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As Debt Collectors Multiply, So Do Consumer Complaints

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Embarrassing calls at work. Threats of jail and even violence. Improper withdrawals from bank accounts. An increasing number of consumers are complaining of abusive techniques from some companies that are part of a new breed of debt collectors.

They are debt buyers, outfits that acquire unpaid bills from credit card firms and other credit providers for pennies on the dollar and then try to collect. Some of these companies go after bills so old that consumers can no longer be sued for them in court or punished for them on their credit reports.

As the amount of consumer debt has risen over the years, so too has the number of these firms, growing from about a dozen firms in 1996 to more than 500 today. Industry officials say the firms provide a real benefit to indebted consumers, letting them pay off their bills at steep discounts. But industry critics -- plaintiff attorneys, consumer advocates and regulators -- say that for some firms, the demand to make a profit on the debts they purchase has resulted in the increasing use of heavy-handed, and sometimes illegal, tactics.

Year in, year out, the Federal Trade Commission receives more complaints about debt collectors than any other industry. But in recent years, these complaints have skyrocketed -- from 13,950 in 2000 to 58,687 last year. Complaints about third-party debt collectors accounted for close to one in six of all FTC complaints last year, up from 9.5 percent in 2000.

Francis Buselli of Amherst, N.H., told the FTC that a debt collector called him repeatedly about a debt the company said his daughter owed -- even though she had moved out 15 years before. On Nov. 26, 2004, the company called about six times in 15 minutes. On the final call, the debt collector recited Buselli's Social Security number, mentioned his wife by name and threatened to send thugs to get him, according to Buselli's FTC complaint.

"They knew too much about me. That really scared me," he said in an interview.

Last year, the agency sued the collector, Capital Acquisitions and Management Corp. (CAMCO), a large nationwide collection agency that the FTC said bought old debt lists, often ones that may have been sold several times before. The commission alleged that CAMCO pursued consumers who were not the actual debtors, just people with similar or identical names living in the same area. The firm subsequently shut down.

A lawyer for former CAMCO executives did not return calls seeking comment.

Collection industry officials attribute the steep rise in complaints to the growing volume of consumer debt, which now totals more than \$10 trillion, and to the Internet, which has made it easier for consumers to file reports with the government. CAMCO, they add, went far beyond the typical collection tactics practiced by the rest of the industry.

"In every sector, there are bad apples, but 95 percent of all debt buyers are good, nice business people," said Warren Dedrick, chairman of Marlin Integrated Capital Holding Corp., a large buyer of medical and utility debt. "I believe hardly any debt buyers break the law, but on the other hand, if you're talking to a consumer once a week for six weeks, it's going to do nothing but alienate the consumer base."

Dedrick has expressed concern that as the industry becomes more competitive, tough tactics would draw the attention of law-enforcement officials.

"I think we'll see more shutdowns from the FTC because debt buyers who purchase paper at higher prices will have to push consumers harder and harder to get their desired return on investment," Dedrick told Kaulkin Ginsberg, an advisory firm for the accounts-receivable industry, according to a recent report.

Harassment by some collectors "is definitely getting worse," said Sonya Smith-Valentine, a Greenbelt lawyer who has represented Maryland and District consumers in lawsuits against debt collectors for three years.

Particularly troubling, Smith-Valentine said, are the growing number of cases in which collectors persuade a consumer to pay just a little -- and then use the bank information from that payment to improperly withdraw more funds from the consumer's account.

That was the experience of Sheilah R. Henderson of Lanham, as detailed in a lawsuit filed in the U.S. District Court for Maryland. According to the suit, a collector threatened to sue her for a bill for a home-security system that had been incurred by Henderson's deceased mother. Although Henderson was not responsible for the debt, she agreed to have money automatically debited from her bank account on the 15th of every month. According to the complaint, the next thing she knew, the collector tried to withdraw money five times in three weeks, with Henderson incurring a returned check charge each time.

Henderson ordered a stop to the wire transfers, but then the collector started calling her at work, threatening to garnish her wages if she didn't pay. Henderson asked the collector to stop calling her at work, her right under federal law, but the collector told her he'd continue to call her there "until she lost her job," the lawsuit said. The lawsuit was settled under a confidentiality agreement.

The consumer debt-buying industry began in earnest in the early 1990s, when the federal government began selling off assets from failed savings and loans. Before then, credit

card firms and other creditors rarely sold unpaid debt, instead hiring third-party firms or lawyers to collect the bills -- usually on a commission basis.

Between 1995 and 2004, the industry grew from purchasing \$12 billion worth of consumer debt to \$77.2 billion, according to the Nilson Report, a newsletter that monitors the credit industry. The report said that last year debt buyers paid an average of 5.4 cents for every dollar of unpaid debt.

For some firms, returns can run as high as five times the amount they paid for the debt, according to the report by Bethesda-based Kaulkin Ginsberg.

There are five publicly traded debt buyers, including Portfolio Recovery Associates, a nine-year-old Norfolk firm that went public in November 2002. Since its inception, the company -- whose motto is "giving debt collection a good name" -- has bought more than 6.2 million customer accounts with a face value of \$11.1 billion for \$265.8 million, or 2.39 percent. To date, it has collected debts at a rate of 2.5 to 3 times the purchase price, enabling the firm's revenue to grow from \$6.8 million in 1998 to \$113.4 million in 2004. In that same time period, profits increased to \$27.5 million from \$402,000.

"If you run it right, it can be a good business," said Portfolio Recovery's chairman, Steven Fredrickson, who added that collectors are a vital part of America's credit-driven economy. "Without collectors, you couldn't have much of a lending environment. There has to be people like us to help enforce original contracts made" in which consumers promise to pay their debts.

Frederickson said the company runs a six-week training program aimed at avoiding consumer complaints: "We think compliance is a big deal. . . . Nobody loves a debt collector, so you really need to mind your p's and q's."

Manny Newburger, a Texas attorney who represents many collection firms, estimates that the average collector makes between 40,000 and 50,000 calls a year. Multiply that by the 100,000 collectors that ACA International, the trade association for debt collectors, says are in the business and that comes to 4 billion phone calls a year. By comparison, the 58,687 complaints filed at the FTC are quite small, Newburger said.

The rise of the debt-buying industry has also led to an increase in complaints about attempts to collect what plaintiff attorneys often call "zombie debt," those unpaid bills that are so old the statute of limitations in which a creditor can sue to recover the debt has expired.

It's not illegal to try to collect this debt -- and collection industry officials say there are a lot of consumers who want to pay, even if they are no longer legally obligated to. However, federal rules make it illegal to sue or even threaten to sue to collect it.

That's one of the chief reasons the Federal Trade Commission sued CAMCO. In its court filing, the agency, which had received more than 2,000 consumer complaints about CAMCO, called the Rockford, Ill., firm "a debt collection company gone wild."

It alleged that CAMCO harassed thousands of consumers to pay old, unenforceable debts or even debts they didn't owe. CAMCO sometimes tried to find people with the same name in the same geographic area and tried to collect the debt from them, the agency alleged. Even if the consumer was not the actual debtor, CAMCO threatened jail, seizure of property or garnishment of wages unless they paid, the FTC said. CAMCO collected millions every year "and perhaps as much as 80 percent of the money" came from consumers who never owed the original debt, the agency said in its complaint.

CAMCO closed last December after the FTC filed suit. Its \$1.75 billion portfolio of consumer receivables was auctioned off for \$6.8 million -- to another debt buyer.

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