

No-Cost Court Collection Services that delivers Payment for Delinquent Court Cases, Parking Tickets, Traffic Fines and Taxes at Zero Cost to Local Governments



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CEOCFO Magazine

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CEOCFO: *Mr. Klein, according to your site, Capital Recovery Systems is home of the No-Cost Court Collections Program®. Would you tell us a bit about the program?*

Mr. Klein: The No-Cost program is the way we price our collection services. We are a niche company that works mainly with local courts; municipal courts, magistrate courts and entities like that, with misdemeanor criminal and traffic fines. We only market in those states that have a law that allows the court to add the cost of collection. Therefore, our pricing approach is that we are able to go into those courts and do it as a no cost to the court, because the defendant ends up paying our costs. As an example, if Lynn has a one hundred dollar outstanding traffic case that she has not paid, when that case is extracted and sent to Capital Recovery for collections, depending on the state there is anywhere from a twenty to thirty five percent collection charge added on. Therefore, in a case of thirty percent your balance now becomes one hundred and thirty dollars. The way we price that is that we guarantee the court to get one hundred percent of the original money that was owed to them, the original one hundred dollars, before we get paid. In other words, if we find Lynn and she makes a one hundred dollar payment that money is remitted to the court with a zero invoice. If we catch up to Lynn and collect one hundred and thirty dollars, one hundred and thirty dollars is remitted to the court with a thirty dollar invoice.

CEOCFO: *I am guessing then that there are many people that do not pay their fines. Would you tell us about the opportunity?*

Mr. Klein: Lynn, it was quite surprising for us. I think we just surpassed the five million account mark within the last couple of months. However, it was really surprising to me, the millions of people that might get a traffic citation or for a misdemeanor violation, maybe a disorderly conduct or something like that, that do not pay the fine. I did not realize how big the opportunity was! I knew it was there, even in a state like Ohio where they will forfeit your license when the court notifies the BMV that you have not paid. Even with that, everyone thought that that was going to be the panacea, but it was not.

CEOCFO: *Do you find that it is people that do not have the money or is it just that some do not want to be bothered?*

Mr. Klein: You know Lynn; it is a combination of things. Many times it is people that do not have the money. At the point when it is due, in order to avoid all consequences, you have to pay that in full. To some of those folks a three hundred dollar fine may as well be a three million dollar fine, because they just do not have it. Therefore, they do not pay it and they do not see any sense in paying a partial payment because they are still going to lose their license or have a warrant issued. When we get them we provide some light at the end of the tunnel. We give them some options, monthly payments

and things of that nature. That is one of the reasons. Another reason that I see happen all the time is that people simply forget! They forget, they have moved or they never got the notice from the BMV. That happens a lot with out of state drivers. Therefore, if we are collecting an Indiana ticket, an Ohio motorist may have gotten a ticket over there. They put it in their glove box and simply forgot about it. 44 states share information regarding unpaid tickets so the threat of losing your license still holds true for drivers who are ticketed in a state other than the one in which they are licensed.

CEOCFO: *Do the police and the courts follow up? At the end of the day, if these people do not pay will they face arrest You hear so much these days about lower level crimes not getting any attention. Is there really a consequence at the end of the day?*

Mr. Klein: The real one, number one, is a forfeiture of your license. What we see happening over and over and over again is that John Doe's license has been forfeited for non-payment on a case and he continues to drive and he ends up with another four or five Driving Under Suspension citations. We call those "Frequent Flyers". The consequences vary from court to court. I can tell you that we have over five hundred local court clients and none of them do anything the same. However, the other consequence would be that you have a warrant and you run a stop sign or get a ticket for going sixty miles an hour in a fifty mile an hour zone and your car is left along the highway or impounded and they take you to jail. Therefore, there are those consequences. Many states, including Ohio, also use vehicle registration blocks, which prevents the renewal of your vehicle registration if you have an unpaid fine or costs.

