Module 1

1. **Overview**
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2. **Understanding the Role of Credit in Business**
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Overview

Consumer Credit entails giving credit to private individuals. It can be in the form of loans, the provision of utility services such as phones, electricity, gas, bin collection service, home shopping, local authority and a host of other services.

Some consumers consider receiving credit as a right that they possess. It is, always has been and will continue to be a privilege and one that has to be earned and respected and minded so it will continue. Many years ago, people had coin meters in their homes for electricity and gas, you put your money in the slot and you got your supply, the money ran out, so did the supply.

Even still Pre Pay mobile phones are popular with users and a preferred choice by some who don’t want the expense of a monthly bill. I can also see a growth in the pay as you go model of providing services to reduce the number and size of monthly household bills and to help people to manage their money in a more focused way.

Just for the record I believe that in the not too distant future our mobile phones will become our wallets, our credit cards and our passport to credit. We will be able to make purchases, sign up for services, link to our bank accounts and our mobile phone number will become as valuable as our PPS number as a means of personal identification and establishment of a credit rating.

In Ireland we are only at the first step of developing a consumer credit scoring model, and in real terms none currently exists. Yes, there are agencies like the Irish Credit Bureau (ICB) and Stubbs Gazette that have payment scores and judgment information. There are scoring models we have developed and shared with a number of players in the market.

There is nothing the equivalent of the American FiCo Score, every American knows their score and the amount of credit available, the cost of credit, the interest rates and even their car insurance rates are driven by their FiCo score. There are internet services promising to help you improve your credit score and also improving the quality of your life. You can download a FiCo scoring App for your phone if you want to see the types of questions asked in determining your score.

As part of your learning for this course log onto www.icb.ie and download the sample credit report. I think you will find it interesting to see the information they hold and how they hold it. You also can if you want, invest €6 to receive your own report, just to see what they have on you and if it is up to date and correct. Particularly if you are looking to a major purchase say buying a house if there is something negative in your past record this could cause a lender to reject your application, details of this rejection will also be kept on your record for a number of years, so if the original information is incorrect or out of date, you have the right to have it amended.

Just for the record, the first Company to offer consumers credit was the famous Singer Sewing machines, at the time they were sold from door to door and because of the high price of the units relative to the incomes of the people buying them they offered the first official part payment scheme as it was known and this proved so popular that there were Singer Sewing Machines in every corner of the world.

The simple rule applies that you should only give credit where it helps the customer to buy more. When dealing with consumers you must have clear and concise credit terms that are clearly communicated to the consumer on their bill. In the case of a loan it must be clear whether the repayment should be made weekly or monthly, the exact amount of the payment and the exact date it is due. E.g. In the case of a loan: €1,000 to be repaid by 12 monthly instalments of €97.44 payable on the 15th day of every month. If the loan is to be paid weekly, you should specify the day the payment is to be made each week: e.g. €1,000 loan to be paid by weekly instalments of €21.89 on Thursday each week. In the case of a service: Payment of this invoice to be made on or before the 23rd of the month. The clearer you are and the clearer you communicate your message the more successful you will be.

In addition to having clear payment terms, it helps if you can offer some incentive to them to pay on time, for many years the ESB offered all customers who paid either by Direct Debit or on time by another method entry to a draw for a car. This offer has now ended, I think it can be a good idea, depending on the number of customers you have, the perceived value of the prize on offer versus the cost of providing the offer. It is easy to quantify the benefit of such an offer by working out the improvements in payment patterns since the offer started and how much you are saving by getting your money in sooner and putting it against the cost of the offer. Then it only a simple matter of sums. Are you making more than it is costing? If yes then continue with the offer. Is it costing more than you are saving? Then stop that offer!

You also have to look at the figures on a monthly basis to make sure it is still a good idea. I offer some simple calculations for your consideration later in this section to show you the types of things you should take into account when calculating these figures.

One of the things that is going to be repeated here many times in different contexts is that the Law of Diminishing Returns applies to a number of our activities in consumer credit. The prize offer may capture the imagination of your customers at the start but its impact will decrease each month while the offer remains in place until you reach a point there is no point continuing with the offer. You will see the same applies to letters and other activities that have a lifespan and then need to be changed to continue to get the desired effect.

You might be saying, I thought this was going to be a course about collections and here we are on the very first page and you are already talking about sums. I can assure you that the course ***is*** about collections, it will also cover anything that will help you in your role as collector and if you can bring intelligent suggestions to management that will help you get paid faster and easier then I am happy to give them to you. The more value you can add to your organisation the more valuable you become, As a result of completing this course you will become a more valuable resource to your business or organisation.

As well as offering incentives, you also need to offer some consequences. If you receive a fine for say parking, you have 28 days to pay say €40, if the fine is unpaid the amount increases to €60 for the next 28 days, if it still remains unpaid you face a court appearance, a hefty fine and the possibility of a criminal conviction – this makes the €40 look like good value and you are more likely to pay the amount earlier rather than later.

You might say, that’s ok for fines where you have the weight of the State behind you, we just provide this service or that and we don’t have that muscle, whatever your business you can create a real and serious consequence, and you must if you are to be successful, we will cover this point in more depth when we get to the section on reasons for non payment, when you will find out the types of consequences that are effective and the ones that are not.

The role of the collector

There are a number of different types of collector. There is the collector who is employed by a company or financial institution to secure payment for the provision of a one off or ongoing service. There is also Debt Collectors who work for an agency who have the job of securing payment where the creditor has been unable to get paid with their own resources.

In the first case building the relationship is important in the case of Debt Collectors the primary purpose is to secure payment and the relationship is of secondary importance, as a decision has usually been made not to continue to do business with this person.

In Ireland there are few Laws relating to the topic of Debt Collection or indeed the topic of collections in full, so this course seeks to set the standards and set out the guidelines that are both fair and effective.

The role of the collector is simply to get payment. There is a very important addition to the role of collector that is often missed and is a central part of the course you are working on, that is as a collector your job is to get the money AND keep the customer. The temptation is to look at problems as consumer collectors are dealing with problems every day, the difference between this module and others is that here you are encouraged to look at solutions. Every case that comes across your desk, there is a solution; your job is to find it. It may be in asking for all the money today, it might be a split payment, it might be a payment plan, it might be a part payment, it might be a part credit – without the facts it is impossible to tell what is appropriate. With the facts and the instructions you will receive on this course, you will be able to skilfully arrive at the best possible solution from your perspective and your customers'. Remember you only know you have arrived at a successful conclusion when nobody is fully happy, but all are prepared to accept the arrangement and deliver on it as agreed.

One of the main tools a collector has in pursuit of the money is offering "peace of mind" to the person who owes the money. This can take many different forms and we will explore each of them in further modules and show you how to find the correct solution.

The successful collector will communicate with confidence and can easily cut through the problems and excuses to get to the solutions, they will prioritise correctly making sure the right calls are done in the right order and they will keep accurate records of every call, every contact and every word that was said and every agreement that has been made. This record will become the catalyst for the next round of communications.

