

**Testimony of Corey Stone,
Assistant Director, Office of Deposits, Cash, Collections, and Reporting Markets,
Consumer Financial Protection Bureau**

**Before The Senate Banking, Housing, and Urban Affairs Subcommittee on Financial
Institutions and Consumer Protection**

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Good morning, Chairman Brown, Ranking Member Toomey, and members of the Subcommittee: It is a pleasure to be here again, and I am grateful for the opportunity to speak with you today on behalf of the Consumer Financial Protection Bureau on the subject of debt collections.

The topic of today's hearing was also the focus of a field hearing the Bureau held last week in Portland, Maine. Many of my remarks today draw from those given by Director Richard Cordray at that event. Debt collection has long been a source of frustration for many consumers, generating a heavy volume of consumer complaints. It is the focus of considerable enforcement activity by the Federal Trade Commission, by state attorneys general, and most recently by the Bureau. We are all determined to make steady progress, together, to protect consumers in this area.

Debt collection also has more salience today than perhaps at any time in our country's history. In the wake of the recent financial crisis, we see far too many people who have fallen into financial difficulties. Many lost their jobs, much of their savings, and even their homes. Bills piled up and sat unpaid. Many consumers fell behind, either because of bad decisions they made or because they were victims of tough economic conditions during the recession. The best estimates are that thirty million people – nearly one out of every ten Americans – came out of the financial crisis with one or more debts in collection, for amounts that average about \$1,400 per person.

While many debt collectors play by the rules and treat consumers fairly and respectfully, others try to get ahead by flouting the rules. Our job is to root out bad actors and protect consumers against unfair, deceptive, or abusive practices and other legal violations, which damage both consumers and every other debt collector that tries to operate within the law.

There are over 4,000 debt collection and debt purchasing companies and they represent a wide spectrum of firms. They are an essential part of the credit system, which operates under the accepted notion that people who owe money to others should in fact repay the money they have borrowed, and they should feel their obligation and responsibility to do so. Without collection activity, more debts would go unpaid, and lenders would both be more reluctant to extend credit and would need to charge more for doing so.

In January, the Bureau gained its authority to supervise firms that have more than \$10 million in annual receipts from consumer debt collection activities. Our supervision authority extends to about 175 debt collectors and debt buyers, which account for over 60 percent of the consumer

debt collection industry as measured by annual receipts. Through our examinations, we are now in a position to evaluate whether federal consumer laws are being followed at every stage of the process – from credit origination to debt collection. And through our enforcement authority, we have taken action and we will continue to do so when we see the law being violated.

Last month, we held a joint roundtable with our partners at the Federal Trade Commission to gather information and solicit input from a wide range of stakeholders on the integrity of information used in debt collections and in lawsuits against debtors. We often hear about collectors who pursue payments from the wrong consumers or for the wrong amounts. This can happen when information about a debt gets lost or changed when the debt is assigned to a collector or sold off. Over time, when this information is presented to the consumer, the debt may become unrecognizable. At our joint roundtable, we heard strong consensus about the need for robust national documentation standards and the need to maintain the accuracy of information used to collect debts. We will keep that in mind as we move toward a rulemaking process on debt collection issues.

Last week we also announced that we would begin to take consumer complaints about debt collection through our Office of Consumer Response. As with other complaints we take, these will be forwarded to the collection company (which in some cases means the original creditor) for resolution and we will be able to track responses to those complaints. In a market composed of over 4,000 collection firms and where consumers are also subjected to scams by illegitimate actors, providing consumers with the opportunity to submit these complaints will serve as an important early warning function, as well as serving to aid consumers who may have been subject to potentially improper actions by companies. We will be able to identify entities whose practices generate high levels of complaints and target our supervision and enforcement efforts where they are most needed. Likewise, we will be able to identify criminals who are posing as collectors and report them to the proper law enforcement authorities.

