

5 Things to Know About...

Debt Buying & Collection

Did you know that one in seven people is being pursued by a debt collector?

- 1 It doesn't take much to become one of the seven.**

When lenders have difficulty collecting debts, they often sell them to debt buyers. When these collection agencies acquire debt portfolios, they typically get very little documentation—often just a name, an address, and an alleged amount. Even that information is sometimes inaccurate, outdated, or missing entirely. The result: anyone can be pursued by a debt collector, even someone who never owed the debt in the first place.
- 2 The debt industry is big business.**

The debt collection industry has grown tremendously in the last couple decades. In 2010, revenue for the third-party debt collection industry was 6.5 times that of 1972, after controlling for inflation. Over the past few years, the 19 largest banks sold about \$37 billion in charged off debt each year. The top nine debt buyers purchased \$143 billion in consumer debt in 2006-09, paying \$6.5 billion, approximately 4.5 cents on each dollar purchased. Four publicly-traded debt buyers saw aggregated proceeds from collection lawsuits grow from \$582 million in 2009 to more than \$1 billion in 2012. Much of this growth can be attributed to the increased availability of consumer credit in the 1990s and the rising delinquency rates in the 2000s.
- 3 Debt is cheap—for the companies that buy it.**

Debt can be purchased over and over again – and as debts age or go through multiple buyers, they get cheaper. Debt costs about 7.9 cents on the dollar for debts less than three years old and essentially nothing if older than 15 years. Unsurprisingly, as the debt passes from buyer to buyer over the years, the information associated with the debts gets skimpier and less accurate.
- 4 Debt collectors have a lot of tricks up their sleeves.**

Debt collectors use a wide range of tactics to collect on debts, some of which are predatory and abusive. Consumers pursued by debt collectors complain about misrepresented information, harassment and excessive contact, obscene or abusive language, and illegal threats to sue. This behavior is troubling, especially when debt collectors often use unverified and inaccurate information, or are pursuing the wrong person, the right person for the wrong amount, or a settled debt.
- 5 One of those tricks is suing you.**

Debt collectors are increasingly relying on an already overwhelmed justice system to collect. To expedite cases, collectors “robo-sign” affidavits claiming to have verified the debt (without actually verifying). When alleged debtors don't appear in court—which can happen for a variety of reasons, including lack of notice—the courts often grant a default judgment for the collectors, who never even had to prove their case. The consequences of these practices are significant: as a result of a default judgment, consumers can have their wages garnished, their credit marred, and personal property seized.