The collector must have a wide and varied range of tools and know how and when to use as appropriate. The standard tools are the telephone, email and letters. The greatest collection tool of all is your own personality, your ability to get on with people, your ability to explain in simple terms what should be done and your perseverance in making sure you follow up relentlessly on every single customer to make sure you get the correct result every time.

The collector has to prepare thoroughly for every single call; in general terms the more experienced a collector the less preparation time is required. There are a few essentials you must have every time you make a call. Part of your preparation is about gathering the following information:

1. Name of the person who owes the money.
2. Phone number of the person you wish to contact
3. What is the history of this account – all you need here is previous promises or past contacts that were promised but not followed up on. Having access to this level of information can help you set the tone for a more successful call.
4. How much do they owe?
5. What time period is covered?
6. What do I want to achieve from this call?

Knowing these six pieces of information should be enough to initiate any call. You should also complete a quick check to see all money received has been posted and allocated to their account. This can take a couple of minutes or for some they can glance at the information on the screen as they are hooked up to an automatic dialler, that has the next call lined up as soon as the first call is over.

Communications with the debtor must always be for a reasonable purpose. This includes:

- To give information about the account that is owed
- To get acceptance of the debt
- To ask for payment
- To explain the consequences of non payment
- To define the steps that will be taken in pursuit of the money due
- To make arrangements for repayment including agreeing a payment plan
- To establish why previous agreements have not been honoured

It is not reasonable to:

- Frighten or intimidate a debtor
- Threaten or harass the debtor
- To embarrass the debtor in front of other people
- Call with such frequency that could be taken as intimidation

When the call is made the first stage is to establish you are talking to the correct person. Under Data Protection legislation you are not permitted to discuss the affairs of anyone with anyone else, even a family member. The only exception to this rule is where the loan or account is covered by a guarantor. If this is the case the Creditor (You) can contact the guarantor on the basis that they are liable for the payment in case of default. So, you must make sure you are talking to the correct person before you divulge any information about the debt.

Different Companies have different guidelines for establishing the identity. Some simply ask “Is that John Brown?” and if they get an affirmative answer they proceed with the call. Because larger Companies have a greater responsibility when it comes to Data Protection , it is often a good idea to ask a qualifying question to confirm the identity of the person you are talking to. This could be:

- Ask for their address
- Their date of birth
- Their Account number
- A password they may have on the account
- Their payment method
- How long they have been doing business with you
- Any other information that only the person would know

When you have established you are talking to the correct person you can then identify yourself and the company you are calling from or the company you are calling on behalf of. You should give basic information about the debt, the amount, maybe the age of the debt and the task at this stage is to get admission of the debt. “Mr Jones, do you accept you owe €345.87?” is a good starting point, once you have established you are talking to the right person and you have established they accept the debt, the next stage is to simply work out HOW they are going to pay it. We will be dealing in greater detail with all the good and bad questions and the good and bad words later in the course that will bring you to the next stage of the call which is looking for a commitment.

I am aware that this is a lengthy course that covers every aspect of collections; my advice is not to over complicate things. Keep the call as short and as simple as you can and always focus on getting the payment.

In the same way that a salesperson is always looking for an opportunity to close a sale, you should always be looking for opportunities to close the call and get the promise of payment which is the next step in the process.

We will be spending a large portion of the course dealing with the middle bit – making the call and how to control it from the start, so we won't go into details here.

Thirdly and finally in this section a key part of the role of a collector is to keep accurate records. There are two main areas of concern; firstly accurate records on the customers and the six items listed above and secondly, accurate records on every call that was made, who made the call, who they spoke to, what time the call was made, the duration of the call, what was agreed and what date a follow up action is required if the promise has not been acted upon.

You must treat your customers with respect and dignity. Sometimes collectors see the people they are talking to as an endless stream of debtors, debtors who are in default and need to be shown the error of their ways. If you adopt this approach you will have a day filled with hassle and arguments. You need to view each call as a unique individual and be able to adjust your collection style to

The role of collector also includes knowing what information is available and where to get it and what to do with it when you have it. The first source of information should be your Credit Application Form or for Financial Institutions the Loan Application Form. This should be completed for every loan granted. I am aware that in some Credit Unions where they offer a series of top up loans this can be glossed over, my advice is still complete an Application Form for EVERY transaction. This will ensure you have the most up to date contact information.

I have shown below a copy of a suggested Loan Application form for Credit Unions, I am sure there are elements that could be incorporated into your own form to improve it.

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Credit Union Loan Application Form

Contact Details

Mr ☐ Mrs ☐ Miss ☐ Other ☐ __________ Date of Birth: ________________

First Name____________________ Surname________________________________

Current Address ____

____

Telephone Home_________________ Work ______________ Mobile ____________

Marital Status Single ☐ Married ☐ Separated ☐ Widowed ☐ Co Habiting ☐

Number of dependants (Excluding spouse/ partner) ☐

Residential Status At home with parents ☐ Tenant ☐ Home owner ☐

How long at this address ______________

Previous addresses if less than 5 years: (1)_________________________No Years__

(2)_________________________No Years__

(3)_________________________No Years__

Residential Status of last previous Addresses:

At home with parents ☐ Tenant ☐ Home owner ☐ Mortgage ☐

Name of Partner/ Name of spouse____

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Employment Details

Employed ☐ Self Employed ☐ Homemaker ☐ Unemployed ☐

Name of Employer ____

Address of Employer ____

Position ________________________ No Years Service ________________

Previous details – if less than three years

Name of Employer ____

Address of Employer ____

Position ________________________ No Years Service ________________

Bank

Credit Card: Visa Mastercard MBNA Other __________

Ongoing Commitments:

	Monthly Cost	Amount Owing
Mortgage/ Rent		
Car Loan		
Credit Cards		
Overdraft		
Other Loans (including Moneylenders)		
Store Cards/ Mail Order		
Childcare Costs		
Maintenance		
Other Credit Union		
Total		

Mortgage Provider ____

Income Details

Weekly/ Monthly take home pay € __________ Spouse €_____________

Other Income € ___________Spouse € _____________

Loan Details

Amount Applied For €________________ Term of Loan: ______________________

Purpose of Loan __________________________________Loan Number: ________________

Repayments Amount: € _________________(Includes/ does not include RPI see below)

Weekly Monthly ☐ Lump Sum ☐ Other ☐ Specify _______________

Repayment Method:

Standing Order ☐ Direct Debit ☐ Personal Lodgment ☐ Other ☐

If Other – please specify: ____

Repayment Protection Insurance (RPI)

The benefits of repayment protection Insurance have been explained to me and:

I Wish to protect the repayments and have received the policy documents

Signed

I understand my repayments are not protected

Signed

I declare I am not indebted to any other Credit Union, Bank or Loan Agency either as borrower or guarantor, except as stated above. The statements made herein are made for the purposes of obtaining a loan and are true to the best of my knowledge and belief. I also hereby authorise YOUR Credit Union to make whatever enquiries that are deemed necessary to process this application including sharing account and loan data, with other Credit Unions, consumer credit reference agencies and/ or UnionCheck.

