

The Journey to Debt Collection: Auctions

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Inclusive of Auction Buyer Conditions print out



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The journey to debt collection is a long one often fraught with data collection, missed phone calls, unanswered letters, and excuses with often a side of tears, yelling, and negotiations.

Debt collection is part and parcel of managing your self-storage facility effectively – and not an easy one at that. More often than desired, debt collection can run past a point where ridding your facility of the customer's goods is necessary to accommodate for other paying customers. But how?

Matthew Chee – Managing Director of Redbox Storage helped the Self-Storage Association Asia break down three ways. Throwing it, Closed Auction, or Public Auction. Before we get into each stage, we'll reflect on the debt collection journey.

The Journey

'You must be clear and firm in your directives and rules for your customers.'

Late payments happen. To ensure you as a storage operator are compensated for the space occupied by non-payers, and to minimize liability, *you must first ensure your customer are well informed of the consequences of not paying.* This must be clearly stated in your licensing contract, which is included in your SSAA Standardized licensing agreement which is available to all SSAA members.

Informing your customer of their late payment and what the consequences can be for nonpayment is key. This can occur through various methods including text messages, letters, emails, and phone calls including 'registered mail to ensure that someone at the address corresponding to the one on the licensing agreement has received your mail'.

For future reference and proof, keep a clear record of each correspondence. Especially if they are over 60 days overdue, 'calling the client and telling them that the collection call is being recorded can often lead to immediate solution of the problem.'

Auction is the End Game

As you move along the debt collection process, there will be a point that payments have completely stalled. Customers may disappear or they have chosen to simply stop paying for a variety of reasons. Going to the final step of a debt collection journey depends on the operator's tolerance level of accepting non-payment. You may like to be full and collect interest like a credit card but when is enough, enough?

Thus a "Force Sale" is the final lead up to a debt collection journey. It is not the most desirable outcome but one that may lead to achieving any sense of 'payback' for the occupancy of the storage space.

As a storage company, you need to decide what works best for you. While it is a decision that varies from one business to another, it is one that you must take carefully with future liability and risks in mind.

Three ways to vacate a storage unit in default

There are three ways for a “forced vacate”. *Throwing away, Closed Door Auction, or Public Auction.* Your choice depends on the amount of risk you wish to take. Public Auctions are often the least risky of the three options because you attempt to recover your debt through the sale of goods in an unbiased, transparent, and open market manner.

“Objective of an auction is to properly dispose the contents in a unit using a fair and transparent manner. Conducting Public Auction is a more sensible approach for storage operators amongst all the methods for a forced vacate albeit one that is more tedious.”

Throwing away

Not the best but easiest. Throwing away goods occupying a space may be the easiest way to vacate an occupied space but that is all you are doing, vacating space. This does not absolve the amount owed. *Consider this* - Costs of removal, costs of disposal, throwing away valuable items that you could sell to offset the storage rental owed, throwing personal artefacts with sentimental value and not retaining it for a chance for the debtor to get it back, or worst the disposal company/individual reselling the goods which can lead to more litigation issues.

Closed Door Auction

Better and but a bit of work. A Closed Door Auction is harder to organize but it allows for a fairer view of goods appraisal which is better than simply throwing the items away. *Consider this* - With a closed door auction, you are being less transparent (sneaky?) with favoured buyers bidding on the items. Without a Public Auction, you are less likely to get a fair and open market prices.

For both methods “Throwing Away” and “Closed Door Auctions” – The debtor can challenge the operator that you have sold the items in an unfair manner and that the debtor could have recovered some money if a sale was conducted properly through a Public Auction. This could potentially lead to more litigation woes to the self-storage operator.

Public Auction

Best Approach. A Public Auction absolves the facility from being judge and jury to the market value of the goods inside the force sale unit. This is important in the eyes of a debtor whose personal artefacts are being sold and it will also affect the outcome of future litigation matters. Letting the market forces decide on the value of the goods in a forced sale situation is critical. Remember, as a storage operator you are acting in accordance to the terms and conditions of the SSA and doing it in a fair, transparent manner will lessen litigation risk.

Consider this - A Public Auction allows the debtor the final opportunity to offset their rental owed through a sale. Any excess monies recovered from a public auction could be retained and returned to the debtor as a reconciliatory gesture. To mitigate the impact of a force sale further, personal artefacts with sentimental value shall be handed back to the operator (who would in turn would retain it and handed back to the debtor if there is a claim) as conditions prior to a sale. With a proper system of

recording, attempted calls or visitations, advertisements and collection process, the storage operators would be seen as a company that has a proper debt collection procedure which will be important should litigation occur.

Critical Points to a Public Auction with PRO Tips!

1) Exhaust all avenues to contact the customers – early and often. Registered and non-registered mail, phone calls, text messages, email.

PRO TIP #1- Your Self Storage Association Asia has all this information for you including a standardized licensing agreement with all the legally binding terms and conditions as well as all of the appropriate texts for a proper debt collection.

