

## **A Contingent Industry?**

**One of the hottest buttons in the repossession industry is working contingent. The following are some prominent schools of thought. What is the real truth about contingency? You decide....**

### **The close fee**

A close fee applies when a repossession agency does not recover the collateral or help the lienholder resolve the account. In most cases this is a result of the information provided to the recovery agency being incorrect. In some instances the debtor keeps the collateral secured at all times making a self help repossession impossible. Remember, self help must be accomplished without a breach of the peace.

### **The resolution fee**

A resolution fee applies when the account is resolved as a direct result of the recovery agent's efforts. This is generally accomplished by: the debtor making payment, the collateral being successfully located by the recovery agency outside of their area, finding the collateral in such a poor condition that it would make recovery financially impractical.

### **Cost of owning a tow truck**

It costs approximately \$10 per working hour or \$35 per vehicle recovered to operate a tow truck. This figure does not account for anything but the purchase price of a truck and standard maintenance. Repairs will generally keep this figure close to true, even on older trucks.

### **Cost of fuel**

It costs \$10 per working hour or \$30 per vehicle recovered to fuel a tow truck in the repossession industry. This number varies on each truck, each agency, each day and every geographical location.

### **Cost of tow truck liability insurance**

Studies indicate tow truck liability insurance cost around \$3 per working hour or \$20 per vehicle recovered. Acquiring this number varies. Agencies in more densely populated areas pay more for coverage but generally work a smaller area and recover more vehicles.

### **Cost of general liability (repo) insurance**

Since some insurance carriers charge by the vehicle recovered we will go with that number. High volume companies can get coverage for less if they have a good claims history, but the cost remains close to \$20 per vehicle. This would average out to approximately \$3 per working hour.

### **Cost of operating an office**

This is a difficult number to establish. There are many mom and pop companies that have very reasonable expenditures for their office. Larger companies can have a tremendous overhead. A midrange number is \$5 per working hour or \$15 per vehicle recovered.

### **Cost of office staff**

With numerous variables in play here, we still set the number at an average of \$15 per working hour or \$25 per vehicle recovered.

### **Cost of field agents**

Expect field agents to steadily average \$20 per working hour or \$60 per vehicle recovered.

### **Cost of a storage facility**

This is also a difficult number to set. There are many mom and pop companies that have very reasonable expenditures for their storage lot. Larger companies can have a tremendous overhead. A midrange number is \$5 per working hour or \$15 per vehicle recovered.

### **Adding up the costs**

The costs outlined so far add up to \$71 per hour to operate a recovery agency. Even the most frugal professional agency would have trouble cutting this number. Large agencies may never be able to keep their expenses down to this level. Adding up the cost per vehicle recovered is where you may really begin to see the point and start to look at your own company's cost and overhead. Based on these numbers it costs \$220 per vehicle recovered to operate a fully insured agency with a staffed office and a secure storage lot. What will drive this number down? NOT WORKING CONTINGENT!

### **Compensation for services vs. compensation for expenses**

Do not assume that a collateral recovery agency being paid a 'close fee' or a 'resolution fee' is not working contingent. Most approved 'close' and 'resolution' payments do nothing more than partially cover expenses. If a recovery agency loses money on any assignment they are still working contingent.

### **Contingent accounts come with expectations**

A large client that generally pays little or no close fee expects; the given address to be checked three times in daylight, three times at night, expects contact to be attempted at the given and with nearby, expects the poe(s) to be checked three times and contact to be attempted there and expects updates to be made every other business day including detailed descriptions of the poe(s) and residence. These expectations can cost the recovery agency at least three hours on accounts sent to them with bad information.

### **Updates have value**

Even bad news has value to the client. The collateral has been totaled. The debtor has been fired or evicted. Information will always have value. Updates are a product that should be purchased. Updates are not a service that should be provided for free.

### **Paying investigation fees based on updates provided**

Some clients combat the bad image they receive for expecting contingency by paying investigation fees when the recovery agency demonstrates in writing that they have indeed diligently worked the account. This type of practice could move the contingency crisis in this industry in a positive direction.

### **Paying a professional agency for their services**

In no business climate can anyone afford to invest their time and capital to provide service for no profit or in many cases provide a service and suffer a financial loss. There is no justification for not compensating a professional agency for quality service.

### **Some recovery agencies are not professional**

Over the years many agencies have over-billed clients for their services. This was one of the factors that contributed to the contingent market place. But if a client does not trust the recovery agency to earn what they bill.... how can the trust to protect reputations and avoid liabilities be maintained?

### **A good contingent client**

Some clients do pay a very healthy repossession fee which does effectively compensate the recovery company for any assignments that are not resolved. Some of these clients also rarely accept payments on accounts that are already assigned for repossession, which increases the odds of repossession being achieved.