Signature of Applicant____________________________ Date _________________ Joint Account only:

Signature of Applicant____________________________ Date __________________

For Office Use

Supporting Documentation

Year Account Opened ____

Account Status currently ____

Loan to Shares Ratio __________: 1

% Disposable income to debt repayment: _______________%

Savings History ____

Previous Loan History ____

If employed:

Pay Slips	☐
Last three months Bank Statements	☐
P 60	☐

If self employed:

Full set of Accounts	☐
Tax Clearance Certificate	☐
Revenue Notice of Assessment	☐

Form of Security

Savings

Guarantor

Letter Of Undertaking

Title Deeds

Other (Please Specify) ____

Proposed Guarantor Name ____

Address ____

Occupation ____

Contact Number _______________________ CU Account No ________________

Standing Order Signed Direct Debit Signed

This form is supplied to assist Credit Unions in asking the correct questions when making a credit decision and as such is for information purposes only. It does not constitute legal advice and should be approved by your legal advisors prior to use. Laws are constantly changing and what you can and can't base a credit decision on changes.

It is not the intention of this course to go into detail on the component parts of this form that is reserved for the Credit Management course -this course will focus on just collections, so from your perspective you should have easy access to these details to help you in your collection role.

Your first point of information has to be the system you are using. That should contain all the personal and contact details for the customer, if for whatever reason the system hasn't been updated the form should be your back up.

If the information is out of date or has changed since it was updated you have a number of options. The phone book is available online www.eircomphonebook.ie make sure you select the correct tab for either business or residential at the top. It should return a result for you.

You can simply type the person's name into your search engine and see what results are returned, this is a high risk strategy and you have to be very careful you get the right person.

If there is no contact and the value is significant, getting someone to call to the house to verify if they still live there or where they have gone to can be simple and effective.

For people who have "gone away" there are a number of tracing agents who will use their resources to find where they are and give you their latest contact details. Some operate on the basis that there is only a charge if they find them; it is always a good idea to make sure you are dealing with reputable agents as you could be liable if they act in an improper manner.

Other sources of information include:

Stubbs Gazette/ Experian Gazette – every week Stubbs/ Experian publish a list of people and Companies who have had judgments registered against them. They keep all the information and it is available on a searchable database (for a small fee).

The role of the collector is to be able to distinguish between high risk and low risk behaviour

The role of the collector is to be able to negotiate payments

You also need to be familiar with the different payment methods that are available to you.

In a competitive market you have to make it as easy as possible for your customers to pay you on the due date. Traditionally in Ireland the main payment method used is cheque payment which works well as long as the cheque arrives when it should and it clears through the bank first time. There are other methods you should consider:

The first is simply either cash in advance or cash on delivery, I know that strictly speaking this method of payment does not involve granting credit and should not be covered on this course at all. It is often the Credit Control team that get to make the call on who gets credit or not and cash can be a way to deliver the goods and secure payment at the same time, which is the job of an effective Credit team. The rule of credit is that you should only give credit if it helps you to sell more, needs to be put into practice all the time. There are variations on this – Payment in advance, Credit card payment etc.

If you are providing a service that is a standard charge every month you should consider asking your customer to sign a **Standing Order** which instructs their bank to pay a set amount on the same day every day, every two weeks or even every month or quarter. Because it is automatic it tends to be paid and eliminates the job of getting the customer to write a cheque every month. If using this method, make sure it is set up correctly so you can identify the customer every time, if the standing order appears on your statement as a reference number, a simple spreadsheet will record the numbers that you can refer to every month. In this case the customer is in control and they pay the bank charges.

If you have a large number of small value customers offering a Direct Debit payment option can be attractive. Some think a **Direct Debit** & Standing Order is the same thing in reality they are opposites. To generate Direct Debits you must be an approved Direct Debit customer of the bank and you have to generate an electronic file to send to the bank with your customers' bank details and the amount you are looking for. As you get to set the amount this works best if there are variable amounts every month. Direct Debits can be taken on the day you choose e.g. the 15th or the 28th of the month following. Direct Debits can bounce if the funds are not there to meet them; you are alerted there is a financial problem sooner that if you were phoning constantly trying to get a cheque. As a rule of thumb the banks would want to see a minimum of €100k per annum before they would agree to set up. There are a number of changes to the Direct Debit system that came into effect on 1st February 2014 – to facilitate the changeover to SEPA (Single European Payment Area).

Offering your customers a facility to pay by **Credit Card** or **Debit Card** is a good way of getting paid easier and more quickly than ever before. Be aware of the charges that are levied and know that taking Debit Cards can be a lot cheaper than Credit Cards.

Having a Credit Card facility can open the door to you to offer online payments. More and more business is being transacted online so offering this facility can aid your collection process. If you have a small business and you can't get approval for accepting credit cards or the card issuers are looking for huge deposits to set it up **PayPal/ Stripe** could be an option for you. There is a transaction charge that is higher than the credit card companies, however there is no set up fees, no monthly charges and you can transfer the money from your PayPal/ Stripe account to your bank account for free as long as it is over a certain amount.

There are other methods like **Letter of Credit** or **Bills of Exchange** that are mainly used for exporting but not exclusively so if a situation exists where you require more security this could be an option for you to grant a set period of credit knowing the payment is effectively guaranteed by the bank, it works well as long as you comply fully with the terms of the letter, and experience shows that great care is needed.

In difficult times it could be an idea to look at other options e.g. **Contra Account** where your customer becomes a supplier. You should have a formal offset agreement with them and this can be useful to offset some of your exposure to them.

Finally there is a return to a very old system of **barter**. At a time of great expertise and very little money, where business experts have more time than money it is happening more and more where for example a business consultant will help a web designer to grow their business in return for a top class website. In times when money is short and time is available this seems like a sensible idea to grow business on a low budget.

Look for ways you can bring value to other businesses and improve your own at the same time. The easier you make it for your customer to pay and the more value they place on your service the better position you are in.

Proper record of calls made and action taken

It is essential that a permanent record is kept of every call made, what was said on the call, exactly what was agreed and a follow up date to confirm that the agreed action really happened.

If a call is made or received and all the information detailed above is not received then the time was completely wasted. Each day should provide a building block to build into the total result you are looking to achieve. As well as making monthly targets it is a good idea to set longer term targets to provide a roadmap of where you are going.

(It is a good idea to frame your targets even in an aspirational way for example: our debtor days are currently at 77, by the end of the year we want to get them below 67. This type of target comes with a health warning it could have an impact on your sales and growth if you only measure your success in terms of DSO alone.

A better way of setting long term goals would be: we currently have €x in the bank, at the end of the year we want to have all our creditors paid in full and still have €y in the account. The later is a better form of target because the first is one dimensional while the second is all encompassing for your business and everyone will have to work together to achieve the result.)

The records of individual calls will become your best source of information to determine the credit worthiness of each of your customers. If there is a history of broken promises or if a customer is getting harder to contact this could be an indicator that they are experiencing cash flow difficulties.

