the type of individual with whom the client will enjoy doing business. After the initial contact, you’ll need to develop a good working relationship with your clients to continue to receive their business. Call occasionally to discuss the progress of their accounts and ask for their advice on how you can do a better job for them. Sometimes it’s the little things that matter with clients. By going out of your way for them, you are showing that their business is important to you. As clients modernize and automate their operations, you must be prepared to follow suit. If they place their accounts online or adopt Electronic Data Interchange (EDI) standards, you will need to be equipped and prepared to respond to their changing needs or risk losing their business.

Always be on the lookout for prospective clients. Remember, marketing studies have shown that a satisfied customer can be your best advertisement.

Purchasing supplies

If you think furnishing a home is expensive, wait until you start buying office equipment. Chairs, desks, lamps, shelving, carpeting, computers, telephones, auto-dialing equipment, fax machines…the list is endless and could quickly drain your budget. Assess your immediate needs and begin with only the essentials, gradually upgrading as you go along. You can find serviceable, used office equipment in most stores carrying business products. Don’t forget: If your budget is very limited, some stores will allow you to lease office equipment.

Since much of your business will be conducted by phone, it is important to find a telephone system that fits your needs. Find a system with several telephone lines and voice mail service, so clients and consumers have greater access to your business. Compare and contrast the various systems on the market by making a list of your specific needs and inviting vendors to demonstrate how their systems meet your requirements. Also, be sure to compare several vendors for local and long distance telephone charges. Due to the nature of the business, telephone costs will be one of the highest expenses your company will incur.

Technology

Competitive marketplace pressures are forcing all businesses to produce more for less and the collection industry is no exception. In an increasingly competitive environment agencies are forced to boost productivity and recovery rates while trimming expenses or risk losing their clients to another firm. The technology revolution has made this possible by expanding the capabilities and functions of the collection office. Today, running a collection business without a computer system is almost unheard of. In fact, a recent survey of ACA
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members revealed 100 percent use in-house computer systems up from 94 percent just two years earlier (ACA International's 2002 Compensation & Collection Agency Operations Study).

Investing in various technologies such as collection-specific hardware and software, Internet services, Electronic Data Interchange (EDI) and automated dialing systems enables offices to improve productivity by allowing collectors to spend less time on paperwork and more time on the phone with consumers. Technology also gives managers faster and easier access to information on accounts, client records and daily finances. However, this is also a huge investment and very costly to maintain properly.

Most collection software packages in the modern collection office include:

- Electronic placement of new accounts
- Acknowledging new accounts
- Creating a master file of delinquent accounts and consumers
- Electronic transfer of funds from consumers and to clients
- Electronic forwarding of files between agencies
- Recording information to keep active files current
- Transferring accounts from the active file to a forwarding file
- General business functions, such as payroll and accounting
- On-line skiptracing to locate consumers
- On-line capabilities for client access to information and reports
- Web site integration
- Auto dialer or predictive dialer compatibility
- Integration with telecommunication systems such as IVRs and outbound call centers
- Reducing time spent on busy signals and no answers
- Maximizing consumer contacts

Insurance Requirements

In many states, you will be required to maintain a statutory bond. The amount of the bond is dictated by state statute. The bond is on file with the state and used in the event funds are not paid to your creditor clients. A bond is different from insurance in that the owner(s) of the company agree to pay back any losses that arise from claims against the bond. In addition, because you will be collecting funds that belong to your client(s), many clients will require you carry a Client Contract Bond. This is different from a statutory bond because it is made out to a specific client only.

Most clients will also require that you carry proper insurance including Errors and Omission Liability, General Liability (found with property coverage on ACA's Business Package Policy), Workers’ Compensation, and Commercial Crime (Employee Dishonesty). Many clients will specify their required coverage limits for these policies.

These insurance policies make up the basic coverage portfolio needed by those in the collection industry to adequately protect their interests.

Legal assistance

You should be aware of the collection procedures you can administer and which procedures must be handled by an attorney. You must also be informed about state laws and regulations regarding the following:

- State requirements
- Special text requirements for collection notices
- Instituting lawsuits
- Statutes of limitations
- Responsibility of husband and wife for each other's debts
- Responsibility of minors for their own debts
- Your rights in bankruptcy proceedings
- Judgments against salary and property to repay the debt

Plainly stated, it is imperative to obtain competent credit and collection legal advice before making your first contact with a consumer. Your attorney can also advise you on wage and hour restrictions, bonding and licensing requirements, your personal liability as a collection firm operator and other regulations affecting business in your community.

