

Collections & Credit Risk

The resource for distressed-credit portfolio managers

New Report Examines Debt Collection Abuses

Tuesday, May 25, 2010

Editor's Note: The following is a news release based on a report issued yesterday. Collections & Credit Risk wants to know what you think about the report. Contact Darren Waggoner at 815.463.9008 or darren.waggoner@sourcemediacom.com.

<http://www.collectionscreditrisk.com/news/new-report-examines-debt-collection-abuses-3001827-1.html>

Debt-buying companies – a fast-growing segment of the debt collection industry – engage in systematic collection abuses that particularly target low-income New Yorkers and people of color, according to a report issued yesterday by The Legal Aid Society, MFY Legal Services, Inc., NEDAP, and Urban Justice Center.

The report finds that debt buyers in New York City routinely violate New York law by filing meritless lawsuits against low- and moderate-income New Yorkers, without having proof of their claims and without notifying people that they have been sued. Debt buyers nevertheless prevail in more than nine out of 10 cases. They typically obtain automatic, "default" judgments in their favor because the people they sue are unaware of the case and therefore do not appear in court.

During an 18-month period from 2006-2008, debt buyers extracted \$1.1 billion in judgments against New Yorkers, the vast majority of whom lived in low-income communities and communities of color. The report also documents a strikingly uneven playing field, in which only 1% of people sued had an attorney representing them.

"Debt buyers wreak havoc on people's lives. The lawsuits are particularly abusive because New Yorkers often receive no notice that they were sued until their bank accounts are frozen or their wages have been garnished," said Nasoan Sheftel-Gomes, Staff Attorney at the Urban Justice Center.

"I was sued for a debt I didn't even owe," said Claribel Pichardo, a 36-year old Brooklyn resident. "They claimed they delivered court papers to my home, when in fact the address was for a building where I did not reside. I knew I didn't owe the debt, but I almost agreed to make payments because they froze my bank account and I was in a panic. Luckily, at the last minute I was able to speak to a lawyer, who helped me get my account released and the case dismissed."

"Legal services offices have been deluged by calls from New Yorkers whose lives have been upended by these egregious practices. Many of the people sued – frequently very low-income,

elderly, or disabled individuals, have no legal representation and cannot effectively defend themselves against the debt buyers' unscrupulous collection tactics," said Carolyn Coffey, Senior Staff Attorney at MFY Legal Services.

"Many of these lawsuits never should have been brought in the first place," said Claudia Wilner, Senior Staff Attorney at NEDAP. "Debt buyers routinely file frivolous lawsuits even though they have no evidence to prove that the debts are owed."

The report recommends the passage of the NYS Consumer Credit Fairness Act, which would prevent abusive debt collection lawsuits. The bill, sponsored by Senator Eric Schneiderman and Assemblymember Helene Weinstein, would address many of the problems described in the report.

"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 Legal Aid. "The Assembly passed the Consumer Credit Fairness Act last year, and we call on the NYS Senate to pass it now, and restore fairness to the court process."