If they never had account queries and suddenly they are having lots of them, either you are not delivering what you should or they are looking for an excuse to delay payments either way this trend has to be investigated. To the trained collector there are very few surprises and each customer acts in a predictable way, it is your job to know what these trends are and take the appropriate action at the appropriate time.

The challenge is to ensure your records are accurate and kept up to date on a regular basis. You should constantly update and question if they are:

Moving address	1. Make sure your records are maintained
	2. Are they moving to bigger or smaller premises?
	3. Why?
New Contact:	1. If there is high staff turnover it could tell a story about the business.

2. If directors and senior management are leaving suddenly, this too could be telling you something

3. If this is a regular customer and you didn't know the previous person was leaving, what does that say about the depth of your relationship with them?

Pricing	1. Should always reflect what has been agreed.
Terms	1. If longer terms were agreed, who signed them off, why were longer terms granted. Could there be a problem?
Limits	Credit limits or as you know we prefer to call them Lines of Credit should be reviewed regularly.
Unallocated Cash	1. If you don't know what your customers are paying, find out!

Follow up on the exact day, date and time you say you will, your Professionalism and the fact that getting paid is important to you and you are serious about what you say and you take what they say seriously as well can be an important factor in getting paid on time and in full.

The importance of Credit

When it comes to credit, I have heard it said that it is not the most important thing in the world but it is right up there with oxygen! Having the facility to obtain credit, and managing it properly it can improve the quality of your life; wrongly managed it has the potential to destroy even the strongest person. The growth of our consumer society has come about largely as a result of the availability of credit. Credit has the power to turn items of significant capital expenditure into an expense to make it more accessible for all concerned. An example would be a new car; we sell millions of cars around the world every week. Say the average price of a car is €15k – how many of the purchasers do you think has the full €15k saved up in their bank accounts before they make the purchase? Not very many, so without the availability of Credit very few cars would be sold, and our world would be a totally different place.

Because the consumer knows that there is finance available and the car will cost €67 per week over 5 years – they make their decisions to buy based on their capacity to make the weekly/monthly payment more than on the total price of the item they are buying. The same logic applies to all purchases of a significant amount; because we can break the total price into a weekly or monthly equivalent it generates business and grows sales.

Credit can also be used as a marketing tool, I am sure you have seen the ads for furniture stores and electrical appliances, offering interest free credit or a brand of car with either 0% or a very low rate that is aimed at making the product appear more affordable and as a result they will increase their sales. It is also used by the mobile phone companies who offer us great deals on phones if we opt to move from our prepay phone to a monthly credit account. In all of these cases there is a ton of small print and I would advise you to read it before entering into any contract. To save you the trouble of reading it all I will point out a few things you should be aware of.

With the interest free credit deals from some furniture stores, the interest free offer is on conditions that each payment is made in full as agreed. If a payment is missed the contract allows the interest to be charged and in some cases it can be as much as 29.9%.

Another ploy I have seen is that you get the goods interest free for one year. This does not necessarily mean you will pay for the items in full by 12 equal interest instalments. Say you buy a suite of furniture for €3,000. The interest free payments are €85 per month with the balance to be paid in the twelfth month.

Just as you are wondering where you are going to get the €2,065 to make the final payment, you receive an offer that rather than give them the €2,065 now all you have to do is keep making the €85 per month payments. This looks good, however this is NOT interest free and you could be paying the €85 for another 4 or 5 years, if it is for 5 years the €3,000 furniture will end up costing you €6,035 or more than double the ticket price.

When cars are offered at 0% finance, there is often a large deposit required and a balloon payment at the end. So you see headline ads saying drive this new €15,000 car for only €30 a week. Then the small print will tell you that you need a €7,000 deposit and a final payment of €4,880 at the end of two years. Now if you have the €7,000 at the start and you are disciplined enough to save the extra €47 a week so you will have the money for the final payment when it comes due, then this could be a great deal, because rather than paying interest, you will be receiving interest on your weekly savings. Most people aren’t that disciplined!

There are two forms of credit available, the first is from the banks, building societies, credit unions and other financial institutions. Typically a consumer applies for a facility and it is either granted or rejected and if granted has to be repaid as specified.

As a collector I think it is important that you fully understand the different forms of Credit that is on offer and the features, the advantages and disadvantages of each and what they mean in real terms. By understanding the ins and outs of each you will be in a stronger position to negotiate and the more you can help your customer with sound advice and direction the more likely you are to get paid.

The types of Financial Credit:

Overdraft

This is where a bank can offer the facility that allows you withdraw money on your account to a specified level. Without the limit if there is no money in the account you cannot take money out or write a cheque that will bring your balance below zero. With a facility of say €1,000 you can continue to withdraw money and write cheques until the balance gets to the €1,000 limit sanctioned.

The advantages are that you only pay for the facility you use, and you only pay interest on the amount you are overdrawn on a daily basis. The facility remains in place and is usually reviewed on an annual basis.

It should be used to smooth out seasonal demands on your money and gives you some space to operate during the most difficult times of the year. If you are constantly at your limit, then you are using the wrong type of finance.

The disadvantages are that some people work on the basis that if they have a limit of €2,000 and they are €100 overdrawn, that means they still have €1,900 to spend! Another disadvantage of an overdraft is that it is repayable on demand. So from a business point of view it is not ideal as the bank can withdraw the facility at any time.

Term Loan

When you get a term loan, you agree to borrow a set amount of money for a set period of time. You are paying interest on the full amount from day one. Term loans are good if you are buying a big ticket item that is usually a one off purchase like a car or home improvements. The amount you owe reduces every month, you never owe more than you borrowed and usually you can clear the loan at any time without penalties.

Leasing

There was a time when leasing was reserved just for businesses now it is a standard method for consumers to make a purchase particularly of cars. While the application process and the payments look exactly the same as a term loan there are two big differences. Firstly the goods are the property of the leasing company and remain so until the final payment is made and secondly the full interest is added to the price on day one so if you buy a car for €12,000 and you lease it over three years at 10% and the agreed payments are €433 per month – you owe the full €15,588 on day one and your payments clear that down. Strictly speaking you have to pay the full amount although in reality some companies may offer you a settlement figure.

PCP Finance

Many car dealers are now offering finance in the form of a Personal Contract Plan (PCP) to consumers when they are buying a car. PCPs can appear very attractive because of the low monthly repayments and the convenience of being able to buy your car and sort out your finance in the same place. However, it is important to understand how these products work before you sign any agreements.

A PCP is a type of hire purchase agreement. You don't own the car until you have made the final repayment. With a PCP, repayment is broken down into three parts:

The deposit – the deposit is typically between 10% and 30% of the value of the car, depending on the finance provider. Your deposit can be paid in cash or if you already own a car, you can trade this in for part or all of the deposit, depending on its value.

Monthly repayments - PCP agreements are usually made for terms between three and five years. PCPs generally have low monthly repayments, which can make them seem more affordable when compared to other forms of finance.

