



The Basics

Sleazy new debt-collector tactics

It may not be your debt, but it could be your problem. Collection agencies are bullying blameless consumers into paying debts they never owed.

By [Liz Pulliam Weston](#)

Lisa Burk isn't Lisa Sterns, but Allied Interstate refused to believe her.

The Minneapolis collection agency repeatedly called Lisa and her husband, Michael, according to a lawsuit filed by the Minnesota attorney general, and demanded that the couple pay a debt owed by one Lisa Sterns. The couple, just as repeatedly, told the collector they didn't know any Lisa Sterns and asked the company to stop calling.

Allied ignored the couple's requests. At one point, the collector insisted that the Burks were lying or, if Lisa Burk were not Lisa Sterns, that she knew Sterns and could tell Allied Interstate where to find her. It took intervention by the attorney general's office for the calls to finally stop.

The Burks' experience with abusive collection agency tactics was annoying. Paul Alappat's encounter with a collector was expensive.

Alappat said he was called two or three times by Buffalo, N.Y., collection agency Capital Management Services about a Chase Bank credit-card debt. Alappat told the collector he had never possessed a Chase Bank card and asked them to stop calling him.

When he applied for a home-equity loan two years later, however, the collection showed up on his credit report. His lender told him that if the \$394.74 debt were not resolved, the loan couldn't be made.

"Since I was in a hurry to get the loan approved," Alappat said, "I paid the full amount, including the interest."

Bullying the innocent

Alappat's got company. Regulators say collection agencies increasingly are harassing innocent people and badgering consumers into paying money they don't owe. More people complain to the Federal Trade Commission about debt collectors than about any other industry, and consumer attorneys say a booming trade in old, poorly documented debts is fueling the problem.

Consider:

- The FTC charged that as much as 80% of the money collected by Capital Acquisitions and Management (CAMCO), a large debt-collection firm, came "from consumers who never owed the original debt in the first place." These consumers typically paid the company to stop its harassment of themselves, their families, their friends and their co-workers. CAMCO agreed to a \$300,000 civil penalty in March 2004, but in the ensuing eight months the problems continued. The FTC received more than 2,000 additional consumer complaints about the company -- three times more than the agency received in the two years prior to the settlement. The FTC eventually succeeded in shutting CAMCO down.
- In July 2005, the FTC won a record \$10.2 million court judgment against National Check Control after accusing the debt collector of illegally threatening consumers with arrest and wage garnishment. Again, many of the consumers targeted by National Check Control didn't owe the original debt, the FTC said.
- Allied Interstate, the company that contacted the Burks, was sued by the Minnesota attorney general for repeatedly calling innocent consumers despite requests to stop. Allied eventually agreed to a settlement that prohibits it from contacting such consumers after being orally told that they don't owe the debts in question.
- Applied Card Systems hassled relatives, neighbors and employers with repeated phone calls in its efforts to track down debtors, according to the FTC. The company ignored requests to stop calling, and its representatives sometimes used obscene language when its hapless targets protested that they didn't know how to contact the debtors. The company agreed to a consent decree that prohibits it from harassing consumers.

Collectors cross the line

Debt collectors protest that most firms are ethical, law-abiding and provide a needed service that helps reduce borrowing costs for all consumers. But the new economics of debt collection can encourage belligerent campaigns, including dogged pursuit of innocent consumers.

As I discussed in "[Zombie debt is hard to kill](#)," there is now a booming market in the pursuit of debts so ancient that they used to be considered uncollectible. This year a whopping \$110 billion of such debt is expected to be sold to collection

agencies, up from virtually nothing 10 years ago.

Because the old liabilities cost collectors as little as 25 cents for each \$100 in face value, companies can make a profit if they can get debtors to repay even a tiny fraction. Along the way, some collectors realized they also could squeeze money from people who didn't even owe it.

Some consumers pay because their finances are so disorganized they don't realize the debt isn't theirs. Others are coerced into paying by illegal threats of lawsuits or ruined credit. Some, like Alappat, pay rather than risk losing a desired loan.

'Why are they allowed to do this?'

The collectors are nothing if not persistent. Mary Kitzmann of Alexandria, Minn., endured four months of calls from Allied Interstate over a debt she didn't owe before the state attorney general's office succeeded in getting the company to admit it had made a mistake. Five months after that admission, Allied called Kitzmann again, trying to collect the bogus debt. Some consumers endure collection attempts from a string of different companies as one collector sells its uncollectible debts to another.

A collector tried to dun Phyllis Maurice of Whittier, Calif., for more than \$23,000, saying she owed the money in advertising services for two businesses: a detective agency and a psychic consultancy.

"I have been a preschool teacher for over 30 years and have never owned (either business)," Maurice said.

Maurice enlisted the help of an attorney friend who wrote the collector a strongly worded letter, demanding proof that the debt was Maurice's. Maurice hasn't heard from that collector, but later she got a call from another collection agency about the same debt. "Why are they allowed to do this?" Maurice fumed. "What can we do to stop these scoundrels?"

Maurice was actually fortunate because she had access to an attorney who could advise her of the law. Many consumers have no idea of their rights in such situations, Cox said.

Your rights and how to use them

Under the Fair Debt Collection Practices Act, collectors are supposed to advise consumers that they have a right to dispute the debt, but that if consumers don't do so promptly -- and in writing -- the collector can assume after 30 days that the debt is valid.

Once collectors are notified that they've contacted the wrong party or that the consumer denies owing the debt, the companies are supposed to provide proof of the debts' validity. If they can't supply the proof, collections are required by law to cease.

Of course, some collectors simply ignore laws designed to protect consumers. But debt experts say your chances of getting a collector to back off improve when you know your rights and assert them forcefully.

If you're contacted about a debt you don't owe:

Know your rights. The Privacy Rights Clearinghouse has prepared a [fact sheet](#) for consumers dealing with third-party debt collectors.

Get the name of the collector, its address and a telephone number. You can tell the collector on the phone to stop calling, but that won't preserve your rights under federal law.

Send a certified letter, return receipt requested. Make it clear the collector has contacted the wrong party, that you don't owe the debt and that you don't want to be called again.

Contact regulators. If the collector continues to call, seek help. Typically, your state's attorney general's office handles complaints against collectors. You can also complain to the Federal Trade Commission, which typically doesn't intervene in individual cases but may act if it sees a pattern of abuses.

Monitor your credit reports. If a collection agency posts a bogus debt on your credit report, dispute the item immediately with the credit bureaus. Include copies of the certified letter you sent the collector and any complaints you filed with regulators. Don't wait until you're about to apply for a loan to check your credit report; you'll want at least a few months' head start to dispute any errors.

Consider a lawsuit. Consumers can bring lawsuits against collectors that violate the Fair Debt Collection Practices Act, either on their own behalf or as part of a class action. Contact the [National Association of Consumer Advocates](#) for referrals to attorneys who handle such cases.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the [Your Money message board](#).