



Final Transcript

FEDERAL TRADE COMMISSION: Press Conference

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SPEAKERS

Peter Kaplan
Edith Ramirez
Lisa Madigan
Mike Rothman

PRESENTATION

Peter Good morning, everyone. Welcome to the Federal Trade Commission.

I'm Peter Kaplan, the Office of Public Affairs. If you could turn your
devices on silent now that would be great.

Thanks for coming to our event today. We're announcing a major
initiative, a law enforcement initiative on debt collection [indiscernible].
First, you're going to hear from FTC's Chairwoman Edith Ramirez, and
then we're going to have some remarks by Illinois Attorney General, Lisa
Madigan, and then some further remarks from Mike Rothman who is the

[indiscernible] of Commerce [indiscernible] . And after that, we'll take questions from here in the room and on the phone, and then I'll turn it over to Chairman Ramirez.

Edith

Thank you, Peter and thank you all for joining us today. As Peter mentioned, here with me today is Illinois Attorney General, Lisa Madigan and Minnesota Department of Commerce, Commissioner Mike Rothman.

We're here to announce a new law enforcement initiative to protect consumers from unlawful debt collection, Operation Collection Protection. This is the first nationwide initiative that coordinates federal, state and local resources to combat defective and abusive debt collection practices. Before I continue with my remarks, what I'd like to do is to share a brief audio recording from one of our cases that captures an example of the egregious behavior that we're trying to stop. As you'll hear when you listen to the recording, it's a representative of a debt collector that's called ChexSystems who is contacting a victim's workplace.

(Recording being played)

Edith

Each year, hundreds of thousands of American consumers are victims of unlawful collection practices, many of which are similar to what you've just heard. I'm pleased to say that we put ChexSystems out of the debt collection business. But unfortunately, abusive debt collection practices continue to be an issue that affects millions of Americans.

In 2010, the total amount of US consumer debt reached nearly \$2.5 trillion. It's higher today, and nearly 30 million consumers have at least one account in collection. Debt collectors make as many as one billion contacts a year with consumers. The vast majority of those are perfectly legal, but many are not. We receive more complaints about this industry than any other, and last year alone, consumers filed over 280,000 complaints with federal authorities related to debt collection.

We understand that the lawful collection of debt plays an important role in our credit system, and of course there are many debt collectors that operate legally without resorting to deception or abuse. But, that's also why it's important for the FTC and our state and local partners, like Attorney General Madigan and Commissioner Rothman to protect consumers from threats, intimidation and other abusive practices. To

help achieve these goals, the FTC launched the initiative that led to today's announcement.

Working jointly with our law enforcement partners has been critical. The Department of Justice, the Consumer Financial Protection Bureau, 47 state attorney generals, 17 state regulatory agencies, one Canadian provincial regulatory agency, and a number of local authorities have all worked with us in pursuit of a more effective way of stopping illegal debt collection.

Collectively this year, these Operation Collection Protection partners have brought 150 actions that address unlawful debt collection methods. As part of this effort, the FTC is announcing five new actions today.

This year alone, we filed 11 cases against more than 50 defendants, secured more than \$88 million in judgments, and banned 24 defendants from the industry. The FTC filed many of these cases jointly with state and federal partners, including the Illinois Attorney General, the New York Attorney General and CFPB.

Consumers and rogue collectors alike should know that today's announcement is not the end of Operation Collection Protection, or the

FTC's vigilance in this arena. We'll continue our aggressive law enforcement against abuse. We'll also continue to educate consumers about illegal collection practices, and we'll continue to work with our law enforcement partners, and the debt collection industry to combat unlawful behavior.

I'd like to just conclude by thanking the FTC Bureau of Consumer Protection team that spearheaded this effort, and especially Tom Carter and Chris Koegel who are here today for their hard work. With that, I'll turn the floor over to Illinois Attorney General, Lisa Madigan who's long been a valued partner to the FTC.

Lisa

Thank you, Chairman Ramirez. Is my mic on? Excellent.

Again, let me say thank you to Chairwoman Ramirez for inviting me here today to announce the results of this sweep, going after abusive and illegal debt collectors and their often, as you heard, illegal and abusive debt collection practices. I need to say that the FTC has always been an extraordinary partner to the Illinois Attorney General's Office and the State Attorney General across the country when it comes to consumer fraud enforcement. We really value our relationship with you, and

because of the good work that all of us are able to do often jointly we really are able to have a great impact on better protecting consumers throughout the country. This Operation Collection Protection is just, I think, the latest example of our very important partnership with some really terrific results.

Today's sweep includes 54 law enforcement actions that have been taken by state attorney general nationwide against illegal debt collection practices this year. As the Chairwoman mentioned, complaints about illegal and abusive debt collection practices have really skyrocketed ever since 2008, and our country's economic collapse. And so, the consumer debt category is the number one category of consumer fraud complaints that we have received since 2008. Obviously when you have to contend with the types of situations that you just heard in that phone call, you can understand why people call.

But, I want people to know this; most of the time, the calls and complaints that we receive are not from people who actually have debt. When we start to see the growing number of calls, it actually is coming from individuals who do not owe debt. They don't owe debt either because they have already paid off their debt, or they never had it in the first place.