Guaranteed Minimum Future Value (GMFV) – The GMFV is the amount you will have to pay to own the car at the end of the agreement. It is calculated by the finance company and is based on its estimate of the future value of the car at the end of the agreement, e.g. 3 or 5 years. It takes into account such things as, the car you are buying, length of agreement, the condition of the car at the end of the agreement and your annual mileage.

When your agreement ends: At the end of the PCP agreement, there are a number of options depending on whether you want to carry on or end the agreement:

- Pay a final payment (the GMFV, also known as a 'balloon payment') and keep the car.
- Hand the car back. Be aware that if you do opt to hand the car back, while you generally don't have to pay the dealer anything, you might end up having to pay a penalty if you have not complied with all the terms and conditions. You also will no longer have the car.
- Put the car down as the deposit on another car and enter into another PCP agreement. It is important to be aware that the deposit you put down for the first car will not be given back to you if you use the car as a deposit for a new PCP agreement. The equity you have built up in your monthly repayments and the difference of the GMFV is what you put towards the new car. All you have to put towards the new deposit is whatever equity you built up from the first PCP. This equity may be less than the deposit required for the new PCP, so be aware that you might have to top the deposit up. This could amount to a couple of thousand euro.

Credit Union

The Credit Union operates differently from other financial institutions, in a bank you put money on deposit, in a Credit Union you buy shares. When you put money into the Credit Union you become a part owner and are entitled, not to interest as you would in a bank but dividends at the end of the year depending on the Credit Unions performance. Not surprisingly some Credit Unions have not paid out any dividends in recent years due to the downturn in the economy and the need to make extra provisions for a possible increase in bad debts. On the other side their lending rates are very competitive and as a member you will receive more favorable treatment. This does not mean that the Credit Union is a soft touch. Most are extremely active in the pursuit of outstanding payments and some are affiliated to the Irish Credit Bureau so missing payments will be reported to the other financial institutions.

Financial literacy

The fact is that your customers are not very financially literate in some cases they would not even know what interest is, never mind how companies establish a credit rating and what they can do to improve theirs. They do not know what interest they are paying on the various facilities they are using, they do not know what their own bank charges were for the past six months, never mind how those charges are calculated. Before you skip on to the next section amazed at the reported lack of knowledge of the consumer you are dealing with can I ask you a few questions?

What is the interest rate on the various facilities you have?
What bank charges did you pay in the past six months?
How are the bank charges calculated?

Congratulations if you could answer these questions without looking the answers up. Hopefully this will illustrate the point about financial literacy.

When it comes to the point where the consumer needs money, the focus is on the getting of the money. The interest rate, the method of calculation, the length of time it will take to repay are of secondary importance to getting the money. The primary consideration is on the speed of getting the money that is needed for some emergency. Knowing this there are some organisations, money lenders and banks who take advantage of this and the hard pressed consumer is dragged down even further into a cycle of debt, where unfortunately most people reside.

Very little time is spent teaching consumers how to budget and even less time checking if they are doing it correctly. There are some basics that you need to learn right at the start and come under the following headings:

- Matching
- Weekly payments
- Credit Cards
- The number of payments
- Correct level of indebtedness
- Payment options
- Personal budgeting
- Savings
- Assets and Liabilities
- Headroom

Matching

Matching is a concept that has to be mastered to enable you to link the duration of the credit to the specific purpose for which it is intended. If you are on a regular monthly salary or income and take a major expense like car insurance, you have three options:

1. You can save up the amount in advance.
2. You can pay in full on the due date.
3. You can spread the payments over time.

Saving up in advance is probably the most sensible, most people don't. (If they did there would be no need for consumer credit in the first place).

Paying in full on the due date takes either some forward planning or some pain in the month in question, where a significant chunk of money comes out of a single salary check, it is ok if there are sufficient savings to back it up or enough of a surplus to be able to pay all the other bills.

The third option is to opt to pay for your insurance over a number of months. Some people do not realise that this is a form of finance and is usually arranged by a company such as Close Premium Finance, who effectively give you a loan for the eight or ten months, there are interest and other charges so you should read the small print before entering into such an arrangement.

If you are asked on another application “have you any other loans?” Details of this should be included. Now can you see why it would be a good idea to spread the payments over a period of time? Can you also see why it wouldn’t be a good idea to spread your payments out over two years? Yes, you would reduce your monthly outgoings by 50% - that is only for this year! Let us work through an example:

Say the insurance is €900 p.a. with interest and charges the cost is €90 per month for 12 months. If you pay it over a year you clear your liability in full and are in a position to do it again next year in the same way. This way you are staying ahead and living within your means.

If you were foolish enough to opt to pay for your Insurance over two years and the company were foolish enough to allow you. The monthly payment would reduce to around €50 per month (there would be two years interest to pay!) so on the face of it you are saving €40 per month. Then next year comes and a renewal for your car insurance – which we know costs €90 per month, but you still have to pay back for last year and if you make the decision to bring matters up to date within the year, your monthly payments would increase to €140 per month for the next year, made up by the €90 for this year and the €50 from last year.

I know it looks obvious when viewed from this perspective, in the past people have got this wrong have rolled up credit card bills into term loans and kept using the credit cards! They rolled up car loans into mortgages, effectively paying for their cars over twenty years, now that would be ok if the car would last for 20 years, the reality is that most don't and at the point you have to replace the car you are into double payments and a strain on your cash flow.

Another less obvious breech of this concept of matching, I use when talking to Credit Unions. Most have preferential rates to members who want to buy a car. So I ask what term you would give a twenty year old with a good credit record looking for €5k to buy a car. Most agree that with a regular income, a good credit rating and an excellent track record they would give 5 years to repay at around €20 per week. Here is the crux – if a twenty year old says they want €5k for a car, could it be that what they are really looking for is €3k for a car and €2k for insurance? If that is the case is it a good idea to finance the full amount over five years? It gets worse… what do you think the chances of a car that cost €3k will last on the road for another five years? Not great, so let's have a look at how the principle of matching should have been employed and then roll the clock forward to see if we can predict what is going to happen.

What should have happened is:

The person dealing with the loan application should have asked how much is the car and how much is Insurance. The person dealing with the loan application should have asked the question "How long do you intend keeping this car?"

If the insurance cost is €2k and they intend keeping the car for two years – the insurance should be paid off over one year at a cost of €40 per week – that way they can come back next year and get next year's premium if they need it. The remaining €3k should be financed over two years at approx €30 per week. The reality is that the €70 per week repayment accurately reflects the cost of consumption. And they will be in a position to pay for next year's insurance and change the car in two years time, as long as they have kept up the payments and everything else is in order.

