

City Limits

Report: Fraud Common Among Top Debt Buyers

Between January 2006 and July 2008 the top 26 firms operating in NYC collected more than \$1 billion through court judgments, allegedly obtaining many of them fraudulently.

By [Eileen Markey](#)

Thursday, May 27, 2010

In addition to shoddy mortgages, deed theft and usurious payday loans, there's another predator sucking money out of low income neighborhoods of color: debt buyers.

According to a [study](#) released this week by the [Neighborhood Economic Development Advocacy Project](#) these firms – which buy credit card, fines or other debts with the aim of collecting them from debtors – regularly file fraudulent lawsuits against low income, elderly and disabled New Yorkers.

In many cases, the report alleges, debts have already been paid off or forgiven. A spokesman for DBA International, an industry association did not return a phone call and email request for comment.

Between January 2006 and July 2008 the top such firms operating in NYC collected more than \$1 billion through court judgments. Debt buyers collect the money awarded through a judgment by garnishing wages, debiting bank accounts, or placing liens on property, thereby tarnishing their victim's credit history.

"The victims generally have no legal representation, are intimidated by the court process, lack knowledge of their legal defenses, face language barriers, or do not receive notice of the lawsuits," the report says.

Claudia Wilner, senior staff attorney at NEDAP and one of the report's authors, expounded on the abuses. "The debt buyer industry has this really abusive business model that is really taking advantage of the court system," she said. "We are now finding people who are unable to get a job or get an apartment because there are judgments against them – and they might be completely erroneous."

The practice has a devastating impact on already struggling communities, effectively transferring wealth out of the hands of working New Yorkers, at a steep interest, Wilner said.

The report was a collaboration between NEDAP, the [Legal Aid Society](#), [MFY Legal Services](#) and [Urban Justice Center](#). It examined a 365-case sample of lawsuits brought by the 26 most prolific debt buyers in the city between January 2006 and July 2008 and it analyzed a 451-case sample of calls to NEDAP's legal hotline from people who were sued by a creditor.

The findings suggest a substantial problem:

- Debt buyers prevail in more than 90 percent of their cases, often by entering default judgments when the person they sue fails to appear in court.
- The practice disproportionately affects people in black and Latino neighborhoods and in poor neighborhoods. Sixty-nine percent of the people sued by debt buyers were black and Latino.
- Of the 365 court cases the report examined, not a single defendant was represented by an attorney. Overall, only 1 percent of people sued by debt buyers in New York City are represented by counsel. There is no guaranteed right to counsel in civil court.
- At least 71 percent of the people sued were not notified of a lawsuit against them or were notified improperly.

The report's authors praised the Bloomberg administration for [enacting legislation and regulations to reform the industry](#), but said even more needs to be done to rein it in.

“Passage of the Consumer Credit Fairness Act in the New York State Senate would go a long way to stopping these practices,” Wilner said. The bill passed the Assembly and is sponsored in the Senate by Sen. Eric Schneiderman, a Democrat representing Riverdale. It would require debt buyers to present evidence regarding the debt they are suing over.

The report urges the New York State Attorney General, the New York City Department of Consumer Affairs and the Federal Trade Commission to continue aggressive action against the debt collection industry and recommends that judges, not court clerks, grant default judgments and review settlement agreements.