FOR IMMEDIATE RELEASE
June 7, 2007
CONTACT:
Lauren Saunders, NCLC (202) 452-6252
Ira Rheingold, NACA (202) 452-1989

NATIONAL CONSUMER LAW CENTER

"WE'RE GOING TO TAKE YOUR MOMMY AWAY FOREVER":
CONSUMER GROUPS DECRY DEBT COLLECTION HORROR STORIES

Lawyers at two consumer groups -- the National Consumer Law Center and the National Association of Consumer Advocates -- lambasted the debt collection industry for engaging in abusive tactics and for pursuing consumers even when shown that they have the wrong person or the debt has been paid, in Comments and Recommendations filed yesterday with the Federal Trade Commission. "Debt collectors believe they can make more money when they intimidate, threaten criminal prosecution, harass, and collect fees and charges far in excess of the real debt. Even more startling, debt buyers have learned to work the system to win judgments and coerce payments even when they have the wrong person or lack any evidence that the consumer owes the debt," NCLC and NACA wrote.

"I thought I had heard it all," said John Fugate, a Texas consumer attorney whose story was described in the comments. The debt collector "told the nine year old child of my college friend, who is the victim of identity theft, that they were going to take her mommy away forever." Over 30 other horror stories from 17 states, along with the Comments, are available on NCLC's website. Several consumers have also provided their own stories, which are available on the FTC's website.

The Fair Debt Collection Practices Act was passed in 1977 to prohibit such abusive debt collection tactics. The FTC has solicited comments on the state of debt collection for a workshop October 10-11, which will take a 30-year look back at how well the Act has worked. Though the Act has had some success, "the Senate report describing the problems that prompted Congress to pass the law in 1977 could have been written today," said Ira Rheingold, Executive Director of NACA.

"The phenomenal growth of the debt buyer industry – which did not exist 30 years ago – has also increased the abuses tremendously," said Lauren Saunders, Managing Attorney of NCLC's DC office. "Debts that may be a decade or more old are now sold in bundles to debt buyers for pennies on the dollar. Debt buyers then file cases by the thousands in overworked courts. The courts typically enter default judgments even if the collector has no proof that the consumer owed the debt, that the amount owed is legal and correct, or even that the debtor being sued is the right person," she added. Debts are often sold from one collector to the next, and the collector rarely keeps critical information such as proof of the original debt, a record of payments made, or efforts the consumer made with the previous collector to resolve a dispute.

"It is an Alice in Wonderland nightmare for consumers to find their old records, convince the debt collector that they have made a mistake, take time off work to go to court, and then have to begin the process all over again after the debt is sold to the next collector," said Dick Rubin, a consumer attorney in New Mexico.

The comments also point out that, in a marked change from 1977, credit is often pushed on people who are already in strained financial circumstances. "Frequently, creditors make their profits not from the regular repayment of the debt, but from the piling on of abusive fees and penalties. From the lack of underwriting to creditor practices that encourage default, debt collection becomes inevitable," the comments said. The comments describe abuses with credit cards, mortgage servicing, and payday loans.