Let us see if we can predict what is going to happen in the event they simply received the €5k over five years as per the original agreement. They happily pay their €20 per week in the first year. Then the insurance renewal comes in, they have two choices either go back to the Credit Union or go directly to the Insurance Company to arrange a payment plan for the year's premium, if the Credit Union grants a top up loan, this could kick the can down the road for another little while. If they opt to go with the insurance company they will have to pay around €45 per week in addition to the €20 to the Credit Union, bringing the weekly repayments to €65 per week. Then during the second year, just like we knew at the start, the car claps out! There are some expensive repairs, tyres and other expenses that significantly reduce the take home pay and all the time €65 every week is going to the insurance company and the Credit Union. The car is irreparable so a new one is required – a better one this time – one that costs €5k, over five years it will only be a little over €20 per week – when added to the €65 that is already going out this brings the debt repayments to €85 every week just to keep the car on the road. The sore part is that there is three years left to run on the original Credit Union loan at €20 per week and within two years the car is gone and the insurance has been used up so for the next three years this will simply be money for nothing.

This model of matching should be applied to everything:

If you are in your twenties or thirties, chances are you will be around in 40 years time; chances are the house you buy will also be around in 40 years time, so by all means extend your mortgage to a term you are comfortable with the repayments and still enjoy a reasonable lifestyle.

If you are in your forties and due to retire at age 66. It might not be a good idea to extend the term of your mortgage beyond your retirement date, or you could end up with a large mortgage repayment and a vastly reduced income.

If you are buying a new car, it will probably last five years, so finance it over five years. A second hand car may only last two or three, so finance it over two or three years.

As long as you match the funding to the expected life of the item all will be well, when you don't there will be trouble. This trouble comes in both directions – the examples above we have discussed having a longer payment window that the life of the item being purchased. There are different problems if you err in the other direction. If you decide to buy a new car and pay for it over one year or buy a home and pay for it over four years. That level of repayments would have a detrimental effect on your ability to live as you are over stretching every month to make the inflated repayments – so you can see that this does not represent good use of credit either, and will cause major stress in the short term that could be unsustainable.

Weekly payments

Some people make the mistake of taking the weekly repayment and multiplying it by four to get an estimate of what the monthly payment will be, so if something is €25 per week that works out at around €100 per month. Not true. There are 52 weeks in a year not 48 and most months have 30 or 31 days not 28. So to calculate accurately the monthly repayment you should multiply the weekly figure by 52 and divide it by 12. Giving you €108.33.

Sometimes the weekly figure is advertised because it makes the item look more reasonable, again use the concept of matching here as well – if you get paid weekly – set up to pay your bills weekly, if you are paid monthly then pay your bills monthly. If you are paid monthly and some bills e.g. the mortgage has to be paid monthly, transfer the weekly equivalent into a separate account for payment purposes.

Credit Cards

No section on financial literacy would be complete without a word about credit cards. Consumers love credit cards because they are silent and largely anonymous. You are given a limit at the time of application and you can borrow up that limit without any further approval. While we all know that the best way to manage a credit card is to pay the full balance on or before the due date, the minimum payment option is so easy and attractive it often hides the true cost of the facilities. I am talking to you here as a consumer of credit so if you have a credit card the simple advice is that you should use it intelligently. I have a theory that the balance on your credit card represents the difference between the lifestyle you can afford and the lifestyle you are living.

If you can't afford to pay cash for the item, then you probably can't afford the item! If you are purchasing a high priced item, read the section on matching and decide if paying by credit card is the best way of doing it.

If you are paying for something like a holiday, the question is will you have sufficient cash to pay in full by the time the bill has to be paid next month? If the answer is yes – go ahead and make the purchase, if the answer is no, then ask yourself again, is this a good idea. I guarantee the whole good will be taken out of the holiday by the worry of the thoughts of the credit card bill that will be waiting for you when you get back. If you don't care about the credit card bill and as long as you can continue to afford the minimum payment and remain within the limit you are ok, then I guarantee you that will be the most expensive holiday you ever had.

When collecting from consumers, credit card payments are a great way of collecting. You get immediate approval and you know the money will be cleared within a day or two. It is also an expensive way of receiving payment as the credit card companies charge a % of the transaction value that can be between 1% and 3% depending on your volumes. Even at 3%, getting 97% of your money today can be better than the promise of 100% sometime in the future. The question to ask here is "does our current profit margins allow for this additional cost?" if yes, use credit card as a method of payment. If no then you shouldn't. I am aware this is a decision that will be taken by management and as a collector your role will be to implement the policies that have been put in place at a higher level within your organisation. Still there is an onus on you to make sure you are doing the best possible job for your employer and if you can get Debit Card details that will give a better return at a lower cost, then it is probably better to ask for those details.

One other thing you should be aware of on Credit Cards. In normal use you receive interest free credit from the time you make the purchase to the time your payment is due. It is cheaper than all other forms of payment because there are no transaction charges. This is the rule as long as you pay the balance in full on the due date, if you don't you are liable to pay interest on ALL your purchases from the date of purchase, and by definition these rates can be very high. These rates are compounded if there are late payment charges or surcharges if you exceed the permitted limit.

Debit Cards

Some people see Debit Cards and Credit Cards as the same thing, while they might look the same and be useful tools for payment they are in fact the opposites. With a debit card you are making payment out of the money you already have. The amount of the payment is deducted from your account at the point of payment. Normally the charges are a per transaction charge which is low.

Credit cards on the other hand create a debt. You are using the Credit Card Companies money to make the purchase and you have to repay that money at a later stage.

The number of payments

This is a classic in the world of consumer credit and one you should watch carefully. If you have two or more offers one can appear to be significantly cheaper than the others. Human nature as it is tends to look at the amount of the monthly payment and no more. So if one company offers you credit over five years at say €200 per month, and the second offers you a monthly repayment of €195 for the same goods over the same five year term it sometimes looks obvious, and sometimes it isn't.

Some finance agreements want a payment upfront – this can be as much as three months up front. So three months upfront followed by 60 payments of €195, is a total price of €12,285, whereas sixty payments of €200 is only €12,000 in total. If the payments are over 5 years always check if it is 60, 61 or even 63 payments and if the payments will increase if interest rates increase or if it is fixed for the term.

One other thing to look out for is Interest Free Credit offered by some stores, usually furniture stores or electrical stores with high ticket prices. In some cases the interest free credit is only for a limited time and on the basis that the payments are made on time and in full for the duration of the agreement, some agreements call for a balloon payment at the end say €1,000 interest free equates to €30 per month up to December and the final balance due in full in one lump, then out of the blue just when you were wondering where the balance was going to come from, comes sensational news, all you have to do is keep paying your €30 for another four years and the goods will be yours, the small print will inform you that the interest free period was just the initial period and now on the secondary agreement interest can be as high as 29%.

I am not saying what is good or bad, I am simply saying make sure you know what you are letting yourself in for before you take what appears to be an easy option, which can prove to be a costly one.

Correct level of indebtedness

As a general rule of thumb, your mortgage amount should be double the combined gross income into the home. If one person is earning €70k and the other is earning €45k – then €230k would be the maximum mortgage they should seek. This rule of thumb is based on current interest rates that are historically low, and when something is historically low there is generally only one way it can go, and you don’t need a degree in Economics to work that one out!

