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When Should Freelancers Use a Collections Agency?



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When they've exhausted all other options, freelancers can turn to collection agencies to help them collect on unpaid invoices.

- Collection agencies are experts at collecting unpaid invoices.
- Given their occasionally invasive methods, collection agencies are best left as a last resort.
- You should wait to hire a collection agency for unpaid freelance invoices until you see certain red flags.
- **This article is for freelancers struggling to collect payment from their clients.**

Freelance work is becoming more common, with many pursuing it as a full-time career. But this business model has downsides, such as potentially [not getting paid for your work](#).

Many freelancers count on regular payments from their clients to cover rent or other necessities each month. Missing even one of those payments could be detrimental to your financial health, and missing multiple payments could harm your credit score and negatively affect your cash flow. Clearly, if your freelance work is your livelihood, it's crucial for your clients to pay you on time.




Thankfully, there are collection agencies for when these issues get out of hand. These debt collectors, however, should not be a go-to solution. Hiring a collections agency to get a client's payment will likely result in the loss of that client, and there are other risks and downsides to doing so.

Unless you've hit a wall with a nonpaying client and the law is on your side, you should wait until you are certain that a collections agency is your only hope. Here's how to know you've reached that point.

Editor's note: Looking for information on collection agencies? Use the questionnaire below and our vendor partners will contact you with the information you need:

Is your business looking to collect from other businesses or individual consumers?

Please note: We CANNOT service requests for court settlements or personal debt.

 <input type="radio"/>	 <input type="radio"/>	 <input type="radio"/>
Collect from businesses only	Collect from individual consumers only	Collect from both businesses and individual consumers

NEXT 

How can a collection agency help freelancers?

As a freelancer, you need to focus on doing the work you've been hired for and also lining up future jobs. The last thing you want to be doing is chasing down clients for their debt. Unfortunately, this is something many freelancers experience eventually.

The [best collection agencies](#) take on the burden of seeking payment for your clients' unpaid freelance invoices and debts. They use a number of strategies to get the money you are owed, such as skip tracing, sending formal demand letters, and contacting the debtor by phone.

Additionally, a collection agency can add a "collection" status to your client's credit report. This is a powerful ability, as lenders who see "collection" on a borrower's [credit report](#) are significantly less likely to approve them. As such, your clients who fail to pay upon contact from a collection agency may face ramifications beyond their business relationship with you.

As a last resort, collection agencies can start litigation proceedings to collect on an unpaid debt. The threat of being sued for an outstanding debt often prompts the debtor to pay up.

Key takeaway: Collection agencies' methods often increase the chances that your clients will pay their overdue invoices.

What do collection agencies typically charge?

Collection agencies aren't a last resort just because their methods are notably invasive; they can also be quite expensive. For their services, collection agencies can charge anywhere from 10% to 50% of the debt they collect. The exact amount tends to be determined by the steps they need to take to collect the debt. For example, if the collection agency is able to collect on a debt by sending some letters or making some calls, the cost will be lower than if they have to [resort to legal action](#).

Some collection agencies require you to be owed a minimum amount before they will help you. Some agencies will help you recover debts as low as \$50, while others require the client's debt to be at least \$200 before they'll work with you.

Key takeaway: Collection agencies charge between 10% and 50% of the invoice they collect. Most agencies require a minimum debt amount for you to use their services.

How to know when to hire a collection agency for unpaid invoices

You'll know it's time to hire a collection agency if ...

Your payment plan was breached.

Before [agreeing to do freelance work](#), set up a payment plan to ensure you and your client are on the same page. That way, if the plan is violated, you have grounds to hire a collections agency and fight for your money.

L. Burke Files, president of Financial Examinations & Evaluations Inc., said you should consider choosing an agency if "you have a clear written agreement, including the choice of law for settling disputes." Any legal document that a client signed and then broke will help your case for collecting their debt.

You've waited over 90 days for payment.

If you feel you are wasting too much time waiting for payment, Files said, don't hesitate to seek help.

If an unpaid invoice reaches the 90-day mark, act immediately. This is the typical last straw for freelancers. After that point, the probability of collecting that debt decreases.

The unpaid invoices are worth more than the amount you'd pay a collection agency.

You might not want to fret over an [invoice](#) that's only a few hundred dollars. Sure, you shouldn't let it slide anytime your clients fail to pay you, but you must weigh your options.

Collection agencies typically charge 10% to 50% of the amount they collect. Ask yourself if it's worth investing in an agency that will take a percentage of your debt. For large invoices, the answer is probably yes. For smaller ones, you might want to simply move forward and no longer do business with that client.

Your client has a history of not paying.

If the person you're working with has done this before, consider enlisting the help of an agency. At this point, there's a pattern to their behavior, and you shouldn't have to continue dealing with it.

If this is their first offense, though, speak with them about it before seeking outside help. Give them time and hear them out. Don't assume the worst; they might've fallen on hard times or simply lost the invoice. You don't want to lose a client's business because of a [simple miscommunication](#).

Key takeaway: Wait to hire a collection agency until your payment plan is breached, payment is overdue by 90 days, you are owed a substantial amount, or your client repeatedly fails to pay.

Max Freedman contributed to the writing and reporting in this article. Some source interviews were conducted for a previous version of this article.

Image Credit: AndreyPopov / Getty Images



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Sammi Caramela has always loved words. When she isn't writing for business.com and Business News Daily, she's writing (and furiously editing) her first novel, reading a YA book with a third cup of coffee, or attending local pop-punk concerts. She is also the content manager for Lightning Media Partners. Check out her short stories in "Night Light: Haunted Tales of Terror," which is sold on Amazon.

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