Selecting a location

Take a close look at the community where you intend to locate your business. Determine if the local economy is active and diversified enough to make your collection firm profitable. A community that depends greatly on one industry — steel or agriculture for example — would be especially hard hit during a slump in that industry. The aftershock of this slump could put you out of business. As a general rule, there should be at least 500 credit grantors for each collection service in a given market area.
Try to locate your office in or near the city's financial district. If you plan to specialize in a particular type of account, you may wish to locate near your potential clients. For example, if you are handling medical accounts, you could be housed in a building occupied by medical professionals.

Whether you are building or leasing, be sure to consider the possibility of future expansion. Every business owner is striving for controlled growth, which may require more space for additional equipment and staff. Check with your local Chamber of Commerce to see if they offer funds for economic development and employment opportunities.

### Choosing a name

The name of your business should be dignified, easy to remember and distinguishable from names of other businesses. Select a title that reflects the services you perform. It is illegal to use a name that implies affiliation with a government agency. Also, unless you operate a bona fide credit reporting agency, the FDCPA prohibits you from presenting yourself as a consumer reporting agency and using the phrase “credit bureau” and the like in your name. Please note state laws may further restrict options for naming your agency.

### Buying a collection firm

Rather than starting your own firm, you may be interested in buying an existing business. This will demand more start-up capital and possibly require you to go deeply in debt. However, you could acquire an established clientele, a group of experienced employees and the firm's good reputation in the community. These positive attributes may offset the additional cost and allow you to hit the ground running as a collection manager.

Several complex legal issues may arise when purchasing a collection agency; therefore, ACA strongly encourages consulting an attorney and a Mergers and Acquisitions (M&A) Advisor that specializes in credit and collection companies before making a purchase. To find a collection firm for sale in your area, check the business section of your local newspaper or the classified section of Collector, ACA's monthly magazine. To order a yearly subscription to Collector call +1(952) 928-8000, ext. 710 or visit the store link on ACA's Web site. Industry M&A Advisors may also be a good source for this information.

The asking price for a collection firm reflects its annual commission earnings, number and quality of clients, the economic outlook for the region, quality of its workforce, growth prospects and the value of the office equipment. The following are some guidelines for determining if a business is priced correctly.

### Valuing A Collection Company

The basic guideline to determine the value of a collection company is to calculate the company's EBITDA (earnings before interest, taxes, depreciation and amortization). The calculations are made using figures for a complete fiscal year. The formula for calculating EBITDA is as follows:

Profit before taxes $_________
Add:
  Interest Expenses $_________
  Depreciation (amortization) $_________
  Controlling Shareholder's Compensation (salary & bonuses) $_________
  Controlling Shareholder's “Excess Benefits”* $_________
Other Non-Recurring Expenditures $_________
Subtotal: $_________
Subtract:
  Cost to Replace Departing Shareholder(s) (Salary and bonuses of person taking over departing shareholders responsibilities) $_________
EBITDA: $_________

* Excess benefits are expenses paid by the company that normally benefit the owner, but would no longer be paid by the buyer. Examples include country club dues, excessive auto expenses, postage, personal entertainment, meals, personal travel, etc.

The price paid for the company is often figured as a multiple of its pre-tax cash flow or EBITDA. The value of the agency is based on a negotiated multiple of the total of the formula. A range of 3.5 to 6 times the EBITDA is considered standard. Another way to look at this is to apply a capitalization rate to the EBITDA amount. The most commonly used capitalization rates range from 33 percent to 16 percent. A 33 percent rate could be applicable for the smaller agencies with fewer, if any, competitive advantages. This capitalization rate can be translated into a multiple of EBITDA. For example, a 25 percent cap rate is equivalent to a 4.0 multiple and 20 percent cap rate would equate to a 5.0 multiple.

There is no simple answer for determining the multiple or capitalization rate. The more common factors that determine the EBITDA multiple are:

- Predictability of cash flow. The greater the predictability of the earnings stream, the larger the multiple and the lower the percent.
- Concentration of clients. The greater the percentage of business applicable to one client, the lower the multiple.
- Management in place. A higher value is placed upon companies with greater quality of management depth.
- Company size. The larger the company, the higher the multiple.
- Equipment. The more technologically advanced the company, the greater its worth.
Quality of client base. Long-term clients create a higher value compared to companies with a high turnover of clients.