There is a second rule of thumb that is often overlooked and that is that a maximum of 35% of your take home pay should be used for debt repayments – including mortgage. If you want to work out what value of car you can afford, use this 35% rule and work up from the repayment amount to see how much equates to.

For example, a couple are both working and one is taking home €2,000 per month and the other is taking home €3,500. That gives a total take home of €5,500. On that basis they have a maximum capacity for loan repayment of €1,925. (€5,500X35%). If they have a mortgage of €1,100 and a car loan of €350, their available capacity is €475 (€1,925-€1,100-€450), so further lending should be restricted to this value. Depending on what they are looking to get, should dictate the term they finance it over and that should determine how much they can afford.

You see there is good credit and bad credit. Buying a home that you love and can easily afford that you will pay back for over many years is good. Buying a car that you keep for as long as it is serviceable and trading it in and buying a new one when the payments have been made is a good use of credit. If the car still has a useful life after the payments have been made, you should divert the monthly payments you have been making all along into a savings account to offset the price of the next car you are going to buy would be an even better use of credit.

Going on the beer for a fortnight on your Credit Card and coming back and making the minimum payment on your cards is a bad use of credit and would probably be the most expensive week you ever spent when you add the cost of credit into the equation.

A more silent form of bad credit is when you find you are spending more on a weekly and monthly basis than you are earning. This can go on for a long period of time and be camouflaged with some loans or using up facilities either overdraft facilities or credit card facilities. As soon as this trend has been identified a solution should be found before the situation is allowed to get out of control.

Personal budgeting

Is essential for everyone. You have to know how much is coming in every week/ month, you have to know how much is going out every week/ month and you have to know what the difference is – this represents the amount you have to spend/ save every week/ month. It is a simple exercise and a simple spreadsheet (available on request) that you can fill in at the start of the year to act as your budget for the year and by substituting actual figures for budget figures at the end of each month you can see what is going right and what is going wrong and gives you an opportunity to correct the situation before things spiral out of control.

I always wonder at financial organisations that have a methodology for dealing with customers who are experiencing difficulty in meeting their repayments. Most now have some form of income and expenditure account to help assess how much they can afford to repay. My question is, why do they not use these forms at the very start to establish the person's capacity to repay the money before the facilities are granted?

The following form is a Sample Income and Expenditure Account that you can use if a customer is in financial difficulty to get them to face reality and establish what realistically they can afford. I would recommend on a personal basis that you complete this form before you take on any further financial commitments and should be at least an annual exercise to be completed by everyone. For all involved in providing finance I suggest that this information should be gathered before you grant the facility.

Personal Information

Name____

Address ____

Date of Birth ____

Account Number _____________________________________

Home Telephone Number _______________________________

Mobile Number _______________________________________

Email Address ____

Marital Status

Married/Civil Partnership ☐

Single ☐

Divorced ☐

Co-habiting ☐

Widowed ☐

Residential Status

Homeowner ☐

Tenant ☐

Living with parents ☐

Employment Status

Full Time ☐

Part Time ☐

Name of Employer ____

Length of Service ____

Self Employed ☐

Unemployed ☐

If unemployed – previous occupation ________________________________

Student ☐

Retired ☐

Household Information

Number of Adults in the Household ☐

Number of Vehicles in the Household ☐

No and Age of dependent children:

Child 1 __________________________________

Child 2 __________________________________

Child 3 __________________________________

Child 4 __________________________________

Total No in household ________________________

Income Statement

Monthly Net Income Amount: € __________

Your Net Income € __________

Partner's Net Income € __________

State Benefits (i.e. Social welfare, Children's allowance) € __________

Other Income (i.e. Pension, Student grants, Investments…) € __________

Income from property assets/ investments € __________

Family Income Support € __________

Maintenance € ___________

Please Specify Other………………………………………………………………………………………………

Total Monthly Income A: €

Monthly Expenditure:

	Monthly Charge	Arrears amount
Mortgage or Rent	€	€
Payment Protection	€	€
House Insurance	€	€
Property Service Charges	€	€
Secured Loans	€	€
Car Loans	€	€
Other Loans/ Hire Purchase	€	€
Credit Cards	€	€

Monthly Expenditure:

	Monthly Charge	Arrears amount
Utilities:		
Gas/ Oil	€	€
Electricity	€	€
Water	€	€
Refuse Charges	€	€
TV/ Cable	€	€
TV Licence	€	€
Home phone	€	€
Mobile phone	€	€
Household Charge	€	€
Education		
Books	€	€
School/ College Fees/ Nursery	€	€
Uniforms	€	€
Extra Curricular Activities	€	€
Other	€	€
Medical		
Medical Expenses	€	€
Health Insurances	€	€

Monthly Expenditure:

	Monthly Charge	Arrears amount
Transport Costs		
Vehicle Expenses (i.e. Car tax, Insurance, NCT)	€	€
Petrol	€	
Public transport	€	
Car Parking and Tolls	€	
Household		
Elderly care	€	€
Pet Care Pet Insurance and Vet	€	€
Housekeeping (inc. Food, Toiletries, Newspapers)	€	
Clothing and Footwear	€	
Child maintenance	€	€
Social		
Lifestyle	€	
Entertainment	€	
Club membership	€	€
Cigarettes	€	

Please Specify Other………………………………………………….....

Total Monthly Expenditure B €

Creditors Information

Lender's name and Type of debt example: Credit Union, Personal Loan €7,300. Please include all money lenders, catalogue, and interest free repayments to furniture or electrical stores.

€

€

€

€

€

€

€

€

Total:

Total Monthly Income (Enter amount from box A) € A

Total Monthly Expenditure (Enter amount from box B) € B

Total available for Creditors ([A-B] Amount A minus Amount B) € A-B

End of Form –

This form should be used to establish the customer's repayment capacity and from it you can see how much they can afford to pay you. I think it could be a good idea for you to complete the form above for yourself right now. It will increase your learning from the course perspective and more importantly I hope it will give you a clear vision of where you are financially. You might be amazed to see where the money is going and how much you need to stay ahead. The benefit of completing the form yourself on a regular basis is that you can see trends and predict issues before they become problems.

Now back to the form and how you could use the information to help you in your role as a collector. As a rule of thumb if you divide the amount you are owed by the total owed and multiply that by the figure for available funding that should give you a figure to go on.

Example:

Total indebtedness = €17,000

Owed to you = €4,000

Available monthly: €1,000

- 4,000/ 17,000 = .23529 – This represents the proportion of debt that is owed to you.
- .23529 X 1,000 = €235.29 which represents the proportion of their monthly disposable income they should make available to you.

I have said this is a rule of thumb, if you get significantly more than this figure, you know that other creditors will not be getting their share and could put demands on them for payment. If you get considerably less than that figure, then you simply are not doing your job!

Remember, your priority is to your employer, so you should always seek to get as much as you can as quickly as you can, however if you put an unreasonable strain on your customers, it could backfire altogether, or you could cause resentment on behalf of your customer and they will take their business elsewhere.

