

Regulators Ramp Up Debt-Collection Crackdown

Authorities shut four companies and announce initiative to fight abusive practices against borrowers



Federal Trade Commission Chairwoman Edith Ramirez, center, with Illinois Attorney General Lisa Madigan and Minnesota Commerce Department Commissioner Mike Rothman during a news conference on Wednesday at the FTC headquarters in Washington, announcing a federal and state initiative targeting abusive debt-collection practices.

By Yuka Hayashi

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WASHINGTON—Regulators have shut four debt-collection agencies during the past month as federal and state authorities say they are intensifying a crackdown on abusive collection practices against borrowers.

The Federal Trade Commission highlighted on Wednesday the four cases as part of what it called a new national campaign with its state partners to rein in debt collectors that use tactics such as harassing phone calls and false threats of litigation. Since Oct. 1, federal and local regulators have brought 30 new law-enforcement actions against such companies, the FTC said.

Of the four companies involved, two halted operations after the FTC requested federal courts to issue orders to shut them down. The two other operations have agreed to settle the FTC's charges and to close down as a result, the agency said.

The two debt collectors that received court orders to halt operations were BAM Financial of California, which allegedly “extracted payments from consumers through intimidation, lies and other unlawful tactics,” according to the FTC. The other, Delaware Solutions of New York, is accused of “attempting to collect on debts they knew were bogus,” the FTC said.

Frank Bogulski, the lawyer for Delaware Solutions, said the company denies the FTC's allegations and that it is in the process of litigation. The attorney for BAM didn't immediately respond to requests for comment.

The companies that settled with the FTC and state attorneys general were K.I.P. LLC, run by an Illinois couple who agreed to a \$6.4 million judgment, and National Check Registry of New York. K.I.P, which recently dismissed its attorney, couldn't be reached for comment. The lawyer for National Check Registry didn't respond immediately to a request for comment.

Some representatives of the debt-collection industry say they have been unfairly targeted. "While there is undoubtedly a need to protect consumers from con artists that are posing as debt collectors, it's also important to point out that most of the legitimate companies are licensed and they play an important role in facilitating a healthy credit market and economy and at times is unfairly stigmatized," said Scott Wortman, an attorney at New York law firm Warshaw Burstein LLP who focuses on creditors' rights.

The move shows regulators remain sensitive to complaints about consumer finance years after the financial crisis exposed troublesome practices in the sector. The Consumer Financial Protection Bureau—created in the wake of the crisis to address such issues—has taken enforcement actions against the debt-collection industry this year. The bureau also is preparing a new set of rules to govern those companies.

"What we are trying to do ... is to build a national coalition that includes federal partners, state partners, local partners," FTC Chairwoman Edith Ramirez said at a news conference, flanked by state regulators from Illinois and Minnesota. "We believe enforcement has a crucial role as well as educating both consumers and businesses."

The regulators have dubbed their campaign Operation Collection Protection Initiative.

Last year, consumers filed 280,000 complaints with federal authorities related to debt collection. "We receive more complaints about this industry than any other," the FTC chief said.

After the FTC unveiled on Tuesday its plan to announce enforcement actions on Wednesday, shares of the nation's two largest debt collectors, PRA Group and Encore Capital both tumbled more than 10% on Tuesday, before regaining much of the losses on Wednesday. Those companies weren't part of Wednesday's FTC announcement, but did reach a settlement with the CFPB in September over how they collect bad debts.

"The coordinated work between the FTC and states will play an important role in stopping the most egregious violators of the law," said Isaac Boltansky, an analyst for Compass Point Research & Trading LLC, an investment firm focused on the financial-services sector. "But it will be the CFPB's upcoming rule-making effort that could reshape how the whole industry operates."

Industry officials expect the consumer watchdog's new rules to be rolled out sometime early next year.

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