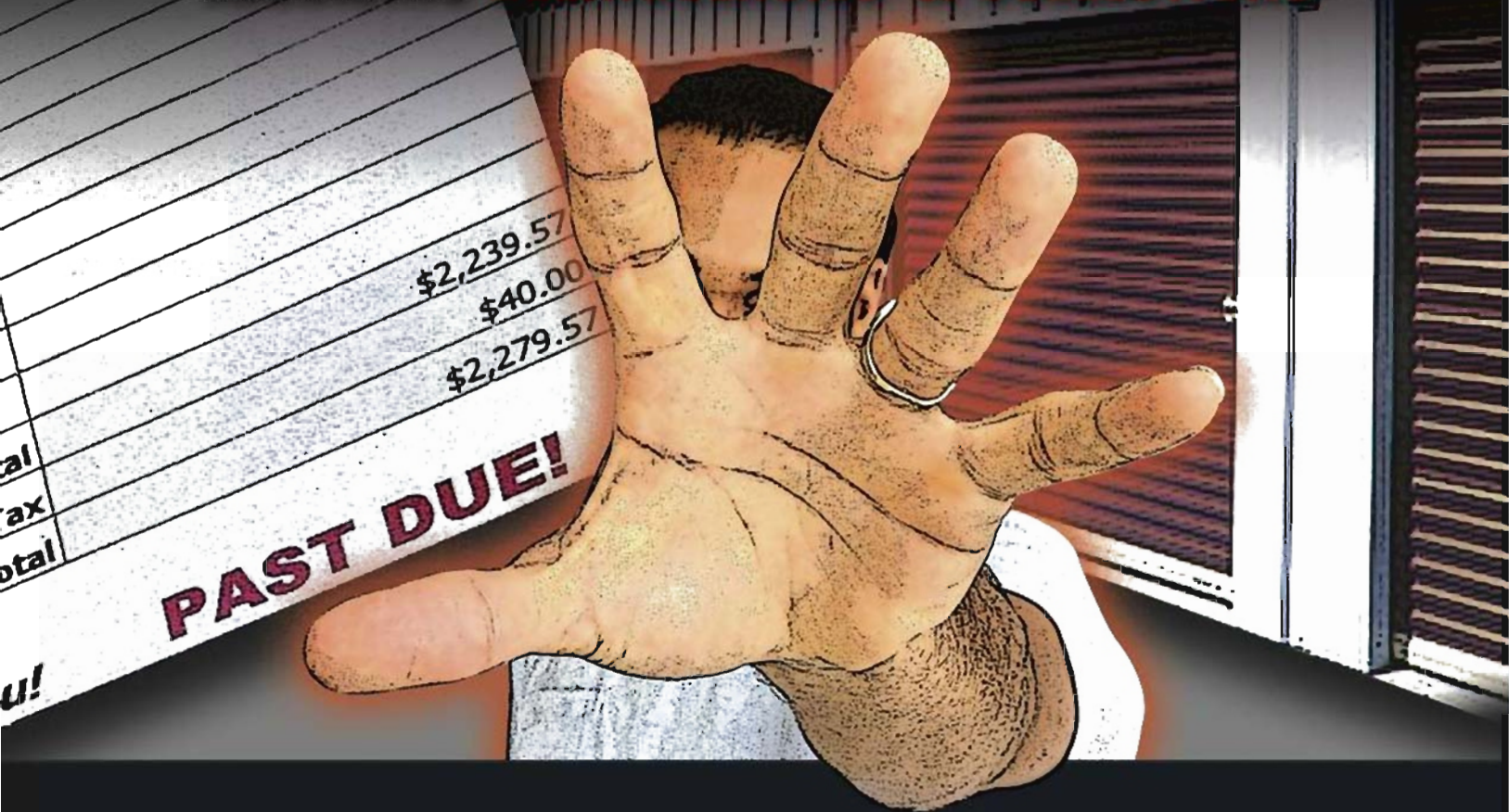


MANAGING DELINQUENCIES & COLLECTIONS



Tracking Deadbeats & Complying With Lien Laws

By Charlie Fritts

Certainly, the first objective of the storage operator is rentals and income generation. Hiring people who are good communicators can go a long way toward achieving this objective. Good communicators tend to be "people persons," the type of individual who greets you with a smile, and is always friendly and helpful.

