

LIBERTY

CREDIT CARD SOLUTIONS

We are often approached to handle payment processing by various businesses that are hired to collect debt. These are firms that specialize in collecting medical, commercial, or consumer debt. Sometimes they are law firms that generate most of their billings from collections, and sometimes it's a lawyer that has a client that needs a little legal oomph to help them get what is owed to them.

By the time they have reached us they can be a bit frustrated with their collection process and how they get paid. If they are not already accepting credit cards, they often will hear that the check is going into the mail, and it seldom arrives. Given that it's already a hard job getting debtors to agree to make good on their obligations, not giving them the option to pay immediately by credit card makes it even harder.

If they are accepting credit cards for debt payments they can have the challenge of reconciling their books because deposits and debits are (unfortunately) going into and out of the same account. This can be particularly problematic for law firms due to the commingling of funds and the issues that it presents. Furthermore, the firms can be annoyed because their rates are difficult to understand.

More significantly and unknown to businesses, many payment companies are dropping their collection clients because they never understood that they were collection entities or they want to reduce their exposure to what they view as a risky business. For example, it has been reported that Global Payments started to remove collection agencies from their network in 2013, and there are concerns that PayPal will do the same when it is spun off from Ebay in 2015. As more and more banks and processing platforms move away from the collection industry, many businesses that were operating well within the law, are going to be faced with losing their ability to accept credit cards through no fault of their own.

So why are debt collections viewed as a risky business? At one level it's because the debtors did not previously pay their debt, and thus they are more likely to not pay again even after agreeing to pay "now". One can imagine many scenarios like; the debtors are more likely to bounce a check to the collection entity or to not pay their credit card bill; the debtors are more likely to chargeback or dispute a credit card transaction, and the debtors are more likely to say the check is in the mail when in fact it is not. These are factors really related to attributes of your clients and not your business.

There are also factors about your industry that make accepting credit cards more challenging. Some collection entities operate unethically and they tarnish the rest of the industry. Some collection entities might be operating within the bounds of the law, but function like the "Wild West", shooting from the hip, but far from what would be considered best practices. Lastly, even if your firm does not have a history of chargeback or disputes, the assumption is that it's only a matter of time until you do because the industry as a group does.

So what can you do get your credit card processing account open or keep it open?



We know that compliance is a big concern for everyone in the collections industry; specifically the Consumer Financial Protection Bureau (CFPB) regulations. Your payment processing partner, on the other hand, should be focused on Payment Card Industry (PCI) compliance. What this means is that your payment system should store credit card information in secure software that is routinely tested for breaches. Your payment partner should also encourage you to limit access to sensitive information to those that need to know, and to routinely change passwords.



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2 Mitigate risk by not scheduling payments to go on for extended periods of time. We're sure that some debtors would rather pay their \$1,000 in ten equal installments of \$100 instead of a one-time payment. However, the longer the payment plan goes on, the more likely, something sometime, will go wrong. If possible, try to limit the payments to occur within 6 months.

3 Be as clear as possible about your business model. The worst thing that could happen would be that you omit information during the underwriting process, because eventually that omission could cause your account to be closed. For example, if you handle delinquent automotive loans, but don't disclose this at the start of the processing relationship, bad things can happen if it is later discovered you do this type of work; not that there is anything wrong with it.

You should understand that we are bank and platform agnostic. Our goal is to find you the most stable solution for your business at the best rates possible.

If you would like to discuss any particular collections project/account, comment on this paper, or just say hi, please reach out to us.

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