I want to point three important challenges in debt collection:

- First, when one excludes mortgages and auto loans, debt issued by financial institutions no longer represents the largest focus of debt collection activity in our country, either by dollar amount or number of consumers affected. This has been surpassed by medical debt. According to ACA International, the largest trade group of debt collection companies, hospitals and other health care providers now represent both the largest group of customers of collection agencies and their largest amount of recoveries in dollar terms.¹ As Senator Merkley pointed out in this Subcommittee's hearing last December on credit reporting, medical debt is affecting a large number of Americans, including adding negative information to their credit reports and exerting a negative impact on their credit scores. Third party collectors of medical debt are subject to the same federal statute as collectors of financial debt when it comes to protecting consumers, and we will be working with our partners at the FTC to better understand collection practices in this

¹ ACA statistics on hospital and other health care providers' share of debt collector customers were presented in Bob Hunt's (Philadelphia Fed) presentation at the joint roundtable, *available at* <http://www.acainternational.org/economicimpact.aspx>.

market and work to improve them.

Close behind, and perhaps the fastest growing area of debt collection is student debt. With nearly \$100 billion in federal and private student loans currently delinquent or in default, this area of debt collection deserves particular scrutiny. As my colleague Rohit Chopra, who is our Student Loan Ombudsman, indicated in testimony before your full Committee three weeks ago,² we are working to help young Americans who are having difficulty paying off their student loans to better understand their options under the law either to restructure loan repayments in ways that are affordable, or if their circumstances require it, to obtain forbearance.

Both medical and student debt have unique characteristics. And when borrowers are delinquent or in default, both types of debt present some unique challenges to both consumers and collectors. We will need to be sensitive to these challenges as we seek to improve practices and protections in the overall marketplace for collections.

- A second point is that there is a surprising amount of consensus across all market participants – from debt collectors, creditors, and collection attorneys, to consumer advocates, legal services providers, and state attorneys general—that we must develop clear standards for data integrity and record-keeping in the debt collection market. This is a finding from our joint roundtable and one that Director Cordray made last week. Too often, important information about a debt, including whether a consumer has disputed the debt, does not travel with the debt when it gets assigned to third party collectors or purchased by a debt buyer. And it is often either not present or available as part of the required notice to consumers when companies initiate collection activity or when owners of debt file claims or seek judgments in court. If we can address this problem, we will be providing consumers with tools they need to engage more confidently in the collection process, set requirements for disclosure and verification of debts that will discourage illegitimate actors, and enable collectors who play by the rules to more often avoid litigation. There is the potential for all legitimate players to benefit.

This will not be easy. When it comes to standards for the fundamental task of maintaining records and disclosing information, the devil is in the details. It means answering the question: which specific pieces of information about a debt need to be maintained, by whom, and disclosed when? If we get this right, the result will be a more trustworthy collections system that is more likely to treat consumers with dignity and respect, while better meeting the needs of creditors.

- A final point: Congress passed the Fair Debt Collection Practices Act when I was in high school. The Act is significantly about proscribing certain practices that have to do with how a collector communicates with a consumer who owes a debt, and about making sure these communications are conducted in ways that protect that consumer's dignity and privacy. But the act was written before many of today's communication technologies

² Testimony of Mr. Rohit Chopra, *available at* <http://www.consumerfinance.gov/testimonies/the-cfpb-before-the-senate-committee-on-banking-housing-and-urban-affairs/>.

were in use, including cell phones, text messaging, email, voicemail, and even faxes. These communication methods are being used today by some collectors to reach consumers in ways that can compromise both dignity and privacy. We intend to engage with our colleagues at the FTC and the FCC, each of which have relevant and unique jurisdictions that pertain to these practices, to establish clearer guidelines for how collectors may use some of these new communication technologies to reach consumers who owe debts, while protecting consumers' privacy and dignity.

As Director Cordray pointed out last week, our system of granting credit is based on “an accepted notion that people who owe money to others should in fact repay the money they have borrowed, and that they should feel an obligation to do so.” Debt collection activities play an essential role in this system. Without them, credit would be harder to come by and more expensive. Our job is to assure that consumers are not subjected to collection of debts they do not owe or to debts in the wrong amount or that have already been paid. Likewise, Congress has empowered and obligated us to assure that when a consumer cannot, or even in the occasion where they will not, repay their debts that they continue to be treated with dignity and respect.

Again, thank you for the opportunity to join you today and I look forward to discussing these matters further with you and to answering your questions.