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Minnesota Rejects "Not Collecting for Another" Argument

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Collection agency licensing laws generally apply to third-party debt collectors—companies collecting debts owed to someone else. Businesses sometimes attempt to structure transactions to avoid that characterization, taking the position they are first-party collectors outside the scope of the licensing requirement.

In a recent enforcement action out of Minnesota, a company challenged - without success - what it means to be collecting someone else's debt. The action was an administrative ruling involving the Minnesota Department of Commerce (the Department), which licenses collection agencies in the state. The Department filed a cease and desist order against a company, Parking Revenue Recovery Services, Inc. (PRRS), for acting as a collection agency without a license.

PRRS's business involved contracting with parking lot operators to monitor parking facilities using cameras. When it determined that a vehicle had violated parking rules—such as by failing to pay or overstaying—it would send the vehicle owner a notice of noncompliance and seek payment of a violation fee. PRRS posted signs stating that anyone parking in the facility was entering into a contract with PRRS. PRRS would pay the parking facility a contractually agreed percentage of the amount PRRS collected.

After several complaints from residents, the Department concluded PRRS was operating as a collection agency without a license and filed a cease and desist order. PRRS argued that it was collecting its own receivables—not the parking facility's. According to PRRS, the posted signs created a direct contract between PRRS and the customer, making any violation fee payable to PRRS rather than the parking operator. As a result, it was not collecting "for others" within the scope of the license. In fact, PRRS's contract with the parking facility stated that no part of the fees owed to the facility would be collected by PRRS.

The administrative law judge was unpersuaded by PRRS' argument. The judge concluded that the actual parking contract existed between the customer and the parking facility—not PRRS. In a parking transaction, the contract involves the customer's use of the parking space in exchange for payment to the parking operator. PRRS, on the other hand, was not offering parking to the customer, the customer was not accepting anything from PRRS, and, in most cases, the customer wasn't even aware of PRRS involvement.

Also, there was no scenario in which PRRS would seek an amount from the customer where the customer did not originally owe a debt to the parking facility. The judge emphasized that PRRS never pursued a customer unless that customer first owed money to the parking facility. In the judge's view, the parking debt was the necessary predicate for every collection effort.

In reaching its conclusion, the judge also relied on an earlier Minnesota Court of Appeals decision holding that collection activity can be "for another" even when the collector has structured the transaction to obtain legal rights in the debt. In other words, a court may look to the substance of the transaction, regardless of the legal structuring.

PRRS' argument was creative and it looks like they took a number of steps to try to implement the structure in a way that would avoid the license. In some jurisdictions, the analysis might have come out differently. Unfortunately, Minnesota demonstrated that it will look beyond contractual labels and focus on the substance of the business arrangement. Companies designing collection or servicing programs should recognize that regulators may evaluate the practical substance of the arrangement rather than the contractual labels the parties use.

In the Matter of the Unlicensed Collection Agency Activity of Parking Revenue Recovery Services, Inc., 2026 WL 2082000.

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