Other factors. Geographic location, years in business, quality of inventory of accounts in-house, level of perceived owner identity versus an easily transferable client base, the state of the economy and specific market niches all play a part in this subjective equation of value.

The valuation of a collection agency is a subjective exercise that cannot be accomplished with simplistic rules. The above calculation and information can be used to get an idea for how much a company is worth. Determining the value of a collection company requires the skillful analysis of the specific attributes of each company. The valuation of any business enterprise is not an exact science and many economic, industry-specific and company-specific factors determine the final valuation. A professional consultant with experience in valuing collection firms should be used for a more definitive value.

Joining a professional association

Membership in a national, professional association of credit and collection firms will give you standing in your profession and respect in your community. Associations are valuable resources for educational materials, market research and updates on laws and regulations. They also provide a forum for you to exchange ideas with your peers in the industry.

ACA International, The Association of Credit & Collection Professionals is an international trade organization of third-party debt collection businesses and credit granting companies, with approximately 5,300 members providing credit and collection services. Headquartered in Minneapolis, ACA serves members in the United States, Canada and 58 other countries worldwide. In addition to placing you in a worldwide network of collection agencies and credit grantors and offering a number of other benefits and resources, your membership in ACA offers you:

- The ability to apply for all of ACA's insurance, bond, and licensing products and services offered through ACA’s Risk Management Department.
- Telecommunications group purchasing program, including local, long distance, data, voice and directory assistance services.
- Educational opportunities including degree and certificate programs, seminars and teleseminars on a variety of credit and collection issues and numerous meetings.
- Access to the Professional Practices Management System (PPMS), which provides certification to “best practice” agencies.
- Special programs and resources for those specializing in check, healthcare and government collections.
- Access to ACA On-Line, a Web site containing a wealth of industry information and resources.
- Collector magazine and numerous newsletters, brochures and publications.
- ACA Newslink – a weekly electronic newsletter that provides you with up to the minute information regarding the credit and collection industry.
- Access to ACA’s numerous compliance resources, including the Compliance Team.
- Representation of your interests before state and federal legislatures.
- Attorney training and education on the laws and regulations affecting the collection industry.
- Access to ACA’s Fastfax program.

For additional information about membership in ACA, contact:

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Attn: Membership Department
P.O. Box 390106
Minneapolis, MN  55439-0106
Telephone: +1(952) 928-8000
Fax: +1(952) 926-1624
E-mail: membership@acainternational.org.

Please note, before contacting ACA's Membership Department your agency should be up and running and a clientele list established.

A growing business

These are optimistic times in the debt collection industry. With a projected increase of 68.4 percent, more new jobs are expected to be created in the credit reporting and collections industry by 2005 than in any other small-business-dominated industry in the country, according to U.S. Small Business Administration (SBA). Furthermore, during the same time frame, the SBA places credit reporting and collections as the fourth fastest growing small-business-dominated service industry in the nation.

Collectors have also benefited from a new kind of relationship with their clients. Today’s collectors are not merely a last resort for past-due accounts; rather, they are advisors and partners to their clients, helping them to extend credit wisely, identifying risks and recovering delinquent bills when the communication system breaks down with individual consumers. Collection agencies are experts in credit and collections. Because of their direct participation in the credit market, collectors are now recognized as vital players in the economy.

Receiving billions of dollars annually for collection from retail, professional and wholesale businesses, members of ACA make the difference between profit and loss for a number of industries. As long as there is credit, there will be a need for collection services. As the use of credit increases, the role of the collection agency will also grow in importance.
ACA thanks member George Goodyear of Charlotte, NC for his contributions to this brochure.

THIS INFORMATION IS NOT INTENDED AS LEGAL ADVICE AND MAY NOT BE USED AS LEGAL ADVICE. IT SHOULD NOT BE USED TO REPLACE THE ADVICE OF YOUR OWN LEGAL COUNSEL. ANY INFORMATION CONTAINED IN THIS MATERIAL IS BASED ON CURRENT RESEARCH INTO THE ISSUES AND ON THE SPECIFIC FACTS INVOLVED HEREIN.