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YES there are family companies in the collections business, too. And one of the most prominent in the Far West is Washington Credit Inc. Started by C. Dan Hunter in 1950, WCI was a small collections agency in the town of Redmond, Washington, until the credit boom gathered steam some 20 years ago. Now WCI, with 90 employees and 1991 earnings of \$3.5 million, is the second largest collections firm in the state of Washington and counts among its clients such giants as Nordstrom, J.C. Penney, U.S. West Communications, and Puget Power.

Hunter, 68, built the business with his wife, Irene, who supervises payroll, personnel, and accounts payable, but it is now run largely by their son, Steven J. Hunter, 44, who surprised everybody when he agreed to come to WCI five years ago. Steven is a CPA who spent six years with Ernst and Whinney in Seattle and 13 years as a financial officer in other companies before joining the family business. His father soon discovered that Steven had his own ideas about the future of WCI. As CEO, he has doubled the number of accounts taken on by the firm as well as the size of the staff; to enhance the collectors' telephone efficiency; he has ushered in new shift hours and new automated dialing systems.

C. Dan Hunter remains chairman and WCI still bears the unmistakable imprint of the founder's values. What is unusual about Dan Hunter is that he has always stressed honesty, openness, and living by the Golden Rule when dealing not only with clients but with the de-

linquent payers that his company relentlessly pursues across the country. How did a nice guy like Dan Hunter succeed in such a rough business? He talked about family values, collections, and the succession at WCI in an interview with Family Business editor Howard Muson.

Family Business: *Is a recession good for the debt collection business? How've you been doing?*

C. Dan Hunter: We're often asked that question. The truth is our industry likes good times, because people tend to buy a little more. In a recession, we find more people without the ability to pay. It's not a question of character; they have lost the capacity to pay. We end up with more debts flowing through here, but the liquidation rate—the success rate—will dip. Expenses go up, but profits go down. Yet there's still a vast amount of credit and a need for our services out there. In two-plus years we've had 100 percent growth in processing dollars and in staff. To a great degree, that's due to a difference in management styles: a father who is more conservative and a son who wants to grow more aggressively.

FB: *It's an odd business for a family to be in. Are there many family collection agencies?*

Hunter: Our trade group, the Washington Collectors Association, has about 120 members. At one of our recent meetings, we asked how many members had active second-generation family

members and more than 20 raised their hands. The vast majority of agencies are owned by individuals and are not franchises of national or regional companies. They have an average of 8 to 12 people. This type of business often draws a lot of husbands and wives who work together.

FB: *What is the value-added from family in the debt collection business?*

Hunter: The people who do best in our business are very empathetic. They like to listen to other people and help them find solutions. I don't want to sound as if we're just here to be nice people. We're here to do a job. Collection companies are the police function for the world's credit. But I'm serious when I talk about the Golden Rule: We try to treat people the way we like to be treated. There was a time when we collectors weren't well thought of. Agencies were usually located upstairs or in the backs of buildings. In the 1950s, we opened up a storefront on Main Street. We wanted to be seen. People said, "The consumer will never walk in your door—he'll be ashamed to." But we've created an atmosphere that is much like walking into a bank.

FB: *How has the business changed over the years? You must have run into some pretty rough characters in the early days.*

Hunter: I had to go out maybe 40 miles into the country and knock on doors. We didn't have the telephone tools we have today. I'd carry a satchel full of files. If I couldn't solve the problem, our attorney prepared the summonses and I served the papers. I can tell you I remember looking down the barrel of a gun a couple of times and I didn't enjoy that!

FB: *Who were your clients in those years?*

Hunter: They were mostly businesses in our community that offered their customers credit—the grocer, the hardware store, the doctor, the service station. Incidentally, the credit grantor knew a lot more about his customers than today's credit grantors do. But they often granted credit on the basis of personal relationships.

And because they didn't always make the best choices, we were called on to do the follow-up.

FB: *You have several large clients now, and cover a much larger territory. How did your reputation spread and the business take off?*

Hunter: When you think of it, the credit industry began to blossom only about 20 years ago. Until about 1962, J.C. Penney, whom we're proud to represent, did not have a credit system. J.C. Penney stood for James Cash Penney—and cash meant exactly that. But in the early '60s, Mr. Penney and his people must have seen that the way to growth was credit. They opened a regional credit office in Seattle, and we started serving them then. Our business began to take off when I started working for a small, independent phone company. They fed me other clients: "We know somebody in this business in another community," they would say. "Why don't you go talk to them and tell them we sent you." And that became our next customer.