CEOCFO: *What is the business arrangement with the courts?*

Mr. Klein: We have a contract. Generally speaking they are anywhere from three to five years with a couple of automatic one year renewal options for the court. Some of them put it out for bid. In most cases it does not meet the requirement to have to put it out to bid, because there is no cost to the court. The defendant is paying it. In many states, any particular project that is being outsourced, if it is going to cost the city or the state a minimum of twenty five thousand dollars, you have to put that out for bid. We are probably about sixty/forty where we have to bid on them and sixty percent bid and forty percent do not have to bid on them. What it also comes down to in many cases is not so much the pricing structure, but the quality of service that you can demonstrate when you respond to an RFP.

CEOCFO: *What is the process? How much information do then courts supply you? What rules are you under in how you use the information?*

Mr. Klein: In a vast majority of the cases, well over ninety five percent, the data is transferred electronically through a secure FTP site. As you just mentioned, it varies from court to court. Generally speaking, what they do is they set a criteria. We try to coach them on it. We coach them in a direction that, I guess you could say, was self-serving, but the way that our business model is set up is what is good for us is good for our clients. They may try to set up a criteria where once thirty days has passed in most cases they either have to pay the fine or show up in the court by a certain date. Many of those courts will set a criterion saying, "Thirty days after they were originally due, that is when we will send the case to collections." Some do it at thirty days. Some do it at sixty. We have courts that place cases every day. Some place once a week. Some place once a month. Some of them go as far as letting that portfolio of bad debt build up for a year and then they will dump then all on us at once. The information that they send is basic demographic information; the defendants name, address and phone number if the defendant provided it, and obviously the balance. We used to get social security numbers on just about every case that came through the door. That is slowly dying away. What we are getting now are the last four digits of a social security number. I expect within the next two to five years where social security numbers will not be provided at all.

CEOCFO: *How much harder does it make it for you?*

Mr. Klein: It makes it difficult, particularly when you are dealing with folks that have a common name. In other words, if you have a Robert Smith and we were trying to skip trace that person; find a good address and a good phone number, it is difficult without a social security number. As I said, the last four digits help, but having the full social security number is the ultimate way. I think that if you look at your driver's license you will see; I do not even think they put them on the driver's license any more. That makes it a little more difficult and a little more expensive to find that person. That is because you have got to dig a little bit deeper. You have got to be much more thorough. One of the big things with the new Consumer Financial Protection Bureau, is they oversee the collection industry now. One their main focuses on and sanctioning agencies for is contacting the wrong person. Even a "wrong number" call to Robert Smith; if we reach the wrong Robert Smith and that person complains then we have a recorded complaint that we have to answer to.

CEOCFO: *What do you understand about the collection process that allows you to be affective and profitable?*

Mr. Klein: In our situation, number one, it is the type of paper, or they type of accounts we are collecting. They are smaller balances as opposed to working regular consumer debt or credit card debt. Those cases probably have average

balances that go anywhere from twenty five hundred to four thousand or five thousand dollars. In the cases we collect, our average balance, I believe on our court projects, is about three hundred and six dollars, so the balances are smaller. Of course, the fact that it is a governmental entity that you owe makes it easier. If we are calling you to collect from an outstanding traffic case it is pretty safe to assume that that particular defendant also has other bill collectors calling for their MasterCard payment or they are behind on their car payment. We think that based on the balance and the leverage that being a governmental agency has, that we are going to get paid first. Therefore, that helps as far as recovery rates and liquidation goes. Secondly Lynn, we are not your main stream or typical collection agency. We work for elected judges, elected clerks of courts, appointed clerks and things of that nature. The "kiss of death" for us are complaints back to those people. The last thing a judge wants to hear is "Who are they rogue collectors that you guys have in Columbus that are treating our people bad?" Therefore, it is always believed that the collection industry has a pretty bad reputation of mistreating people and things of that nature. We look at ourselves as more of a customer service center for municipal and local courts. The way that we train our folks is as customer service representatives. We do not even advertise for bill collectors when we are looking for employees. We advertise for customer service reps. The thing that I am most proud of this company and that we have great job of is our complaint ratio. In other words, we have never been sued in nineteen years. That is unheard of in the collection industry! All agencies create a line item in their budgets for legal fees to defend law suits or to settle law suits. We have never been sued. I can honestly say that there is probably not another firm in the country that has handled as many cases as we have for as long as we have that has never been sued!

