



Using a Lawyer vs. a Collection Agency to Collect Debt

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If your letter writing, personal meetings, and phone calls have all failed to resolve a debt issue, it's time to call in a professional – a debt collection agency or a lawyer specializing in debt collection.

The most obvious choice to collect an unpaid debt is a collection agency. Agencies come in all sizes – some are local, some specialize in handling certain kinds of debts, and others are national in scope. The cost varies, depending on the volume of business you bring to the table, and the amount of debt that is to be collected. Plan on paying 25 to 30 percent of the amount collected, with some agencies demanding a 50-50 split.

A collection agency will take many of the same actions against the debtor that you have probably taken. Third-party collectors are aided by specialized phone systems, computers, and software designed to automate the process and make it more effective and cost-efficient in retrieving payment on delinquent accounts. A series of letters will be generated, sternly warning of the consequences of ignoring repayment. Phone calls will be made to deliver the same message.

There are also lawyers who specialize in debt collection. They can be more effective than a collection agency, especially if the debt is serious enough to consider legal action. An attorney may charge an hourly fee, collect at least one-third of the amount recovered, or both. Attorneys usually charge a minimum fee, or require the debt be of a minimum amount. Payment to the attorney will be in addition to any court-related fees and charges connected with a lawsuit, if you decide to pursue a judgment in court. If you're not willing to take your customers to court over a past-due account, then there's probably no reason to hire an attorney.

Most companies refer debt to a collection agency first and then turn to an attorney if the agency can't do the job. While it might seem that a collection agency would be cheaper than hiring a lawyer, that's not always the case. The price of collecting a debt depends on the complexity and magnitude of the collection – sometimes debt can be collected with two simple letters from a collection agency; other times it's smarter to just hire a lawyer, send the mandatory set of collection letters, and then head to court. The most expensive scenario is working with a collection agency only to have to hire an attorney later.

Whether you choose to use a collection agency or a lawyer to recover the money you are owed, be sure to ask for a client list before getting started. Try to meet with the owner or manager of the collection agency, or one of the partners of the law firm, before you turn over your debt. You can check with the Commercial Law League of America for certification of collection agencies and legal experts. A decision to hire should not be based totally on price or percentage – sometimes the promise of a higher fee can help motivate the collector to bring in more cash.