FB: *What difference has technology made in the way you do business?*

Hunter: When we became computerized in about 1970-71, we were pretty small compared with what we are today. As we grew, the technology enabled us to maintain control over the operation. People can handle far more calls. It has made it a lot easier for us to train them, because we have them right here as opposed to running around the countryside. We don't have cars that get into wrecks and that sort of thing. And we do a better job because we monitor our lines, with our employees consent, to make sure they are saying what we want them to say. Our industry has become far more technical. The capability of databases is marvelous. But you can't lose the personal touch.

FB: *Can you give me an example of how you maintain that touch?*

Hunter: Every piece of mail that goes out of here, whether to a debtor or someone associated with a debtor, has the name of one of our employees on it. It also gives an 800 number so

the respondent can call that person. We never want to put the price of a phone call between the consumer debtor and us. We can resolve 75 percent of our cases if we can only talk to the person, I'm totally amazed sometimes at what people who owe money will say. Often it's simply, "Oh gee, I'm sorry I didn't take care of that."

FB: *Do you give your collectors a script to use on the phone?*

Hunter: They have a computerized script that gives them alternative replies.

FB: *What can you tell people on the phone that will convince them to pay if they have been delinquent for some time?*

Hunter: The first thing we do is send them a written notice, which we're required to do by law. That is, we announce ourselves in a notice which spells out the debtors' rights—sort of like the Miranda warnings that police give suspects. Then we roll the account into a phone cycle. When we make the first call a few days later, it will go something like: "Mr. Smith, this is Dan Hunter of Washington Credit..." After that introduction, the collector is instructed to remain silent.

FB: *Why?*

Hunter: Because the person has received our notice, he will then probably tell us what his intentions are. If there has been a dispute about a purchase—if he doesn't like the shirt he bought, for example—he is going to tell you so. If the doctor didn't treat him well, he'll complain about it.

Frequently, he will then tell you that he is out of work and that he can't pay. That is an honest rebuttal, and we then have to try to find out about his employment prospects and other sources of income he might have.

FB: *What sorts of questions do you ask?*

Hunter: Our collectors would be looking at a computer screen and they'd press a key for the category of "unemployed."

That will bring up a bunch of questions: Why are you out of work? Is it temporary? Are you on unemployment compensation? What other sources of income do you have?

FB: *What do you do if someone is out of work and simply can't pay?*

Hunter: One of the first things we would ask is: When is your wife's payday? If you notice, we didn't ask first if his wife worked. I didn't even ask him if he was married.

So assuming that he has a wife that works, he may say: "Well, down at Boeing they pay on Fridays." Now we have an entry into a potential money source.

Or if the wife doesn't work, we may ask: "What was your last job?" Or if we already know that, we'll ask: "Were you laid off at Company XYZ? Will you be returning there? Do you belong to the credit union?" Everybody has some income. We look for other money sources—credit unions, finance companies, relatives, mothers and fathers.

Parents are great sources. The people who owe money are younger than you might think. I've been active in the local chapter of Consumer Credit Counseling, a nonprofit service, and we find that the average age is around 32. They've allowed themselves to get into more debt than they should have; they may have a dozen creditors bothering them.

FB: *Sounds as if you have to be an armchair psychologist in this business.*

Hunter: There are three basic kinds of appeals: You appeal to their honor, you appeal to their pride, you appeal to their anxiety. You assume that the person will act in good faith. I might say, "I know you have good credit or you wouldn't have this card with Company ABC. Let's be sure you don't do anything to disturb your credit. How can I help you get your credit back?"

These are not facetious remarks. They're sincere, because we can help these people.

FB: *Would you say this approach is typical of collection agencies?*

Hunter: It's typical of successful agencies. It's not always typical of newer people who have come into our business. Some folks in our business are concerned with sheer volume. They think they will increase earnings if they can knock on enough doors and berate enough people. Usually, people who run those kinds of agencies do not end up representing the Nordstroms of this world.

