

We Understand  
Community  
Associations.

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## Don't Play the *Waiting* Game!

### Keys to Collecting Assessments in a Troubled Economy.

In these tumultuous economic times, even the healthiest community associations are experiencing the crippling effects of delinquencies and struggling with how best to address this serious problem. No community has avoided the sting of the financial crisis, and some communities know all too well the impact of foreclosure and bankruptcies. In times like these, associations are naturally examining their collection programs and looking to develop a more cost-effective approach.

In reaction, some boards of directors are taking it to the extreme when it comes to pinching pennies. Frustrated by mounting delinquencies, some boards are hesitant to spend association dollars on collections, particularly when they believe doing so will yield little or no results. These boards limit or even

impose a moratorium on collection activity, while the delinquent balances continue to grow. This approach, however, typically is the most dangerous approach for communities. Instead, in challenging times, the best collection results occur when you pursue delinquent accounts early and aggressively.

### *The Early Bird Catches the Worm!*

When deciding on a collection strategy, community associations should keep in mind the wisdom of the idiom, “the early bird gets the worm.” Associations who pursue delinquent owners early are more likely to collect the balances owed for several reasons.

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First, common sense dictates that smaller balances are more manageable. Delinquent owners often can cope with and see their way out of such manageable debt.

The association is more likely to work out payment arrangements with the delinquent owner because the owner can wrap his or her head around the amount owed. This not only addresses the current delinquency, but converts the owner to a timely payer of future assessments. Conversely, when associations abandon or delay collections, owner balances simply continue to grow.

As owner delinquencies increase, many delinquent owners become overwhelmed by the size of their debt and become incapable of foreseeing any way to dig out of the hole. The natural reaction often is to stick a head in the sand and hope the problem will go away. Of course, the problem does not go away, and the inevitable results are lawsuits, garnishments and more costly attorneys' fees than if the owner resolved the delinquency earlier. Addressing the debt earlier may not completely eliminate the need for lawsuits and post-judgment collections on some delinquent owners, but it should reduce the number of delinquent

owners that the association has to pursue through litigation and increase the effectiveness of the association's collections.

An additional benefit of pursuing owner delinquencies early is that the association is more likely to be paid if it pursues collections before other creditors. Associations are rarely the only creditors of delinquent owners. With other creditors competing for the same funds, the association should pursue the debt early for two main reasons. If the association is the first to demand payment while the delinquent owner still has funds at his or her disposal, the association is simply more likely to get paid. The higher the delinquency, the less likely an owner is to have funds to pay delinquent amounts owed to the association.

Also, community association assessments often are a low priority for delinquent owners going through hard financial times. Without early contact by the association, delinquent owners often believe that they can ignore their obligation to pay assessments without any recourse by the association because they have gotten away with it this long. Associations should pursue collections early to not only have a higher likelihood of receiving a portion of the delinquent



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owner's limited funds, but also to ensure that the delinquent owner gives the association's debt due priority.

### *The Squeaky Wheel Gets the Grease!*

Another idiom that imparts wisdom on association collections is that "the squeaky wheel gets the grease." Community associations should not only act early in pursuing collections but also should act often and firmly to repeatedly remind delinquent owners that their debts exist and need to be paid. Attorneys are absolutely essential here, particularly attorneys that incorporate trained phone collectors into their collection processes. When delinquent owners are bombarded by multiple creditors, the creditor that speaks out the most often is the one paid first. Because delinquent owners often afford the association a low priority in comparison to other creditors, associations should combat these owners' opinions by educating delinquent owners, early, often and firmly, of the consequences of not paying.

### *Don't be the Child Who Cries Wolf!*

Another vital aspect to successful collections is that if the association

threatens legal action against delinquent owners, the association should be prepared to follow through on that threat. Credibility in collections is extremely important to achieving desirable results. If a delinquent owner does not believe that the association will take the action threatened, that owner will believe that he or she has no reason to pay or comply with the association's demands. The concept of an empty threat and its diminishing returns is something with which everyone is well acquainted. Follow through on threatened actions is essential to be effective at collections.

Boards of directors have legitimate needs to be fiscally responsible and prudent in these economic times. However, pursuing collections and legal action against delinquent owners is necessary for financial stability. It is vital for community associations to work with their attorneys to both develop an effective collection policy and, whether choosing traditional, fixed fee or contingency billing approaches, to establish a fee arrangement that meets the needs of the community.



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