

When Debt Collectors Call

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It's a call nobody wants to get, but 13 million Americans currently face calls from collection agencies trying to recover debt. Collectors are getting more aggressive as defaults and delinquencies rise, Gail Cunningham with the National Foundation for Credit Counseling says. Ignoring the calls and letters won't make the problem go away. Here's what you need to know.

Know your adversary

The collector on the phone may work for the company that says you owe it money. The caller could also be from a collection agency hired by the creditor. Increasingly, though, creditors are hiring law firms to call debtors. Don't be fooled into thinking you are being sued just because a law firm is calling. A creditor will usually try to avoid a costly lawsuit, says Gerri Detweiler, creditor advisor with consumer Web site credit.com.

Know the rules

You have 30 days after the collector contacts you to dispute all or part of the debt. The collector must provide written proof from the creditor that you are the debtor. If you decide to fight, answer the collector in writing and keep a copy. Use the 30 days to investigate the debt and figure out how you can pay it off. If it's been 3 to 6 years or more since you first fell behind on the payment, statutes of limitation may get you off the hook, but that's little help for new debtors.

Know how to haggle

If you are delinquent by four months or more and can show a hardship like a job loss, you may be able to get easier repayment terms. Figure out what you can pay and offer less than that as a negotiating tactic. Keep good notes and be realistic about what you can and can't pay. Paying a lump sum will generally get you a better deal than a payment plan. Sometimes collectors are restricted by the creditor on how much of a debt they can forgive.

Know the consequences

One reason to negotiate is that a collection action will stay on your credit report for 7.5 years, whether or not you pay the debt back. How that impacts your credit score varies, but a 60 point hit shouldn't be unexpected. A lawsuit against you by a creditor would hurt even more. If you choose to gamble with your credit score, you might be able to get better terms later, when the account is even more overdue and the collector may be more willing to settle. But that's no sure bet.