

Negotiating with Collections Agencies

Tip Sheets and FAQs

Negotiate Lump Sum Payments and Avoid Creating Monthly Payment Schedules

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.

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 or bank account 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 creditors 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 one third 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."

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