



The sleazy world of predatory debt buyers

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NEDAP has an extremely important new report on a particularly evil and sleazy part of the predatory financial universe: debt buyers. These institutions make hundreds of millions of dollars by suing people in low-income neighborhoods, often without properly serving them with notice that they're being sued. When the alleged debtor doesn't show up for court, the debt buyers get a default judgment, and start attaching bank accounts and garnishing wages. Often they do this successfully even when the debt is not legitimate.

The debt buyers are massively profitable, despite the fact that they have almost no legal leg to stand on:

When debt buyers purchase debts, they become legal owners of those debts, but obtain very little information about them. Debt buyers usually receive an electronic file that includes only a person's name and social security number, last known address, the amount allegedly owed, the charge-off date, and the date and amount of the last payment. The portfolio does not include documentation of the debt, such as the governing contracts and account statements. This information is insufficient to ensure that the debt buyers collect the correct amount from the correct person. Debt portfolios are regularly sold on an "as is" basis, without consideration for whether collection of the debts in the portfolio is legal.

Debt buyers' ability to obtain additional documentation from the original creditor is extremely limited: they may purchase the right to request such documentation in a limited number of cases, or they may not have access to any supporting documentation at all. If the debt is resold to another debt buyer, obtaining such documentation becomes even more difficult, as most second and subsequent sales of debt portfolios do not include any direct access to the additional documentation from the original creditor, which means that those debt buyers almost certainly lack the documentation needed to support lawsuits filed against people whose names appear in their portfolios.

The report makes a number of very sensible recommendations, including a ban on debt buyers filing lawsuits if they don't have any evidence which proves the debt is owed. More generally, something has to be done to rectify the enormous asymmetry in sophistication and legal ability between the two sides here: as the report says, "many people sued are pressured into unfair and unaffordable settlements that leave them in a worse position than if they had ignored the lawsuits".

This entire industry couldn't exist, of course, if it wasn't for the banks, which tacitly condone this behavior by selling debt buyers utter garbage debt. So while going after the debt buyers themselves is obviously the first order of business, it's also worth putting pressure on the banks to stop dealing with them. I wonder which bank might like to be first in denouncing these gruesome parasites.

Update: I should add that the report was not just the work of NEDAP: it was co-written with the Urban Justice Center, with help from attorneys at the Legal Aid Society and MYF Legal Services.

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