FB: *Why is that?*

Hunter: Because Nordstrom, Bon Marche, and other large retailers want to retain their customers. They want their money, but more so they want the customer to come back to the store and pay cash. They don't want him to feel browbeaten.

In a major retailing environment, a company might not want to try too hard to bring down the credit loss. If the company decides that, say, 3 percent is an acceptable level of loss, a credit manager who brings it down to 1 percent could very likely be criticized for that.

FB: *Has the nature of the debtor changed in the last 20 years or so?*

Hunter: He's far more sophisticated. He has been taught much more about his rights. We hear the word "harassment" a lot more, because they've heard others use it. A person may, for example, tell us we're calling too early in the day, or too late in the day. We cannot call before 8:00 a.m. local time or after 9:00 p.m. without violating a federal statute.

FB: *Do you know your success rate in collections, compared with, say, the rest of the industry?*

Hunter: The success rate varies widely according to region and client. If we are representing a client who sells through direct mail, the recovery rate might be only 5 to 6 percent. Because the sellers do not conduct an investigation to qualify customers for credit, we therefore end up dealing with less credit-worthy people.

Now, if we recover in the range of 15 to 18 percent on bank credit cards, that's a good job. However, collection for department stores

should be in excess of 30 percent. Why? Better controls. With a bank card, you can go a lot of places where they can't confirm whether you have a valid card or they don't check.

If you go into a J.C. Penney, they inquire through their database at the point of sale and, if it's a bad card, you don't get the merchandise. So the average loss from a bank card is about \$2,000-plus, while the average department store loss is in the neighborhood of \$400.

FB: *Turning to the family side of the business, has your wife been with you from the beginning?*

Hunter: Until the late '50s, we had young children who needed her time. But I'd come home and say, "Somebody at the office is ill or somebody has left and we have a problem. Can you come down and help?"

As a result, Irene came to me one day and said, "I either have to be a housewife or a professional. Which would you like me to be?" And I said, "I would like you to be a professional, because you already are."

Essentially, she became more active as our youngsters grew up and were more able to care for themselves.

FB: *Did you expect, or hope, that your son and daughter would want to come into the business?*

Hunter: I can't honestly say that I considered it. When our children were in high school they spent small amounts of time here. Then they went off to college and worked on their careers. I saw my daughter, Linda, marry and go to live in the Portland, Oregon, area. She's a school librarian and is very active in her husband's businesses. I saw my son go into accounting and grow in his career with several companies. I did not see him as part of our business. And yet I've always said that it would be nice if our children joined us one day.

FB: *What made you talk seriously with Steve about it?*

Hunter: We first suggested he might want to consider joining the company when a major regional credit reporting company wanted to buy

our firm. That was four years ago and I was 64. I thought then that some of our customers were saying to themselves, "What's going to happen to this company when Dan retires?"

And so when Steve agreed to join us, we strengthened the company in our customers' eyes. He came in not as a beginner, but as a professional in his own field, which added stature to WCI.

FB: *Were you surprised when he said yes?*

Hunter: Yes, I was. He had never shown an interest in our industry. We had talked about the business at family occasions, but never to the degree that we have since Steve has had day-to-day involvement. Now when we are together socially it's amazing if business doesn't come up in the conversation. We're now four-plus years into the succession process.

FB: *Tell me how you managed the transition.*

Hunter: As Steve's knowledge of the industry and the customer base progressed, he gradually assumed day-to-day control of operations. About two years ago he became president and I kept the title of chairman. That was only reasonable and proper because he had the responsibility. Our managers now report to him. Irene and I still work regularly, but I take Fridays off. We're gone more than we have ever been.

FB: *What about the stock? Has that been transferred?*

Hunter: We've gone through a formalized program, with the help of people at Price Waterhouse, in which the stock has been moved over a period of time. The tax laws allow you to do a lot of things if you are—I hate to say it—reasonably creative. You can gift or purchase stock with contractual arrangements.

FB: *You mentioned that you are more conservative and your son is more growth oriented. Has that led to any conflicts?*

Hunter: Well, a father might say, "Gee, things are going well. Why disturb anything?" But the

son says, "We need a new computer. We need a new phone system." And he is absolutely right. That is why we need younger thinking in companies like our own.

