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A New Shakedown?

Debt collectors resort to new tactics

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Debt collectors in a down economy are like yellow jackets in the fall: While their sting is as painful as ever, they have a harder time getting fed and can easily become more frenetic and annoying. "People think this must be the boom time for the debt collection industry, but that is not the case," says Rozanne Andersen of ACA International, the collectors' trade group. "I wouldn't be surprised if our numbers drop." Despite [consumer debt](#) growing to unprecedented levels and delinquencies at their highest rates in 16 years, the collection industry was flat between 2005 and 2007, collecting roughly \$40 billion a year.

In response, the collections industry is adapting with new strategies designed to wring cash from already-strapped consumers. Collectors are going to court more often. They're using new technologies, like offshore call centers, computer analysis and automated dialers to find debtors. They're claiming to be more open to partial payments plans than ever before. Unfortunately, some of the industry is also resorting back to the kinds of harassing behaviors that got them into trouble with regulators and the courts in the past. Last week Minnesota Attorney General Lori Swanson sued a debt collection agency for using techniques she said were illegal. "I expect we'll be filing more lawsuits and there are other [states' attorneys general] who are saying the same thing," she told NEWSWEEK.

On a national level, one of every four calls received by the Federal Trade Commission receives is a complaint about debt collects. "The Commission receives more complaints about the debt collection industry than any other specific industry," the FTC recently reported to Congress. The most common grievances: collectors trying to recoup debts that consumers didn't actually owe, trying to collect more than was actually owed, and harassing or threatening behavior.

Here's a look at the new strategies collection agencies are employing, why they've got consumer advocates concerned, plus a list of consumer friendly resources to tap when collectors come calling.

From Algorithms to Zombies

New technology is playing a big part in the strategies employed by collections agents. More than a quarter of debt collection firms are using computer scoring systems--which barely existed ten years ago--to find debtors most likely to pay big, according to ACA International. "Collections companies are willing to invest more in these accounts because they will see a higher return," says Michael Banasiak, of PredictiveMetrics, a Tinton Falls, New Jersey, firm that gives letter grades of A through F to as many as five million individual consumer accounts every month for its debt collecting clients.

To develop those grades, his firm applies sophisticated algorithms to millions of pieces of data, including what type of debt is owed, how old the debt is, how big it is, when the account was opened, credit reports, bankruptcy filings and the socio-economic status of the debtor.

It's those latter data points that give some consumer advocates pause. "You might think they are targeting the people with the greatest wealth," says Robert Hobbs is of the National Consumer Law Center. "But the data shows that almost all of the people sued by debt collectors lived in low-

income communities that were predominantly African American. It is like profiling." Banasiak says his firm doesn't include any data that could be used to be discriminatory.

Telephone technologies are a source of contention as well. Roughly half of collectors are using automated calling systems with recorded messages and that's a big problem, according to Hobb. If the calls don't disclose who the debt collector is and what the call is about, it could be considered deceptive, a view that Andersen concedes the courts have upheld. But if that information is left on a voice mail system that more than one person uses, it could be an unauthorized disclosure of the debt to a third party. Increasing numbers of calls to cell phones are troubling too, says Hobbs, because the call could put lower-income recipients in the position of having to pay for minutes spent taking calls from collectors.

Then there's "zombie debt"--old debts that may be too musty to collect on. "Some of this is 10 years old or more, and beyond the statute of limitations for collection," says Swanson. Yet she's seeing more consumer complaints about agencies dredging up debts that are so old they're difficult, if not impossible, to prove. Or have already been discharged in bankruptcy. Debt collecting agencies say that the oldest debts tend to be followed by debt purchasers, a slice of the industry that buys past-due accounts and then tries to collect them for themselves, instead of simply working on commissions or fees.

The Kinder, Gentler Approach?

The ACA's Andersen says her industry is trying hard to be clean so that regulators and lawmakers will trust it to become a self-regulating entity that polices its own members. Part of the ACA's charm offensive includes a new [YouTube channel](#) with videos aimed at humanizing collectors. With videos they hope to go viral, the trade group is also publicizing the fact that the \$40-billion in debts it does collect is money that bill-paying consumers don't have to fork over in the form of higher prices.

Increasingly, collectors say they are making an effort to collect partial payments and negotiate easier repayment plans with consumers. According to industry watchers, that makes sense on many levels. "Financial institutions are recognizing that their customer base, even the delinquent ones, are the ones that they want to keep. These consumers will come around to financial health and will be good consumers again," says Rob Fite, an industry consultant with LexisNexis Risk & Information Analytics Group.

What To Do When Debt Collectors Call

The Fair Debt Reporting Act, the Fair Debt Collection Practices Act, and a host of Federal and state rules govern what bill collectors can and can't say and do. The short version: They have to identify themselves and, if you request it, prove that the debt is indeed yours. For more information on your rights, go to:

[FTC.gov](#)--Here you'll find specifics on how to handle debt collectors from the agency tasked with regulating them.

[Privacyrights.org](#)--A consumer friendly guide that explains debt collection practices.

[Stopcollectionharassment.com](#)--If you think you're being bothered about debt that's not yours and don't know how best to respond, check out this site's sample letters.

[Askdoctordebt.com](#)--The industry's own web site about its debt collection standards.

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