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Debt Collection Agencies Under Scrutiny at Hearing

By SEWELL CHAN

Joan Baron was certain that her husband, a surgeon who suffered a debilitating stroke in February 2004, never ordered a telephone-directory advertisement from Verizon. When she received a bill for such a service, she disputed it.

"Verizon ignored my letters and continued billing," Ms. Baron wrote in a recent letter to the city.

According to Mrs. Baron, who is 75 and lives on the Upper West Side, Verizon hired a succession of four debt-collection agencies. All of them sent her dunning letters, from September 2004 to April 2006, even though she responded each time with letters insisting that the debt was not legitimate. Finally, the city agreed to intercede on her behalf.

Complaints to the city about such practices have risen 70 percent over the past two years, and yesterday the city's Department of Consumer Affairs, which licenses and oversees debt collection agencies, detailed the extent of the growing problem during a public hearing.

Increasingly, the officials said, collection agencies are resorting to illegal practices like making frequent and harassing phone calls, disregarding letters from consumers disputing the validity of debts, and passing on difficult cases to new collection agencies without first trying to resolve the disputes.

The problems have been aggravated by identity fraud; paperless transactions, which make debts and payments harder to document; and easy access to credit, which has helped fuel borrowing and discourage saving.

"People ought to pay their debts," Jonathan B. Mintz, the city commissioner of consumer affairs, said during a break in the five-hour hearing. "But when debt-collection companies cross the line, which unfortunately they appear to be doing in an increasing way, then something has to change."

American consumers have protections under the federal Fair Debt Collection Practices Act of 1977, which the Federal Trade Commission enforces, but states and cities may adopt stronger protections for their residents. In New York State, the attorney general's office oversees the industry, and companies seeking to collect debts from New York City residents must obtain a license from the Department of Consumer Affairs. There are 878 such companies with city licenses.

Yesterday, Mr. Mintz and two of his aides, Andrew Eiler and Marla Tepper, heard from city residents and consumer advocates, and then industry representatives who had been subpoenaed to testify at the hearing at Borough of Manhattan Community College. Although the hearing was only to gather information, Mr. Mintz said the department would consider proposing tighter regulations if necessary.

Karen Gross, a professor at New York Law School and the president of the Coalition for Consumer Bankruptcy Debtor Education, which promotes financial literacy, said many consumers were often asked to pay debts and related credit-card fees for expenses they did not incur, because of identity theft or shoddy information.

The frequent buying and selling of debt, she said, means that the collecting agency is often far removed from the original creditor.

Karuna B. Patel, a lawyer at MFY Legal Services, a nonprofit group that helps elderly Manhattan residents among others, said a mentally disabled client's bank account was frozen in September because of a judgment obtained by a debt collector, even though his income — $666 a month from Supplemental Security Income — was protected by law from seizure for debt repayment. She said that $435 was taken from his account, which left him struggling to pay for food.

Mark E. Davitt, president of ACA International, a trade group for collection agencies, said the debt-collection industry recovered $39 billion last year and returned it to the United States economy, saving the typical household $351. He said his members not only obeyed all government regulations, but also followed a code of ethics adopted by the association.

David G. Peltan, director of compliance at Creditors Interchange, a collection agency in Buffalo, said that new employees are trained about the legal constraints on what they can say to persuade debtors to pay. Nonetheless, he said, some bad employees move from agency to agency. "You're still ignorant of whatever their compliance history might have been with the prior agencies they came from," he said.

As for Mrs. Baron, she said she hoped that the April dunning letter was the last one she will receive. A Verizon spokeswoman, Heather Wilner, said, "We regret that Mrs. Baron does not feel this billing issue has been resolved satisfactorily and we would be happy to look into it further."