

## Debt Collection Process

The picture that many people have in mind when they think about the stereotypical debt collector is that of the mustache-twirling, hard-hearted scoundrel of melodrama infamy, threatening to throw widows and orphans into the street because the rent is overdue.

And while it's tempting to portray these individuals as dastardly villains out to wreck lives and historically some of their behaviors have been less than



admirable it's important to remember one fact: Nobody is forced to borrow money.

Ultimately, if you owe a debt, it's because you made the choice to borrow money. Your lender made that loan, or offered the credit line, contingent upon your promise to pay it back.

Your creditors do have a right to their money, and a debt collector is simply trying to reclaim what is legally and ethically owed by you.

### ***Debt Collection***

**Generally, there are three phases to the debt collection process:**

1. For the first six months of your delinquency, you will usually deal with your creditor's internal collector, which is sometimes referred to as a first-party agency (you, the debtor, are the second party). This may be an ideal time to try and settle your debt, since no middleman is involved and your lender still has an incentive to maintain a positive relationship with you.
2. Once your lender has decided that you aren't going to repay your debt, it will be assigned to an outside organization, sometimes known as a third-party agency. At this point, the debt is still owned by, and owed to, the original creditor. If the third-party agency is successful in recovering all or part of the debt, it will earn a commission from your creditor, which can either be in the form of a fee, or a percentage of the total amount owed.
3. In the third phase of the process, your original creditor writes off your debt and sells it often for pennies on the dollar to an outside collection agency, sometimes known as a debt buyer. Your creditor is no longer involved. The collection agency is still trying to recoup as much of the debt as it can, in order to turn a profit on its purchase.

In recent years, creditors have been turning over more of their delinquent accounts to debt-collection law firms, rather than to traditional bill collectors. The idea is that a communication to a negligent debtor from a lawyer makes a greater impression, thereby increasing the possibility of repayment.

## ***Debt Collection Laws***

Although collectors are legally entitled to attempt to collect all owed debts, they are restricted in the methods they can employ by the Fair Debt Collection Practices Act (FDCPA). The law passed Congress in 1977 as an amendment to the Consumer Credit Protection Act of 1968.

### **The FDCPA**

- Prohibits a collection agency from discussing your debt with your family, friends, neighbors or employer.
- Limits the times of day collectors can call you.
- Bars the use of slurs, obscenities, insults or threats.
- Provides remedies for consumers who wish to stop collection agencies from all contact.
- Requires collectors to verify all debts and end collection procedures if verification is not forthcoming.

While creditors are not covered by the provisions of the act, all third-party bill collectors and lawyers who are regularly engaged in the collection of debts are. In addition, many states have statutes that regulate the practices of bill collection agencies, with some requiring them to be licensed, registered or bonded.

A majority of U.S. collection agencies — approximately 3,200 of them — belong to ACA International, the world's largest nonprofit trade group representing collection agencies, creditors, debt buyers, collection attorneys and other industry service providers. The ACA requires its members to abide by all laws and regulations, as well as its own codes of ethics and operations.

The ACA requires its members to “treat consumers with consideration and respect” and “communicate with consumers with honesty and integrity.” It also restricts collectors from engaging in “dishonorable, unethical or unprofessional conduct ... likely to deceive, defraud, or harm a consumer.”

So, while debt collectors may not be your favorite people, they are professionals who are engaged in a legitimate business — collecting promised obligations from delinquent borrowers who have defaulted on their agreements.

Source: *debt.org*

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**Kollect Systems Sdn. Bhd.**

Tel : +(603)6157 8886 | Fax : +(603)6157 8881 | Email : [info@kollect.my](mailto:info@kollect.my) | Web : [www.kollect.my](http://www.kollect.my)