FTC Staff Releases First Debt Buying In Debt Collection Sector Report

In a recently released FTC report, FTC staff concluded that "there is room for improvement in the information debt buyers have when they contact consumers and try to collect."

The key findings in "The Structure and Practices of the Debt Buying Industry" report — the first empirical study of the collection industry's debt buying sector — comes primarily from analysis on nine of the largest debt buyers.

The FTC noted that the "most significant change in the debt collection business in recent years has been the advent and growth of debt buying."

The FTC initiated this debt-buyer study for several reasons:

- To obtain a better understanding of the debt buying market and the process of buying and selling debt
- And to explore any relationship between debt buying practice and the types of problems that the FTC has found when debt collectors try to recover and verify debts.

While the FTC staff acknowledged that debt buying can reduce losses creditors incur in providing credit -- and enable them to provide credit at lower prices — it did note that debt buying raises consumer protection concerns.

Staff reported that "debt collectors, including debt buyers, may have insufficient or inaccurate information when they collect on debts, which may result in collectors seeking to recover from the wrong consumer or recover the wrong amount" or both. Thus, at a minimum, consumers would benefit from better information in debt collection.

According to the report, the 9 companies examined collectively bought more than 75 percent of the debt sold in 2008; six of them provided the information used by the staff in most of its analysis.

The companies submitted data on more than 5,000 portfolios, containing almost 90 million consumer accounts purchased during the three-year study period.

The debt buyers spent nearly $6.5 billion to acquire accounts with a face value of $143 billion. Most of this debt, 62 percent, was credit card debt. The debt buyers also provided copies of purchase and sale agreements between themselves and sellers of debts, as well as narrative responses to relevant questions.

The key findings of the study are:

- Buyers paid an average of 4¢ per face value dollar.
- Buyers typically received required information for validation notices.
- Buyers typically received additional information that could make validation notices more useful, but usually the info was not provide to consumers.
- Buyers received few underlying documents concerning debts, but they generally knew the debt's age.
- There is no guarantee of the accuracy of the information provided about debts at time of sale.
- There is no guarantee of the accuracy of the information in sellers' documents.
- Limitations were placed on debt buyer access to account documents.
- Additional limitations applied to the resale of purchased debt.
- Buyers rarely received prior dispute history and consumers then disputed 3.2 percent of debts that buyers attempted to collect.
- About half of disputed debts were reported as verified.
- Few disputed debts were resold.
- A minority of the debt was beyond the statute of limitations.

Text of the staff's report is available at http://www.ftc.gov/os/2013/01/debtbuyingreport.pdf.

CFPB Issues Proposal To Begin Oversight Of **Non-Bank Student Loan Services**

Last spring, the Consumer Financial Protection Bureau issued a proposed rule allowing the agency to supervise the nation's largest non-bank servicers of student loans.

Any non-bank student loan servicer that handles more than 1 million borrower accounts would be subjected to the same type of CFPB supervision that currently applies to banks with student loan servicing operations.

The rule defines certain non-bank student loan servicers as "larger participants" in the financial services marketplace and allows the CFPB to oversee their compliance with federal consumer protection laws through on-site examinations and other supervisory tools. The examination process will be an ongoing process of data collection and analysis, on-site visits and regular communication with CFPB staff.

The public was to be given 60 days to comment on the proposed rule after it was published in the Federal Register, with the comment period ending in late May. If the rule is finalized, it would make student loan servicing the third nonbank market in which the CFPB has defined "larger participants" as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

More information on the rule is available at http://files.consumerfinance.gov/f/201303_cfpb_nprm_larger-participants-student-loan-servicing.pdf.