2) Once past due, with all acts of debt collection performed and documented (stated in contract), decide your level of debt tolerance.

3) If you decide to go for a forced vacate, decide how you will like to do it.

PRO TIP #2 - The SSAA suggests a Public Auction.

4) If you decide on a Public Auction, it is important to advertise in a “above the line” media (local newspapers) with ample notice of at least 2 weeks prior to the event. This will attract more would be buyers to the auction event which will in turn lead to a fairer appraisal of goods on the actual day of sale.

5) All auctions should be done on site.

6) Neither you nor the bidder shall move or shift any of the contents in the unit. To minimize interference and liability, the sale should be conducted in a “As Is” status

7) On the actual day of sale, the bidders are only allowed to view the units from the outside. No one would be allowed to rummage, open or shift any of the goods in the unit. This observance of “AS IS” condition is important to ensure the sales is conducted fairly and orderly.

8) Frequency of public auctions or force sale events depends largely on the operator. Again, the tolerance of debt varies from company to company. It is important to note however, 80% of all force sale generally leads to a loss to the operator. Typically the amounts still owing in a force sale would be written off as unrecoverable debt.

Pro Tip #3 – Partial Payments – Yes or No ?

An Auction should only be stopped if a FULL payment is received, decide if it is in your force sale procedure receiving a partial payment should stop the sale. If partial payments are acceptable, it is better to negotiate a vacate of space **AFTER** collecting partial payments. If they owe you once, they will more likely or not owe you again. Do you want to waste precious resources and start the process all over?

Pro Tip #4 – If ever Unsure, Don't Sell

One of the most critical points before deciding whether or not to proceed with a forced sale is making sure ALL of the parameters you have set are met prior to the sale. The golden rule is this, if ever unsure or if there is a lapse in the process that was set up, don't sell it.

Pro Tip #5 – Donating to charity

Seems like a great idea. Unfortunately, and much like throwing it away, it can be left open to future claims. Charity can resell the items to obtain a profit thus exposing the storage operator to further litigation risks.

Pro Tip #6 – Coming to together as a community

To further help the self-storage community in Asia, SSAA has set up a members only site, StorAlert!, where the community shares relevant information about past delinquent storers. Your front line staff can check the details online and should a customer's ID number raised a red flag, storage operators can then decide should they accept their business.

Keeping in mind, a provision in the SSA that allows you to disclose a delinquent storer's contact details are included in your licensing agreement. The SSAA agreement has such a provision.

Benefits of Open Auctions

- 1) Fair Market Value.
- 2) Saves labour and cost of throwing the contents away
- 3) Seen as transparent and unbiased
- 4) Opportunity to limit amount of bad debt through a sale
- 5) Lowers the risk of a litigation

Challenges of Public Auction

- 1) Costly
- 2) Time consuming
- 3) Laborious
- 4) Be consistent and a ton of paper trail

In summary, the end journey to a debt collection is a thorny one where it is most unfortunate that nobody wins. Conducting a transparent and fair force sale can be a smart and lawful way to recover debt for the unpaid occupied space.

Dear Sir/Mdm,

****DATE****

Thank you for attending this auction. Please find a set of rules and regulation pertaining to this auction.

1. Please find attached a copy of a general inventory list of the storage unit and a copy of the advertised notice with details of this auction that was published in the news paper.
2. You must be above the age of 18 years to be able to buy, bid for a storage unit during this auction.
3. Please do not Smoke, eat or drink while attending this auction.
4. Please do not wander off into the storage area without first notifying staffs of ***COMPANY***. Please refrain from opening or touching the locks of other storage units that are not involved in this auction.
5. All storage units that are involved in this auction are sold "As Is". You are not allowed to open, move or shift any of the items in the unit during the "Free View" period.
6. All auctioned units are to be transacted in Cash. This must then be paid in full immediately after the auction at the front office. A transaction receipt will be provided.
7. Any personal artifacts recovered from the storage unit are to be handed over to the staff of ***COMPANY***. This includes Photo albums, Licenses, Certificates, documents relating to personal particulars etc.
8. Upon a successful bid for the storage unit, the terms and condition are as follows :
 - a. Storage units between the sizes of 1 to 20 Square Feet, are to have all its contents removed and the unit cleaned within 2 days.
 - b. Storage units between the sizes of 21 to 80 Square Feet, are to have all its contents removed and the unit cleaned within 3 days.
 - c. Storage units larger than 81 square feet, are to have all its content removed and the unit cleaned within 1 week.

Notwithstanding the above conditions, ***COMPANY*** reserves the right to apply rental rates on the storage unit as and when necessary.

9. Successful bidders who wished to continue using the storage area are welcome to take up a storage lease with us at a special rate. Kindly approach our staffs for the details.
10. You are required to provide details and information of yourself to our staff upon a successful bid for the storage unit for recording purposes. ***COUNTRY**** privacy law applies.

I agree to the above:

Name: _____

Date: _____

Signed: _____



Thank You, we wish you Good luck and happy bidding!