

Accounts Placement of Delinquent Commercial Accounts

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At the outset of 2016, Commercial Collection Agencies of America embarked on a study analyzing accounts placed for collection with agency members in 2015 and looked at how it changed from 2014. Movements between quarters were also reviewed with an emphasis on changes from third quarter to fourth quarter.

Three indices - **number of accounts placed (received), dollar amount of accounts received and the resulting average-sized account** - were examined.

In a supplemental study, we also requested commercial collection agency members opine on future account placement. The following are the results of both studies.

We first examined **the number of accounts placed** for collection. When the movements between quarters within a particular year were reviewed and compared year to year, we found that in 2014, the number of accounts increased from third quarter to fourth quarter by 11.41% and in 2015, the gain from third quarter to fourth quarter was much larger: 32.4%.

The analysis of number of accounts placed within a year typically shows that the third quarter has the lowest placements when compared to its neighboring quarters. As history has shown, the declines reflect the seasonality of the data with the third quarter usually registering the lowest placement figures.

The final quarter of the year consistently holds the largest number of accounts placed when compared to the previous three quarters of the year. This is not only true for 2014 and 2015, but in previous years studied as well. These statistics support the notion that credit professionals place accounts for collection prior to year-end to accommodate their bad debt write-off policies.

Although agencies have come to expect a larger number of accounts placed in the fourth quarter, supported by the aforementioned increases, the interesting point for this analysis is the substantial percentage increase in 2015 and the resulting larger inventories of accounts.

When we examined the **dollar amount of accounts placed**, we did not see as drastic of movements as we did with the number of accounts placed. Our analysis historically has shown that any change over 8% is considered significant.

In 2014, the dollar amount of accounts placed increased 6.63% from third quarter to fourth quarter. In 2015, we noted

an increase of 6.58% from third quarter to fourth quarter, which brought the dollar amount of accounts placed back up to the 2Q 2014 level, approximately \$1.1 billion.

As we have previously reported, the review of the last seven quarters showed that the **average dollar amount** of a delinquent receivable placed with a certified commercial collection agency ranges from just above \$2,400 to slightly less than \$3,100.

While using the same sampling of certified agencies for the period analyzed, this average has stayed consistent for a number of years.

Our study showed that in 2014, we saw a consistent declining average all year long, with the final decrease from third quarter to fourth quarter: a drop of 4.3%. In 2015, we saw increases and decreases from quarter to quarter. From third quarter to fourth quarter, the average-sized account decreased a substantial 19.3%.

THIRD AND FOURTH QUARTER ANALYSIS

When we compared the third quarter of 2015 to the third quarter of 2014, and the fourth quarter of 2015 to the fourth quarter of 2014, we found the following:

In the third quarter of 2015, a slightly lesser number of accounts were placed for a larger total dollar amount of accounts placed, which caused a larger average-sized account than in the third quarter of 2014.

In the fourth quarter of 2015, when compared to the fourth quarter of 2014, the number of accounts placed was higher and the dollar amount of accounts placed increased, which caused the average-sized account to decrease slightly.

FOURTH QUARTER OVER TIME

The number of accounts placed for the fourth quarters of 2007-2013 began with an increase in the number of accounts placed from 2007-2009, followed by a sharp dip from 2009-2013. Our study revealed an increase from 2014 to 2015.

When the dollar amount of accounts placed is reviewed for the fourth quarters of 2007-2009, there was an increase, but a steady decline from 2010 to 2013. As we saw in the number of accounts placed, there was an increase from 2014 to 2015 in dollar amount of accounts received.

The average-sized account placed for collection consistently increased over the time span studied: fourth quarters of

Time Frame	Significant Decrease	Moderate Decrease	Neutral	Moderate Increase	Significant Increase
Next 3 Months	2.7%	8.1%	24.3%	48.7%	16.2%
Next 6 Months	2.7%	8.1%	16.2%	64.9%	8.1%
Next 12 Months	2.7%	8.1%	18.9%	59.5%	10.8%

2007-2013. In 2015, we saw a slight (less than 2%) decrease in the average-sized account over 2014.

If we look back on the state of the economy over the last year, the increases in number of accounts placed and dollar amount of accounts placed are simply explained: the slow pace of the economic rebound exacerbated by the weakness of the manufacturing sector.

A LOOK INTO THE FUTURE

We recently surveyed our commercial collection agency members regarding the future account placement volume. We asked the agencies if they expected an increase, a decrease (and the severity of that increase or decrease) or if they expected neutrality in the accounts to be placed with their agencies in the next three months, six months and twelve months. The above table shows the results of the survey.

When we look at the account placement volume and changes in 2015 and the survey results regarding future placements, we consider how the slow economic recovery in 2015 impacted the collection industry. Moreover, we are interested in how the industry may be impacted given the economic predictions of 2016.

According to William Strauss, Senior Economist and Economic Advisor at the Federal Reserve Bank of Chicago, we are seeing a moderate and steady growth in GDP. While it expanded a less-than-anticipated 1.9% in 2015, the Federal

Open Market Committee is forecasting that it will grow around trend in 2016 - between 2.1-2.3%. As shown above, the feeling amongst commercial agencies is one of cautious optimism: the majority of our agency members forecast a moderate increase in account placements.

Further, according to Strauss, we are in the seventh year of the expansion. Since the beginning of the expansion, manufacturing output has been increasing at a 3.4% annualized rate and is expected to increase at a rate below trend this year. As many of our agency members represent major manufacturers across the US and abroad, that moderate growth rate has had an impact not only on the dollars and numbers of accounts placed for collection in previous years, but the member agencies' outlook for the rest of 2016.

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