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Introduction and Background of NCSPlus Incorporated (NCS)

In 1984, Christopher Rehkow and Lynn Goldberg were sales managers at large national collection agencies, and both were dissatisfied with the industry. No agency, it seemed, offered what their clients wanted: high debt recovery for a low, fixed cost. With that idea, they started NCS.

Conventional agencies were often expensive, offered poor results, and frequently alienated their customers. They designed NCS to be economical, offering exceptional results while preserving the corporate good will of its customers.

Economical

Conventional collection agencies charge their clients from 33-to-50% of the amount collected which is often more than the client’s profit margin. NCS is so cost-efficient for the client, that it is often less expensive for the clients to use NCS than to continue to collect their accounts themselves.

Exceptional Results

Conventional agencies have very low recovery ratios because creditors delay submitting accounts for collection, hoping to avoid “agency collection costs”.

Because of NCS’s low cost, creditors can afford to refer accounts sooner, there by increasing their overall recovery.

Image Preservation

Positioned as a salvage source, that is collecting accounts that have been written-off as un-collectable, conventional agencies use harsh tactics that alienate customers. National Credit’s unique preventative maintenance efforts are educational and preserve the credit grantor’s goodwill with the debtor.

1.1 The Credit Economy: Unlimited Opportunities

There is an immense opportunity in the credit and collections industry. Here are some basic facts about U.S. credit trends:

The United States is a credit economy based on an explosion in both consumer and commercial indebtedness. Consumer indebtedness (money owed by individuals) has increased dramatically.

- In 1960 consumer indebtedness stood at $56 billion.
- In 1970 consumer indebtedness more than doubled to $143 billion.
- In 1986 consumer indebtedness increased four-fold; more than an excess of $1.5 trillion!

• As of 2003, in excess of $2 trillion (source – Federal Reserve Bank http://www.federalreserve.gov/releases/g19/current/)
• Combined with Uncle Sam's debt of $8 trillion, and Business Sector debt –a record high $7.4 Trillion

1.2 Explosion in Consumer and Commercial Indebtedness

How do these numbers bear directly on you and NCS? Every business, if it is to meet its current cash flow needs, must have ongoing and effective cash flow management. This is where you as an NCS representative step in - by providing a professional cash flow management system that enables American businesses to survive the cash flow crunch.

When the economy is good, credit terms are more liberal. More Accounts Receivable (A/R) are created. Our industry can help companies collect their A/R in a timely way and help them maintain a healthy cash flow.

When the economy is troubled, money gets tight or interest rates climb Accounts Receivable payments usually slows. Businesses need their money faster than ever. Our industry helps them get it.

Inflation or recession, boom or bust, - regardless of the season, our industry is always in demand.

1.3 Regulation of the Credit and Collection Industry

The credit and collection industry is one of the most highly regulated industries in the United States. It is the only industry with a national law regulating it by an act of Congress. Regulations come from both federal and state bodies.

In part because of the industry abuse, the credit and collection industry has been a frequent target of new regulation. For decades now, NCS in anticipation of this regulatory scrutiny, created a preventative maintenance approach to cash flow management that not only capitalized upon the change in regulatory environment, but also created NCS's unique position in the marketplace.

1.3.1 Federal Regulation of Our Industry

The Fair Debt Collection Practices Act (FDCPA) became law on March 20, 1978. This act of Congress is the federal legislation that provides our industry with specific guidelines. NCS has been in full compliance with each provision of this detailed act since our inception.

1.3.2 State and Local Regulation of Our Industry

Every state has rules and regulations of credit and collection services. Most states require agencies to post a fidelity bond along with strictly enforced licensing requirements.

1.4 Conventional Collection Strategies

Historically, business people could turn to five kinds of services to help them collect delinquent accounts and bad checks:

1.4.1 Traditional Collection Services

1.4.1.1 Credit Bureaus

Thousands of small local credit bureaus in the United States provide an important service in today's growing economy.

