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Consumer Protection and Nonbanks: A Snapshot

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Lawmakers are considering what powers the proposed Consumer Financial Protection Agency should have over nonbank institutions, which presently fall under the Federal Trade Commission's enforcement jurisdiction but have no federal supervision. Here are the major industries and the largest players.

Debt Collectors and Debt Buyers

The industry: The 2009 revenue of the debt collection industry is estimated at $13 billion. The industry has been consolidating and is dominated by the larger firms.

The debt buying industry is relatively new and growing. In 2005, debt with a face-value of $110 billion was purchased, largely credit card debt. Ten firms bought 81% of bad credit card debt in 2006.

NCO both buys and collects debt and is the largest player, with about 11% market share, collecting on millions of accounts. It has 30,000 employees in 100 countries.

Issues: Debt collection abuses are rampant, from illegal threats and harassment to collection against the wrong person, in the wrong amount, or zombie debt long past the legal collection age. The FTC receives more complaints about the industry than any other, nearly 500,000 in the last five years, during which it took 8 enforcement actions.

Credit Bureaus

The industry: Credit reports determine whether and at what price consumers can own a home, buy a car, obtain insurance for both, get a credit card, and perhaps even get a job. The three nationwide consumer reporting agencies, Experian, Equifax, and Trans Union, each collects information on 400 to 500 million individuals worldwide.

Issues: Credit reports are rife with inaccuracies, with serious errors in as many as 25% of credit reports. The error resolution process is a travesty, with the bureaus' reducing consumers' detailed complaints to a two-digit code funneled through an automated process. Studies have found racial and economic disparities in credit scoring.

Payday Lenders

The industry: Payday lenders make over $40 billion a year in small, short-term loans at annual rates of up to 400% or more. Half of the over 20,000 stores are concentrated among the top 16 top payday lenders. The largest, Advance America, has 2,600 stores in 36 states and made $4.2 billion in payday loans in 2008.

Issues: Payday loans' high price, short term, and coercive security through unfunded checks or electronic access to bank accounts lead to an explosion of inescapable debt, abusive debt collection practices, increased bankruptcies, loss of bank accounts, and even crime.

Nonbank Auto Lenders

The industry: The auto financing market is over $600 billion. The biggest companies are regulated banks. Ford Motor Credit is the largest nonbank auto lender. It earned $1.3 billion in 2009.

Issues: The auto lending market, especially in the subprime sector, is plagued with the same problems as the subprime mortgage market, with unaffordable loans made without ability to repay, rollover of debt that often pushes the debt above the value of the car, and a version of yield-spread premiums: discretionary kickbacks to dealers for placing the consumer in a more expensive loan. These kickbacks have caused higher interest rates to be charged to minorities.

For-Profit Colleges Directly Making Student Loans

The industry. Several large for-profit colleges, including Corinthian Colleges, Inc., ITT Educational Services Inc., and Career Education Corporation, now make private loans directly to their students. Corinthian Colleges has told investors that it plans to make $130 million in such loans this year.

Issues: Corinthian is making predatory loans to students whom it expects, from the outset, to default at a rate of 56 to 58 percent. The company considers these loans good investments because the students bring a profitable flow of federal grant and loan dollars. The impact on over half of its students from defaults does not concern the school.