



This tip sheet can help you guide your clients through the difficult process of negotiating with Collection Agencies. The main objective: to eliminate as many collection accounts to a \$0 balance with the smallest total lump sum payment.

More and more businesses are using collection agencies to help them collect on overdue accounts. For a consumer, dealing with collectors can often be more confusing and confrontational than working with an original creditor.

Goal: Negotiate Lump Sum Payments and Avoid Creating Monthly Payment Schedules with Collections

When preparing to deal with collection accounts, the most important thing to remember is that a collection agency is not a company that a consumer wants to establish an ongoing payment relationship with.

- If a client negotiates ongoing monthly payments 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 increase total amount due.
- By definition a collections account has had no activity for at least 6 months since original creditors do not usually send an account to collection until it is 180 days delinquent. As such, this account is "aging" with respect to activity - and an aging inactive account has less of an impact on a credit score. If the consumer starts to make ongoing payments to a derogatory account such as a collections account, it may continue to get picked up as recent activity. Recent activity on derogatory accounts can have a negative impact on the score again the activity starts to age again. Even when making a lump sum payment, consumers will often notice that their score takes a negative bounce for a few months until the account activity begins to age. Making monthly payments may prolong the negative impact.

Step 1: Create a list of all outstanding debt including the following information:

- Original Creditor
- Collection Agency
- First Date of Delinquency - this base date for calculating 7 years when it will drop off the credit report
- Outstanding Debt
- Total the Outstanding Debt

Step 2: Rank the outstanding debt in terms of urgency:

- Debt associated with a civil judgment may be a first priority to avoid wage garnishment.
- If a debt is still with original creditor, it may be beneficial to negotiate this first before it is transferred to a collection agency. Original creditors are often easier to deal with. Also, debts still with original may have more recent delinquency dates and be making a more negative impact on the credit score. While it is still preferable to negotiate a lump sum payment with the original creditor (i.e. medical provider, telephone company), negotiating a payment plan is probably preferable than the account being sent to collection.
- If first delinquency date is more than 5 years old, it will be dropping off the credit report in the next 24 months regardless of payment status. This may be a lower priority.

Step 3: Create a savings plan - and plan for EITC refunds - to amass funds to pay off old debt in lump sums.

Step 4: Prepare to offer a one-time lump sum settlement for each outstanding 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 5: Call the Collection Agency or Original Creditor to negotiate lump sum payment.

Again, 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.

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?"

Potential Creditor Responses:

They 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 they 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 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.

Step 6: Request a Written Receipt for Payment and Follow up to ensure that payment information is correctly reported on the credit report

Shortly after settlements have been made on an account, it is beneficial to send a letter to each of the credit bureaus to expedite the process of correcting the outstanding debt information. This will expedite the collection agency to update that the debt has been settled in full. And, the client may get lucky and the collection agency, happy to have its money and no longer interested in the debt, may decide not to verify the information and the collection account might be removed completely from the credit report.

Note: If a client is in the process of working towards a home purchase, some lenders will accept copies of "Paid" receipts as proof of the settlement, prior to corrections being made on a credit report.

Source: This tip sheet was developed in collaboration with the housing staff at [Justine Petersen](#) in St. Louis.

Things to Avoid when Negotiating with Collection Agencies

Avoid establishing a payment plan with a Collection Agency.

This is so important it is worth repeating. Collection companies are not friends. If a payment plan is established and a payment missed, the collection agency may decide that the agreement is broken and increase the amount owed. In other cases, collections agencies may report the monthly payments to the credit bureau and the derogatory account information will look like current activity each month which can have a larger and longer negative impact on the credit score.

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 a 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 recently 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.

Try to avoid questioning the balance:

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