A credit bureau's main function is to provide credit information to credit grantors.

They compile and transmit potential borrowers' credit history to potential lenders.

Credit bureaus are typically local operations, and often take their names from the communities they serve. They handle only retail or consumer credit information and are known as "retail bureaus". As an adjunct to their information services, most retail bureaus sell collection services to businesses.

A few companies such as Dun & Bradstreet (D&B) specialize in the compiling and transmitting business credit information. Some of the commercial bureaus will also offer collection services but will only work commercial accounts.

Both retail and commercial credit bureaus charge a percentage of the amount collected. Retail bureaus will often charge 50% of the amounts it collects.

Commercial bureaus charge a lower percentage, but businesses also pay fees to become members of the bureau.

Note: In addition to the fee for collection services, the business using a credit bureau pays additional money to become a member of the bureau

Credit bureaus usually are the weakest of the percentage collectors, if only because collection is an ancillary sideline for them.

Their recovery ratio is only about 17%, leaving the creditor with net cash of less than 10 cents on the dollar.

Example: $100 (a) x .17 (b) =$17 (c) x 50% (d) = $8.50 (e).

(a) = amount referred to the agency for collection
(b) = average recovery %
(c) = recovery amount
(d) = agency fee %
(e) = net cash recovered by client

Credit bureaus, moreover, usually forward out-of-town accounts to percentage collection agencies, which then take off another percentage of the collection.

1.4.1.2 Lawyers

The collection strategies used by lawyers typically consist of a collection letter on the lawyer's letterhead with a threat (real or implied) of litigation. Lawyers must comply with the Fair Debt Collection Practices Act (see page the representative web-site).

Although some lawyers specialize in debt collection and service some major accounts like banks and credit card companies, most lawyers are not collection attorneys, and are not equipped to handle collections. In fact, law firms across the country have often turned to NCS for effective, economical help with their own accounts, as well as those accounts assigned to them by their clients for collection.

Attorneys can't affect credit records. They do not have people in the field. They will not work small accounts. They generally skim accounts profusely, and must forward out-of-town accounts to another attorney, who splits their fee. The customer consequently receives less than half an effort.

Attorneys doing collection work are either doing a client a favor in handling a bad debt, or charging such a high percentage that they consume the creditor's profit margin. Cash flow and the ultimate recovery ratio are reduced.

1.4.1.3 Percentage Collection Agencies

There are approximately 4,500 conventional agencies in the country that employ an average of about eight people each and concentrate their services and operations within a restricted geographic area. Accounts that are outside their geographical scope are forwarded to another conventional agency operating in the debtor's area. On those forwarded accounts, they split commissions, and have therefore little reason to aggressively try to collect.

The common collection agency charges fees for their services based upon a percentage of the dollar amount collected. These fees usually range from 33% (on commercial accounts) to 50% (to collect retail/medical accounts), although smaller fees are not uncommon for large commercial accounts.

They use a reminder notice, and, in some cases, telephone calls in their attempts to contact the debtor. Most do not provide litigation or other follow-through services.

1.4.1.3.1 Business Considerations When Using Percentage Collection Agencies

When considering the use of a conventional collection agency, credit bureau, or attorney, one must consider the following:

Fees Charged Often Exceeds Profit Margins

The usual fees charged by conventional percentage agencies of 33-to-50% often exceed the profit the credit grantor would have made on the account in the first place. Collection costs, in other words, can even increase the creditor's loss, especially in transactions with narrow profit margins.

According to published statistics, the common collection agencies, as a group, collect little more than one of out every five accounts submitted to them. The average national recovery ratio is approximately 20%.

The low recovery ratio, combined with high fees and commissions, means that the creditor who uses a conventional collection agency nets only 10-to-14 cents for every dollar worth of accounts turned over for collection.

Example:

Accounts totaling $100 are referred to a conventional agency. On average, the agency will recover little more than 20% of that $100, or a total of $20. The agency will deduct a fee of between $7 (33%) and $10 (50%) for its services, thereby leaving the creditor with $10-to-13 for each $100 assigned.