Among the next most important responsibilities of the storage operator is collecting rents and late fees. In most cases, customers make timely and full payments as agreed. But there are always a certain number who fail to do so which requires special attention from the operator. Anyone with a year or two of storage experience under her belt probably feels she has heard about every excuse for missing a scheduled payment.

As a professional operators, we put on our "collections manager" hat and start the process. Typically we initiate this process by attempting to contact the customer by phone. Most operators also mail a late notice at this time. That notice informs the customer his rent was not paid on time and that a late fee has been charged to his account. In most cases, the person who honestly overlooked making the rent payment will contact us immediately to apologize and arrange for immediate payment. Too bad we are unable to clone these people! We all love those who agree to go on auto-pay!

Signs of Deadbeat Renters

The more difficult people to collect from are those who are experienced with dodging collection efforts. They have often developed strong avoidance skills, never answering phone calls, refusing to accept or sign for certified mail, and sometimes seeming to fall off the face of the earth. These people are probably barraged by bill collectors each and every day so there your calls are nothing new, just more of the same. It will require a real threat to their possessions in storage to get a meaningful reaction, such as an impending lien sale (auction). The best sales people are often reluctant collectors. They see enforcing the collection of delinquencies as being the bad guy and often find it an undesirable responsibility.

But collecting rent is critical to survival. Most rental agreements make the amount and due date very clear. There is little to no ambiguity in most contracts. These customers have created their own problems.

While the best collectors are no nonsense operators who sometimes run the business like a military operation—exhibiting relentlessness in their collection efforts and often turning off rental prospects with their recitation of rules—my choice in operator selection is often the best sales person. Such individuals can be taught to accept their collection responsibilities. I approach the subject by arguing that someone who has not paid has created his own problems, and that failure is an insult to the sales person and should not be tolerated.

In my company, managers make collection calls starting twice weekly but quickly move to three or more calls per week. The old adage “the squeaky wheel gets oiled” remains true. Some of the best times to call are early morning. It seems that sleepy people are not as much on guard and often answer the phone. Most often, the delinquent customer owes others as well. Our objective is to make the most noise and be the biggest annoyance so we can get paid.

In addition to calls, we mail late letters, send e-mail notices, over lock the storage unit and deny access at the gate. Of very high importance, we document all of our collection efforts. This is accomplished by

making notes in the customer’s account in our management software. These serve as a permanent record and can be very beneficial if the customer spoke with the manager to arrange some form of payment schedule but comes in when the manager is not there. Our manager might agree to accept some payments but access to the storage unit is denied until they are paid up.

Every once in a while the customer arrives when the assistant is working and offers some story about having an agreement with the manager to pay a small amount but be allowed access to retrieve just one very important item. Often they say they plan to sell the item to pay the rest of the rent. Do not fall for that baloney! With notes, the assistant can see the exact terms of any agreement. Someone who wants just a few things is likely to cherry pick the unit removing what they value most and leaving behind the stuff they really do not care much about—not a situation you want.

An important aspect of collections is to listen to the debtor. Sure you will hear many made up tough luck stories but disregard the crazy story and bring the focus of the conversation back to the issue at hand. “We are sorry to hear that your grandma died for the second time this year: now, how are we going to get your account paid current? We really don’t want you to lose everything.” Often when debtors see their smoke screen is not working, they realize it is in their best interest to work out some form of deal. While this process can be a nuisance and is additional work, it is not personal. Some folks simply are their own worst enemy and fail to manage their affairs very well. On the other hand, those who are habitually late help to increase income with their late fee contributions.

I detest waiving late fees. Certainly the cable TV, phone company and your bank are unlikely to waive such fees. Why then do some operators feel it is necessary? I assure you that most of the customers who complain about late fees would be the first in line to demand some form of rent credit if the gate was broken one day and they could not get access.

Cutting Locks

When dealing with delinquencies, we never know the relative value of the unit’s contents until after locks are cut. After the locks are cut and we have seen the stored goods, we can better assess if there is real value, hopefully too much for the customer to lose willingly at a lien sale.

