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## Reduce Costs of Scoring to Maximize the Benefits

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From my seat as a debt collection attorney, the concept of credit scoring and skip tracing are very closely related. The main reason for this determination is that many vendors provide both credit scoring information and skip tracing data. In fact, this information is often provided as a suite of products from the same vendor, for example, offering a FICO credit score and a current address. As we will see, this information might be very useful in certain instances.



Whether you are new to the concept and use of credit scoring or a seasoned veteran, do you really know what type of score you are really getting or what attributes are utilized to arrive at the score? A FICO score is created by Fair Isaac Corporation and is generally the most widely used credit score allowing lenders to make their credit decisions. The credit scores range from 300 to 850 and are calculated based on information found on a credit bureau report. However other scores are not based on credit attributes at all; some may be based on behavior patterns such as how you have paid a lender in the past while others may be based on age, demographics, and property ownership, among other factors.

### **Budget**

In making your decision on what score to use, you need to have a clear understanding of what you intend to do with the information. Trust me on this; if you are not paying attention to this issue in your office, you may be burning a significant amount of money on data you do not use. For that reason, once you have determined the type of information you would like to see, it is important to develop a budget. I can recall many instances when my staff would engage resources of a scoring vendor without regard to cost. Guess what? The bills can get pretty ugly if you don't maintain proper controls.

### **Selecting Accounts**

Now that you have the budget, the next step is deciding which accounts will be sent to the vendor. This is where the "type" of scoring product becomes very important. If you are purchasing a credit score along with address information, this may be useful for all accounts that are placed with your office. What about non-producing judgments? How much do you want to spend on these accounts? Are you going to send "all" of your non-producing judgments to a

vendor or just certain clients? This is an area to be very careful as to your expenses. It is important to look at the likely returns you might achieve from the data received. Further, certain clients with large balance accounts may provide better return with the proper information.

### **Selecting a Vendor**

So which vendor do you use? In my opinion, a champion/challenger approach is always a good alternative. Each vendor always has the latest and greatest products and services; however, the bottom line is the Return on Investment (ROI). This process must begin by speaking to your internal systems people to understand the reporting your company can generate. If your firm is small and you do not have this capability, hiring a consultant would be beneficial. In my experience, the major issues in reporting surround the creation of a data warehouse to keep track of the files that are sent to a particular vendor, the date sent and the data returned. Better planning at the beginning of the process will help you create tight reporting down the line. I would not begin the process of using credit scoring without developing a process to determine ROI. Once you have this diagnostic scheme in place, I suggest using two different vendors that provide scoring. Choose a batch of accounts and send them to each vendor. At the end of six months, evaluate which files/ vendors produced the greater return. But don't stop after the first six months. This should be an ongoing evaluation that assures costs are under control and the vendor knows their results are always under review.

The bottom line is that all of our businesses have changed dramatically in the past few years. Handling your files the same way as you have in the past just does not work anymore. We cannot afford to spend money on scoring data that does not provide benefit to the firm. Simply put, the proper use of scoring has the opportunity to provide substantial benefit to your law firm.

Source: *collectionindustry.org*

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Enterprise Revenue Collections & Debt Recovery Software Systems

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**Kollect Systems Sdn. Bhd.**

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