It is natural that the percentage fee structure used by agencies, credit bureaus and attorneys leads to “skimming” of accounts. In other words, since the agency is paid out of what it collects on an account, the agency concentrates its efforts on those easier, larger, newer, local accounts, and limits efforts on the smaller, older and out-of-town accounts. This results in even lower recovery ratios.

■High fees exceed profit margin
■Traditional agencies collect only one of five accounts submitted
■The creditor receives l0-to-14 cents for each dollar assigned
■Skimming of accounts is a traditional agency strategy

Another problem with the common collection agency is that the creditor loses control of his accounts. Once a creditor turns over an account to a conventional agency, all further contact is between the debtor and the agency. The creditor is out of the picture entirely. If the agency ever manages to collect, the creditor still must endure a “clearing period” before getting paid.

Customer Alienation by Conventional Agencies

When a business assigns an account to a conventional agency, it will most likely never do business with that debtor again.

The reason for that is creditors delay turning accounts over to a third party hoping to avoid paying collection fees. By then, accounts have seriously deteriorated and the agency employs harsh collection tactics. Such tactics often alienate the debtor, and usually forecloses any chance of sustaining the customer relationship.

Low Recovery Ratios

Because businesses delay turning accounts over to agencies for as long as 6-to12 months, conventional agencies tend to get older debts to collect. This drives their fees up and their recovery ratios down.

1.4.1.4 Letter Writing Services

Letter writing services (sometimes known as “flat raters”) sell their clients a series of reminder letters on a prepaid basis. The letter writing service mails the letters to the debtors.

Because of these low cost services (averaging $7-to-10 per account) and lack of regulation, and the overt threatening nature of their letters, flat raters flourished in the ‘70s.

Since then, legislation designed to protect consumers from misleading representations that create a false sense of urgency has decreased the number of flat raters substantially. Current laws require flat raters to advise debtors that they cannot affect credit records. They must also state they are not a collection agency, have no authority to collect debts due others and will not take any action, legal or otherwise, regarding the claim. Consequently, they have become ineffective.

Their letters are now little more than reminder notes. Moreover, hard core debts (the ones the creditor is most interested in collecting) simply deteriorate further as they age during the 2-to-3 month letter writing cycle.

In essence, letter-writing services create the very problem they were designed to solve. As the months go by, the accounts grow less and less collectible.

Finally, after the letter writing series is complete, the creditor often turns the account over to a full service source such as NCS to get complete follow-through utilizing all remedies allowed by law, including litigation.

Since flat raters do not charge a percentage, some burned dissatisfied former customers may assume that NCS, which also does not charge a percentage, is a letter writing service. NCS is a full service collection agency – we report to the credit bureaus and pursue telephone and litigation throughout the US. We simply *choose* the flat-fee concept as a more efficient business model. The distinction between NCS and letter writing services must be clearly made.

1.4.1.5 Letter Writers Charging a Percentage

Combine the features of a conventional collection agency with the letter writers' reminder notices that age the accounts rather than collect them, and you have letter writers that also charge a percentage.

Creditors who use this service pay a flat rate for the series of notices (generally $7 to $10 per account). Then, if the notices happen to work, the creditor *also* pays a percentage of the total dollar amount collected. These fees are generally 30-to-50% of the dollar amount recovered.

1.4.1.6 Check Guarantee Services

Some retailers use check guarantee or check insurance services to protect themselves from bad check losses. These services generally charge from 3-4% of the gross amounts of the checks (the premium), but only about 2% of the checks are bad and are replaced by the Check Guarantee Service (called the "loss recovery").

The problem with these check insurance services is that they are quick to reject checks that are not properly submitted (e.g., the check writer does not have two forms of identification). Only two of every 100 checks ever bounce after being re-deposited. The creditor pays the premium anyway. Also, where the service charges a percentage of the check's face value, NCS charges only a flat fee under $10 per check, regardless of how big the check is.