In some situations, where the customer clearly does not have much money and the contents are of low value, it is best to simply collect as much money as possible and have the customer move out the same day. We require the customer to show up with a truck to move out when they come in to make the cash payment. We accept only cash at this point, not checks or credit cards. The end result is the unit becomes available for re-rental and we have collected more than we might at lien sale. Let me qualify that last statement—under normal auction sales we know the value is relatively low. Today’s frenzy created by the storage auction reality shows have caused some uptick in lien sale yields. However, I predict this will not last as auction bidders discover that unlike cracker jacks there is not a prize in every box.

When it is time to cut locks, act very carefully and follow the laws in your state exactly. You may wish to go above and beyond the law, and follow other protective procedures such as filming the lock cutting, sealing the unit with a numbered tag in addition to a red lock, and always have a witness. Shortcuts in the lien sale process can create real legal problems.

In my company, we videotape the entire process of cutting the lock, writing the date and unit number on an erasable white board, and then placing it in the front of the unit to be included in the filming. We also take still photos of the contents that are placed in the customer’s file. We film closing and locking the door, as well as the application of the numbered seal. The day of the sale, that seal must be in place. This provides some assurance that no staff member could have opened the door and removed any of the contents. On occasion, we hear from someone who paid up claiming high value items are missing from the auction. With a

numbered seal and photos, plus video of the unit's contents, we can show that big flat screen TV that was allegedly in the unit was not actually there.

Another issue that arises from time to time is a request to make payments to get caught up. The decision to allow this or not is a classic judgment call. If we believe the situation warrants this concession, we will often establish a short-term repayment plan. The first indication of good intent I look for in these situations is the customer in the rental office with some cash in hand, ready to pay. Otherwise, anyone can walk in just before the lien sale and say they will be able to pay the day after the sale. Show me the money now! We typically require a 50 percent initial payment and 25 percent of the balance, in addition to the regular rent for the next two months. This customer will only have one opportunity to do a payment plan. Establishing a strict collections protocol sets the tone for all customers.

I recommend establishing a lien sale calendar, noting the event and the date it must occur for compliance with the law. It is a good idea to build in a few extra days as it is common for the newspaper to misspell a name or fail to run an ad on the specified date. Be sure to buy the newspaper on the publication dates for your ads so you can clip the hard copy plus the date and name header of the paper. Carefully review for accuracy. If there are errors have them fixed and rerun the ad the next day. If you have allotted some extra days in your schedule, this should not cause any issues.

The day of the sale, review every document related to the customer's account and the sale. Be sure you have mailed them all notices, the required ads were published, and names are correctly spelled including accurate unit numbers. I have heard of a situation where the customer had two units, stopped paying on one and the operator sold the wrong unit. Perfect fodder for a lawsuit.


Next, verify the customer's account transactions, looking for any transactions that may have occurred. On occasion, a new assistant may have accepted a small payment which really throws a wrench in the works. Your only choice then is to

start over! If anything is questionable or in doubt, hold the unit out of this lien sale to allow more time to resolve that issue. If you allow a sale to proceed with technical errors, you may be helping some attorney pay for their vacation this year. Not getting sued is a good motivator to being cautious and accurate.

Once the sale has been held you need to vacate the units sold, apply the sale proceeds to the account as a payment, then write off any balance to uncollected rent and fees. We refer anyone with a balance in excess of \$100 to a professional collection service. It takes just a few minutes to submit the information. The best services make an entry on the customer's credit record. This may cause them to settle up if they anticipate seeking a loan sometime in the future. On occasion we receive a check from the collection company.

In closing, I recommend you do as much as possible to settle bad debt accounts in order to avoid to lien sales. But remem-

ber sometimes the customer has already removed items of value and has abandoned the rest for you to deal with. Such units are pretty easy to spot because they contain mostly junk, dirty clothes, etc. But you must treat them as you would another unit with valuable contents.

With regard to personal effects such as photographs, documents, and other personal items, it is best to ask the buyer of the unit to return those items to you. They are of no value to the buyer but probably have sentimental value to the customer. Send the customer a letter advising you have personal effects he or she can claim at the rental office. There are differing opinions as to how long to hold these items. Check with your attorney for guidance here. 




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