CEOFCO: *How are you firm but friendly? How do you get the money without being overbearing?*

Mr. Klein: It is a matter of giving these people options. As I have mentioned earlier, many of these people feel, "If I cannot pay the entire balance I might as well do nothing." We are able to get them on the phone and discuss with them different options that they did not know they had. Obviously, that warrant is going to stay in place and that license cancellation is going to stay in place as long as they have a balance, but at least we give them something to work towards. We set them up on payment arrangements that are affordable for them. As I said, the thing is that these people want to pay. For the people that call in, I like to equate it or make an analogy of when you call your credit card company because you have a problem. You are looking for help. You are looking for a customer service representative to give you options and ways out or getting something resolved, I should say. We pretty much do the same thing. The people that call in here, and there is a great many of them that want to scream and yell and curse and all of that; we do not spend time with them trying to convince them to pay. We make sure they have our number. We make sure they have a representative they can talk to and tell them, "If and when you change your mind call us back." Of course we are going to continue to send them a letter and call them every seven days or so. We get hung up on a lot, but eventually, in most cases, they come around. Of course, there is that situation where we collect a lot of money that we do not get paid for. In that instance that I have you where Lynn owes one hundred and thirty dollars; maybe you pay that first hundred and we remit it to the court and we never see or talk to Lynn again. Therefore, we have collected that hundred dollars basically for nothing. We look at that as a cost of doing business, but it is a really good pricing strategy. At most collection agencies, if you ask the owner an agency what they think about collecting money that they do not get paid for they will be happy to tell you what they think about it. They do not think kindly of it.

CEOFCO: *Has technology made it easier to track, not only your calling, but the payments to you and then to the courts?*

Mr. Klein: Sometimes I think back to not too long ago when bill collectors were using ledger cards, writing notes on cards and things of that nature. That was not that long ago; maybe the late eighties or so. Without technology payrolls would just be gigantic. As I said, we have five million accounts. We have technology such as automated dialing systems where we can leave fifty or sixty thousand messages in an eight hour day or people on the dialer for live dialer calling. Therefore, we are able to touch all of these accounts. If you have got five million accounts on file, if you are calling them individually, live calls and not without that dialer technology, we would probably have to have three hundred people in here to do that. We are doing it with anywhere between sixty and seventy people. The same thing goes with skip tracing. When we get return mail we have particular vendors that we buy address information from and we can send over one hundred thousand account files. Let us say we have one hundred thousand mail returns on file. We can send that to one of our vendors and we get updated addresses back in fifteen or twenty minutes. We are able to upload that into the system and get a letter out that same day to those new addresses. This industry is technology driven, without a doubt!

CEOFCO: *What is ahead for Capital Recovery Systems?*

Mr. Klein: What is ahead for us? Well we also have a call center over in Steubenville in Eastern Ohio. We have been pretty careful; we have been cognizant of how we grow. It is a matter of just continuing to grow to continue to stay in this niche. As I said, over ninety five percent of our revenue comes from local courts. That enables us to specialize. We like to think that doing one thing and doing it the best is the way to go. However, we have had steady growth. As far as our sales

grow, it is not even a situation where we need lead generation or we need people cold calling. We get enough calls every week to keep our sales guys busy. People have heard about us and our unique pricing structure and it is everything we can do just to get our sales folks out there to take care of those calls and things of that nature. I would say Lynn it is slow to moderate growth. I am still relatively young, so I am going to be at this for a little while. The future sees us continuing to work that niche along with local tax collections. We have several local tax projects, including the City of Columbus, that are profitable projects for us. The way we have decided that we are going to grow in the future is through all of these courts that we do business with. As I said, we have five hundred or so local courts. When you do a good job for those people then the Clerk of the Court is calling over to the tax department. There is a built in five hundred leads sitting right there for you. That is how we have moved forward and we have grown and that is what we will continue to do.