1.5 NCS: The Alternative Source

What is the secret that has created such a tremendous demand for the services you will be offering? Our unique factor is our Preventative Maintenance Cash Flow philosophy, which we market as The Cash recovery System.

A business typically tries to collect its past-due accounts internally, usually by sending dunning notices and making phone calls. Internal collection efforts begin to lose their effectiveness between the 60-90 days and are nearly exhausted between six and 12 months.

Age acutely reduces recovery ratios, and is the most important factor in collecting a delinquent account (and even more so with bad checks). As the accounts age, debtors also become lost customers because they often go somewhere else to do business when they owe their creditors money.

The creditor is faced with a paradox. If he pursues the account with aggressive collection tactics, he will probably lose the debtor's future business. On the other hand, if he does nothing to collect and lets the customer remain a "debtor account", he will most likely lose him as a customer anyway.

To make matters worse, as the creditor concentrates internal efforts on the 120-to-180 day old accounts, the 30-day accounts will become 60-day or 90-day accounts and a vicious cycle is created.

In other words, a creditor who works his accounts internally for up to six months or more is actually forced to skim his own accounts. When a third party is finally engaged to make collections, these aged accounts result in very poor recovery ratios.

The obvious solution is to reduce the months of internal expense and seek a third party early in the cycle, before age reduces the debts' collectibility.

- **Our Unique Approach**
- **Preventative Maintenance Cash Flow Management**
- **The Fixed Fee Philosophy.**

NCS's preventative maintenance approach substantially reduces the number of accounts that need the services of a third party (those reaching the 60-90 days past due). The creditor is able to economically solve most of his problems by concentrating on the fresher accounts while they are still easy to collect. The few that still remain uncollected are still current enough (if referred immediately) for a third party to recover.

1.5 The NCS Fixed Fee Philosophy

Our low fixed fee per account, combined with a diligent effort to preserve the credit grantor's goodwill effectively maintains a healthy cash flow for our clients.

The reasons: NCS educates debtors early in the debt cycle, treats them respectfully and represents the creditor carefully and professionally. It allows debtors to settle their debts without being threatened or humiliated. It allows debtors to make payment, directly to the creditor. Doing so brings the debtors back into the creditor's place of business. It then becomes possible to reestablish the customer relationship.

Our low, fixed fee starting with accounts in the 60 day column is less than what is normally spent on internal collection efforts. The service pays for itself by allowing the creditor to reduce internal collection efforts and expenses.

1.5.1 Preventative maintenance reduces the number of accounts needing a third party.

The Fixed Fee Philosophy:

■Low Fixed Fee
■Preservation of Creditor's Image
■Maintain Healthy Cash Flow

Preventative Maintenance -- the most important benefit of the NCS plan is that fewer accounts ever need the services of a conventional third party collection agency. NCS's low cost and efforts to represent the creditor positively allow the creditor to concentrate its internal efforts on the slow-paying, easy-to-collect accounts.

For the few accounts that cross over the 60-to-90 day aging period that need strong third party services, NCS will utilize an intensive, collector-driven effort to insure the highest possible recovery.

The Fixed Fee Philosophy and the Preventative Maintenance Cash Flow Management approach are the corner stones of our appeal. Explaining them is an important closing tool to aid you in making the sale. You must make certain a prospective client understands the curing effect of the Fixed Fee Philosophy.

Client focuses his efforts on easy to collect slow pays.

The few he misses go to NCS at 6O-to-90 days.

Achieves highest possible internal and external recovery ratio.

1.5.2 Breaking the Delinquency Cycle

Open to your Flip Kit and the Fixed Fee Philosophy sections. These pages will educate the client regarding the problems brought about by delayed cash flow. Use this medium to educate your client to use our services on a preventative maintenance approach to maximize its internal and external recoveries.

(You must study these two pages to be prepared to review them with every client.)