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Study: Debt collectors typically violate state law

Buyers of uncollected debt won \$1.1 billion in court judgments in recent years without proving their claims or notifying people they were being sued, according to a study by advocates for low-income communities.

By Daniel Massey

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Buyers of uncollected debt routinely violate state law by filing meritless lawsuits against low-income New Yorkers, often without presenting any proof of their claims and without notifying individuals that they are being sued, a new report by four nonprofit organizations alleges.

The debt buyers typically obtain automatic default judgments in their favor because the people they sue are unaware of the cases and do not show up for their court hearings, the report by the Legal Aid Society, MFY Legal Services, the Neighborhood Economic Development Advocacy Project and the Urban Justice Center charges.

“It is clear that the worst actors heavily profit from abusive and illegal debt-collection practices,” said April Newbauer, attorney-in-charge of the civil practice at the Legal Aid Society.

The study examined the 26 top debt buyers in New York City's Civil Court from January 2006 through July 2008, finding that they filed 457,322 lawsuits and were awarded an estimated \$1.1 billion in judgments and settlements.

Reviewing a sampling of 365 of the suits, the study found that the debt buyers prevailed in nearly 95% of the cases, usually by obtaining automatic judgments because the person sued did not appear in court. Only 10% of those sued answered the complaint, the survey showed.

Virtually all of the people with default judgments lived in low- or moderate-income neighborhoods, and more than half lived in predominantly black or Latino neighborhoods. In the 12 zip codes with the highest concentration of lawsuits, one in four families lived below the federal poverty level.

Not a single person in the sampling was represented by an attorney. Overall, just 1% of people sued by debt buyers in New York City are represented by counsel, according to the report. Once the judgments are entered, the individuals are subject to wage garnishment and other types of judgment enforcement, such as frozen bank accounts.

In nearly two-thirds of the cases, the debt buyers were represented by one of five local law firms: Cohen & Slamowitz; Forster & Garbus; Mel S. Harris and Associates; Lullooly Jeffrey Rooney & Flynn; and Rubin & Rothman. The report charges the firms with filing suits without any proof and hiring process servers that fail to properly serve people, among other practices.

None of the firms returned calls seeking comment.

Among other measures, the report calls for the passage of a bill in Albany that would prohibit debt buyers from filing suit without sufficient evidence. The Assembly passed the legislation last year, but it died in the Senate.

In March, the City Council passed a bill that tightens regulations on process servers in an effort to ensure that New Yorkers know when there are cases against them.