Of course there are times when this is the preferred course of action, although from my perspective if you can get them on some type of prepay option that with an amount being paid monthly to clear the arrears, that is probably as good a result as you are going to get in the long run.

When you are dealing with a customer and they have provided an Income and expenditure statement, take great care not to use it as a stick to beat them with! Go through the items with them and ask them to make suggestions as to what they could do to improve the situation. In essence there is only two things they can do, they can either earn more or spend less. Anything else is a waste of time and should not be pursued. If they think they can earn more, check it is real and verifiable and is going to happen in the short term i.e. within the next two to three months. If it is reasonable it may be best to give them the time and space they need to get themselves back on track. If it is more long term or appears to be unrealistic then you have to voice your concerns in a clear and uncritical way.

If you tell them what to do, your chances of success are minimised, whereas if they tell you what they are going to do they are more likely to deliver.

Savings

Some may question having this section in a course on Consumer Credit. Savings offer a cushion when there are times of difficulty or unforeseen expenditures. The level of your savings will determine the level of your peace of mind. You should express your savings in terms of your "run rate". Your "run rate" is the amount of time you could live at your current standard if all forms of income stopped. Some say you should aim for at least three months and then as soon as that has been achieved see how far you can extend it. The definition of Financial Freedom is when you get to a point where your "run rate" exceeds your life expectancy, and you continue to work because you want to and not because you have to. What a difference that would make! It is also recommended that everyone should aim to save 10% of their disposable income on a weekly or monthly basis. This provides a protection if circumstances change. I know it is easier said than done, if you set up a standing order from your account on the day you get paid into a savings account, this will give you the best chance of success.

There is an argument on whether you should continue with saving if you are in a position where you are paying down debt. The smart people say you should. The best method of arriving at a financially strong position is to enter arrangements with the people you owe money to and break all the amounts into weekly or monthly payments depending on your own preference. It makes sense to pay the highest proportion off the accounts that are charging the highest interest rate. There is another school of thought that recommends you clear the smaller balances first. While this does not make as much sense financially, the fact that you can see progress and you are reducing the number of creditors, this gives you the physiological benefit to keep you motivated.

Assets and Liabilities

In the book “Rich Dad, Poor Dad” written by Robert Kywalski and Sharon Lechter they have a very interesting definition here. They confirm that in business assets are things that you own and liabilities are things that you owe. When it comes to consumer finance a new definition is required and according to them on a personal perspective an asset is something that makes you money and a liability is something that costs you money. So, applying this logic is your home an asset or a liability? Is your car an asset or a liability?

Without giving the whole book away they recommend that you use your income to purchase assets and use your assets to fund your expenses. Most people use their income to pay expenses and have nothing left over for the acquisition of assets. They also have a useful definition of the difference between rich people and poor people, they say that rich people love having money and poor people love spending money.

Bit of a tangent perhaps I hope you find the insight useful and one that will help you build your own financial fortress, and be in a better position to help others who come to you looking for advice. As a result of this qualification I am hoping that you will take your “qualified” status to prove that you know more than most on the topic of credit and as such are in a better position to help friends and others in all matters relating to credit.

Headroom

This is a figure you can calculate on a weekly monthly basis to monitor progress. It is just one measure and not the only one to determine your current financial position. In calculating your headroom figure, take all your current bank accounts, credit cards and facilities and put them into a spreadsheet or table:

Account	Balance	Facility	Headroom
Current	€1066Cr	€2,000	€3,066
Credit Card	€987Dr	€3,000	€2,013
Savings	€4,321	-	€4,321
Credit Union	€3,500	€4,500	€1,000
Total			€10,400

What this figure tells you that at the current moment you have the availability of €10,400 without needing any additional facilities. When you are monitoring this figure on a monthly basis you can see the direction it is going which records your progress (or lack of progress!) depending on the variation in the figure. Be careful in your interpretation of your own headroom, the balance on the Credit Card comes around for payment very quickly so this source of funding should not be relied on, except in times of real emergency or when you are happy you can pay the balance in full on the due date.

Remaining in control

The role you perform is sometimes called "Credit Control", to be successful; you must remain in control at all times: In control of your ledger on what you prioritize and how you approach the person who owes the money, how you manage your workspace, how you interact with others. Remaining in control at all times is the most important thing you can do. Easier said than done you might say, yes it is and I guarantee by the time you get to the end of this course it will be a lot easier.

In order to perfect this there are a few things you need to put into practice straight away. Firstly when you pick up a phone to call a customer, you have to remain in control, you control the call, the content, the questions you ask and what is agreed at the end. As you progress through the course and your knowledge and skills increase you will be able to go through these steps with professional ease and confidence. You control what follow up is required and when and how is appropriate. If the phone doesn't answer or if you go straight through to voice mail, take a note of the result and simply call back at a different time. Do not leave a message for the customer to get back to you – in 99% of cases they won't! By leaving a message, all you have succeeded in doing is passing the control for the next communication back to them.

To remain in control, if you called in the morning, call again in the afternoon, if you are calling a mobile you are leaving a footprint every time you call. What message are they receiving? Do they see the number you are calling from? If so could it be that they are making a conscious decision every time they see your number that they would prefer not to talk to you?

Do they see "Private Number" perhaps they don't answer calls from private numbers, perhaps you are not the only one calling them and they have stopped answering the phone altogether. It is not unusual that a person who owes lots of people money leaves their phone on silent all the time, reviews the missed calls regularly, listens to the messages regularly and makes a decision as to who they are going to call back.

If this is the case I would recommend that you get a new mobile phone in your office for the purpose of contacting customers who will not talk to you. Set the phone number to send so the customer can see the number, if this call is answered you will get a clearer picture of the type of person you are dealing with, or it could be a coincidence! Depending on the numbers it could be worthwhile to get a new sim card every month or even every week, so you never use the same number twice. As soon as your call is received they will save the number to their contacts and if they have been avoiding you in the past this could be an indication that if your name appears on the phone they will not answer the call.

If after four or five attempts using the above technique and if you find you are still unable to contact them, you could try the home number between six and eight o'clock in the evening. This is the best time to talk to individuals, and the same rules apply.

Failing that your next course of action is to leave a voice mail message. When you do it is important your message is clear and to the point. A sentence along the lines of "Mr Murphy, this is [John] from [Y Ltd]. It is very important you contact me on my direct line 12345, before 3pm tomorrow afternoon" and then hang up immediately. This should convey an urgency that will prompt them into immediate action.

What is important here is to inject a real sense of urgency in your voice to convey the importance of the situation. Giving a direct line number is important as they will be more likely to call if they think they will get straight through to you. Giving a definite time is also important. The time is up to you but avoid instructions like "by return" or "close of business" that could be open to different interpretations. You might be amazed at the success of this strategy.

Leaving a long winded message, dealing with the details of the account in question or requesting a call back at their convenience is a complete waste of time.

Another tool you have to control the call is effectively using your voice and this will be covered in depth in the following module on verbal communications. For now the two key elements are that you speak slowly and clearly and pronounce your words clearly. This will have the effect of being taken more seriously.