WASHINGTON CREDIT INC.

Business: Debt collection for department stores, banks, communications companies, and others.

Location: Redmond, Washington, a suburb of Seattle.

Projected 1992 earnings: \$5 million on total collections of \$14 million (contingency fee basis).

Employees: 90

Founded: 1950 by C. Dan Hunter.

Family officers: C. Dan Hunter, chairman; Steven J. Hunter, president; Irene W. Hunter, vice-president and secretary-treasurer. The three also constitute the company's board of directors.

Third generation: Steven's son Jeffrey Hunter, 23, who is employed as a collector.

Stock: The WGI stock has been transferred to Steven under a gifting and purchase plan. The Hunters' estate plan strives for fairness by allotting other assets to their daughter, Linda McCammon.

Claim to Fame: Provides effective debt collection for its clients by combining family values that emphasize respect for the Golden Rule with highly sophisticated telephone and computer systems.

TIPS ON IN-HOUSE COLLECTION

Credit collection has become a highly specialized business. Most small and mid-size companies don't have the time or money to do it themselves, but Dan Hunter feels they can if they establish proper rules and procedures.

Most companies turn over delinquent accounts to an outside agency or law firm; some set up an in-house agency that operates under another name but is staffed by employees of the firm. The in-house agency must abide by the same laws as outside agencies.

Hunter offers these tips to credit grantors who want to develop in-house collections:

- **Set up rules to qualify customers to receive credit.** Examine credit reports to increase the

odds that people can pay, will pay, or can be made to pay.

- **Decide what the credit limit will be and stick to it.**
- **Establish a billing system with rules for minimum payments.** If you say the customer must pay by a certain date, be sure to follow up with a letter or phone call if payment is not received.
- **Don't make idle threats.** If you tell the customer you will take some action on the fifth of the month, be sure to do it then and not next month.
- **Respect the debtor and learn to talk things over with him or her on the phone.** Most people want to do the right thing and will if you give them some incentive and help them solve their problem if they don't.

--H.M.

TRACKING DOWN SKIPS

By John Swenson

Before you can get people to pay, you have to find them. Tracking down debtors who have disappeared without leaving a forwarding address is called skip tracing. Thanks mostly to computers, debt collectors have become a lot more sophisticated at hunting down skips.

Washington Credit Inc. buys optical data disks from U.S. West Communications that contain information on 12 million individuals and businesses in 14 Western and Midwestern states. The disks are updated monthly. The system, called LocatorPlus, allows WCI to search for anyone by name, address, telephone number, and other criteria.

If WCI collectors don't find whom they're looking for with LocatorPlus, they can try an online computer service from one of the nation's three major credit-reporting agencies: Equifax in Atlanta, Transunion in Chicago, and TRW in Orange, California. They can search microfilmed real estate records. They can look in R. L. Polk city directories and "reverse" directories published by phone companies, which list phone numbers by street address. They can consult a national change-of-address file kept

by the U.S. Post Office; Dan Hunter says that people who move to avoid debt may nonetheless change their address so magazine subscriptions can be forwarded.

Collectors can also call affiliate agencies in other parts of the country. In some circumstances, they can even search motor-vehicle records at state licensing departments.

Collectors frequently phone friends, neighbors, former employers, and others for clues to the whereabouts of skips. By law, they can't say they work for a collection agency unless asked. The law is designed to protect people's reputations, Hunter explains.

WCI's 90 employees place about 12,000 calls a day. Every month they mail about 30,000 letters. Not surprisingly, a lot of the calls never get returned, and many of the letters go unanswered. But collection agencies don't give up easily. WCI has found people years after they assumed their creditors had forgotten all about them. The company files about 500 lawsuits a month, Hunter says, but while many people consider that a large number, he adds, it is really relatively small.

Sometimes collectors do give up, Hunter said. This usually happens with people who declare certain forms of bankruptcy or who are truly destitute and have no ability to pay.

But for those who have the ability and just don't want to pay, there's no getting around this sobering fact: their debt is never going to go away by itself. Says hunter: "It just stays there and festers." ■

Howard Muson is a writer, editor and consultant, and former editor and co-publisher of Family Business Magazine.

John Swenson is a business writer for the Journal American in Bellevue, Washington, from which this item is excerpted with permission.

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