

Dealing with collectors can often be more confusing and confrontational than working with an original creditor. While it is often necessary to deal with debt in collections, especially in order to avoid further financial consequences like wage garnishment, it is important to be strategic and purposeful when paying collections and negotiating with creditors.

Dealing with Collections from a Credit Building Perspective

Paying off debt and collections, while often necessary and important, is not a credit building strategy in and of itself. However, paying collections can be essential to financial stability and peace of mind. Despite the potential negative effects of paying collection accounts, negotiating settlements can be done with credit building goals in mind.

DEFINITION:

Collections account

If a consumer becomes significantly delinquent on a debt, an original creditor may decide to transfer the servicing and/or ownership of the debt to an internal or external debt collector, turning the account into a collections account. The account is also likely to be coded as such on the credit report. Typically a collections account has had no activity for at least six months. Original creditors do not usually send an account to collections until it is at least 180 days delinquent.



Action plan for Negotiating with Creditors

**Step
1**

Inventory

Create a list of all outstanding debt including the following information:

- Original Creditor
- Collection Agency
- Date of First Delinquency – base date for calculating seven years when it will drop off the credit report
- Outstanding Debt
- Total the Outstanding Debt

**Step
2**

Prioritize

Rank the outstanding debt in terms of urgency. Consider the following factors

- Debt associated with or likely to become a civil judgment
- Whether the debt is still with the original creditor (may be easier to negotiate and avoid the account being sent to collections).
- Amount of debt and interest rate
- Original delinquency date and the corresponding date that it will fall off the credit report.

**Step
3**

Save and Prepare

Create a savings plan to amass funds to offer a settlement lump sum amount for each debt

If a collection debt balance is too large to pay off all at once consider the potential of:

- Using an upcoming tax return refund to settle the balance
- Saving up for a few months and then offering a lump sum
- Request a low-cost, low-interest loan from a trusted financial institution to consolidate and pay off all debt and use the new loan to start to re-build credit.

**Step
4**

Call

Call the Collection Agency or Original Creditor to negotiate lump sum payment

The goal is to negotiate one lump sum payment and not establish an ongoing relationship with the collection agency. Making a first offer at about 33% of the actual outstanding debt can be a good place to start.

**Step
5**

Confirm

Request a Written Receipt for payment and follow up to ensure that payment information is correctly reported on the credit report

Check the credit report to ensure that the account has been updated properly

Sample scripts for speaking with Creditors



First Approach:

"This is Ms. Smith. I recently became aware of a collection on my credit report, Account # XXXXX. I currently have \$200 which I can apply toward this debt, will you accept that as payment in full on this account?"

- OR -

"This is Mr. Smith and I recently became aware of several collection accounts on my credit report. I am working with several collection agencies to settle these accounts. According to my records, I owe you \$300. Will you accept \$100 as payment in full, or should I give that \$100 to another collection agency?"

The creditor may accept this offer, make a counter-offer or refuse the offer. If they accept the offer, be sure to request a written, faxed, or e-mailed receipt that the debt has been settled in full once the payment has been made.

Counter-Response:

If they reject the offer, a follow-up can be:
"What will you accept as a payment in full?"

If creditors are unwilling to negotiate, there are three more options:

1. Hang-up and redial the creditor again. Often it is possible to reach another representative willing to negotiate.
2. Move onto another collection account/agency and try negotiations with them.
3. Offer to pay the account in full and get a receipt.

In some cases, collection balances may not be negotiated. This most often occurs when the original creditor has hired a collection agency to collect the debt, but has not actually sold it to the collection agency. If this is the case, the balance MAY need to be paid in full.

Things to Avoid when Negotiating with Collection Agencies

Avoid establishing a payment plan with a Collection Agency. If a client negotiates a payment plan and then misses a payment, the collections agency can accuse the consumer of being in default of the deal and change the negotiated financing agreement -- often increasing the total amount due.

When establishing a payment plan is the only option...

In certain instances, such as when a civil judgment is present, a payment plan may be the best option to avoid wage garnishment. In these cases:

- Try to establish a payment plan with the original creditor and not the collection agency.
- Negotiate the total amount before negotiating the monthly payments.
- Get an agreement in writing before making the first payment, and request a receipt for each payment made according to the agreement.
- Make all payments on time.

Don't let Collection Agencies know how important or urgent it is to improve credit.

Try to avoid providing information such as:

- ✗ "Ms. Smith is working on improving her credit."
- ✗ "Ms. Smith is in the process of buying a house."

Don't let Collection Agencies know if funds are available to pay the full amount.

Try to avoid providing information such as:

- ✗ "Ms. Smith came into a substantial amount of money"
- ✗ "Ms. Smith just received an EITC tax refund."

Avoid getting into a debate or argument with the Collection Agent.

- ✗ "I don't agree with the balance...the original debt was only..."

HELPFUL LINKS to learn more

Federal Trade Commission
www.ftc.gov

Consumer Action
www.consumer-action.org

National Foundation for
Credit Counseling
www.nfcc.org

Consumer Financial Protection
Bureau
"Your Money, Your Goals" Toolkit,
[www.consumerfinance.gov/
your-money-your-goals/](http://www.consumerfinance.gov/your-money-your-goals/)

Change Machine online
financial coaching platform*
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