### **Robbing Peter to pay Paul**

With a contingent repossession contract the agency may work an average of three accounts and only be compensated by one recovery. This type of billing puts an undo financial responsibility on debtors that have their vehicle repossessed. The cost of a debtor's repossession should not compensate a recovery company for their attempts to repossess another debtor's vehicle.

### **Working contingent reduces the quality of work performance**

This is a reality that can never be overcome by logic or justification. A recovery agency working contingent loses money on assignments that do not result in a successful recovery. The only way to minimize the loss is to reduce the effort and expenditures. This will result in fewer successful conclusions.

### **Working contingency increases risk of improper actions**

This is being repeated over and over in letters to major lenders and by expert witnesses in court. Training and understanding of the law has a great deal of influence. But tell a man he doesn't get paid unless the vehicle is recovered and even the most reasonable agent will cross one of the many invisible lines in this industry. Property damage and/or personal injuries can then occur. The lienholder will bear the ultimate responsibility for their agent's actions knowing their motivations will be looked at very closely.

### **Insurance carriers should exclude coverage on contingent accounts**

Insurance carriers would like to find a way to add working contingent to their list of exclusions. There are inherent additional risks and increased exposure that accompanies the urgency of a 'no pay' if 'no recovery' scenario. In the interest of better managing the risks this trend needs to be reversed.

### **Professional recovery agencies do not work contingent**

Professional recovery agencies do not accept contingent assignments. Professional agencies encourage each other not to bend to the demands of clients to work contingent.

### **Even professional agencies must work contingent**

This is especially true when you consider that close fees seldom exceed expenses. Contracts that only pay a small close fee are still contingent assignments. See how two schools of thought can be so contradictory?

### **Breaking even would be fine**

In today's contingent climate most (if not all) recovery agencies would be happy to just break even on unresolved accounts. It is safe to say there is no profit out there for the professional agency in closing accounts.

### **Lenders save millions of dollars each year by demanding contingency**

Demanding contingency looks like a windfall to the short sighted lienholder. Every 10,000 accounts that do not require a \$100 close fee is a million dollars not spent.

### **Lenders are losing money by demanding contingency**

Recovery agencies need to minimize efforts and expenditures on contingent skip accounts. It has been proven time after time that recovery agents are potentially the best skip tracers because they work multiple sources and in the field. But most agencies can not donate their time to working the hard skips. It makes too much financial sense to move on to the next account. This equates to a loss of potentially recoverable collateral. This also results in accounts being assigned to skip trace companies. That means the lienholder losses money in small chunks. On the other hand some major lenders have lost 10's of millions of dollars at a time in lawsuits as a direct result of demanding contingency and utilizing the services of bargain basement adjusters.

### **One day no recovery agency will work contingent**

The lienholder calls every recovery agency in the area and not one will work contingent. Everything is possible when dealing with geographical factors. However, there will always be recovery agents lining up to sign contingent contracts. Unless, and until, the clients fully understand the reasons a professional agency needs to be compensated for their efforts... contingency will live a full and destructive life.

- ✚ Operational costs of a recovery agency today are extreme.
- ✚ Expecting a recovery agency to work for free is a moral outrage.
- ✚ If a recovery agency doesn't make a profit on an un-resolved account the agency is still effectively working contingent even if they are paid a small close fee.
- ✚ Paying a recovery company a close fee based on the quality of the detailed reports they provide could improve the contingent crisis in the repossession industry and restore a client's contingent reputation.
- ✚ Lien holders stand to lose millions of dollars in lawsuits and lost collateral by hogtying their recovery agent with demands for contingency.
- ✚ There will always be recovery agencies willing to work contingent.
- ✚ Only when the clients stop demanding contingency will contingency stop.

The concept of expecting enough recovery agencies to work together and insist on compensation for all services remains a constant effort in and around this industry. Yes, this effort is honorable, but until the clients decide for themselves that contingency is hurting their own reputation and bottom line, the trend will continue.

As administrator of Repoman.com I get phone calls and e-mails from every sticky little crackerjack in the box. This industry is a revolving door. Some fallacies we face in this industry are the perceptions that anyone, anytime and anywhere can be a successful and safe reposessor. No one needs training. No one should have credentials. No one should learn the ropes by working for an established and professional agency. Any nincompoop is able to repo a car.

I received a call yesterday from an individual. The first thing he tells me is that he and his buddy just opened their repossession company. Just like that... piece of cake... done deal. This individual only had one question. Where does he go to get the badge? Honest engine. That is all he asks. You can't make this stuff up. Since I caught him off guard by telling him he was absolutely not allowed to carry a badge, he had one more question. He just needed to know what he had to have when he went to the door to make the person give him the car. I just went ahead and told him that whatever he does he should not point his gun at anyone. Thankfully, he agreed.

Yes, the time was right to explain that he shouldn't work contingent. I was the indeed weakest link. I just couldn't muster up the inner strength to do it.