So, I want to talk to you about just the outright illegal debt collection scams that are also referred to as phantom debt and zombie debt.

So, what happens in these circumstances is you have scam operations that are collecting fake debts that consumers do not owe, and they do it through threatening and harassing individuals into eventually paying money that they don't owe. Now, I know that that sounds unbelievable, but maybe it sounds less unbelievable after you heard that previous call.

Here's what often happens in these circumstances. You have scammers who buy consumers' information, their personal financial information. It's often their Social Security number, where they work. It could be their back account number. It's information that has sometimes been entered into a website if somebody was looking for a loan, or thinking about taking out a loan.

After the scammer gets a hold of that information, they make a phone call either to that individual's home or to their employer, and it is very, very intimidating, very harassing. They tell people that their wages are going to be garnished. They tell people they're going to send the police out to arrest them. They tell people that their driver's license will be revoked.

They tell people that their children will be taken away, lawsuits will be filed against them, that they will be put into jail unless they pay up. And so, after you receive these phone calls at home and at work over sometimes weeks or months, many people, even if they actually owe no money at all, end up paying hundreds or thousands of dollars just to get these people to go away.

One such company that we have sued along with the FTC called Payday Loan Recovery Group that was operating out of the state of Illinois, we have actually reached a settlement with that puts them out of business, and is going to result in over \$6.4 million in recovery to the victims, these individuals who paid debts to them that they did not even owe in the first place. So, that is an example of what we are seeing more and more.

In addition today's sweep also includes a massive joint state/federal settlement with Chase Bank to refuse or to reform a number of its unlawful debt collection practices and refund \$50 million to consumers. Our investigation into Chase's debt collection practices uncovered that frequently they were collecting on credit card debt for the wrong customer, or in incorrect amounts.

Part of the problem also resulted in when they were selling this debt to other debt buyers. If that information was incorrect in terms of the individual or the amount, you had subsequent debt buyers who are going after people, again, who either don't owe that debt, or they've already paid off that debt. And yet, you have the same types of intimidating, harassing behavior that takes place and people end paying yet again sometimes for debt that they've already paid off, or pay on debt that they never actually owed. That's frequently referred to as zombie debt.

And so, there are too many people that are haunted by collectors of phantom and zombie debt. Unfortunately for them, Halloween really never ends when they're targeted by these scammers.

So, let me end by saying this; we are seeing more and more of these so-called debt collectors that are actually completely unlicensed scammers, illegally trying to collect on phantom or zombie debt. What this means for debtors in general is this: You actually have legal rights even if you owe debt. People need to know what their rights are. People should not be bullied, intimidated or scared into making payments of money for amounts they don't actually owe.

You should feel free to contact your state attorney general. You should feel free to contact the FTC. You should feel free to contact the state regulatory, or the Consumer Financial Protection Bureau if you think that a scammer is breaking the law, or if you need more information about the law and your rights.

The very final thing I will say is this: Please be very leery of entering your personal information and your financial information into a website where you don't know if they are going to use that legitimately, or if they are going to sell it to an illegitimate scammer who will use that to call you at home or at work and harass you into paying amounts of money that you never owed because you never ended up taking out a loan. So, if you give people your personal financial information, unfortunately, the reality is that they will use it to steal your money.

With that, let me hand over the floor to Mike Rothman who is the Commission of the Minnesota Department of Commerce for more comments.

Mike

Thank you, Chairwoman Ramirez and Attorney General Madigan. I'm honored to join you here today, and in launching and continuing to maintain Operation Collection Protection in the future.

I'm here today not only representing Minnesota, but also other state regulators around the country. The state regulators have a vital role in protecting consumers and ensuring a fair marketplace, and that requires collaboration among federal and state agencies to exercise jurisdiction and take action from different states and different levels of government. But, we are all working together towards the very same goal, which is protecting the public. That's why we're here today standing together as a united front.

We welcome this partnership. It will enable us to be even more effective in the future, addressing misconduct by these debt collectors. Let me tell you some stories in Minnesota.

We have already taken strong action to stop illegal and abusive debt collection from debt collection companies. Most recently, for example, we took action against a company called Tucker, Albin and Associates, which is a Texas debt collection agency that harasses and threaten small

businesses in Minnesota. In all, more than 100 small businesses were victimized throughout the state of Minnesota. These included farmers, restaurants, construction companies, auto body shops, and the list goes on.

Our investigation uncovered a serious pattern of deliberate repeated misconduct. As a matter of company policy, Tucker, Albin's debt collectors were actually trained to break the law, to deceive and threaten small business owners, and to coerce payments from them.

In our investigation we uncovered a company manual, a thick document. It turns out it was the smoking bazooka. It explained and it trained all of the debt collectors to do bad practices.

For example, the collectors spoofed the phone numbers of victims' families. So, when you answered the phone, or looked at it, it said mom, it said your son, it said your neighbor, it said even close business associates. So, these numbers would show up on the caller ID instead of the company's phone number in Texas.

The debt collectors also claimed to be private investigators when they were not. They threatened people. They said they would run checks on

their vehicles, take pictures of them in their parking lots and threatened to hire people to stand in front of their businesses and wave signs saying they didn't pay their debts.

As a result of our investigation, we imposed a half million dollar penalty, the largest fine ever against a debt collection agency by our department. Tucker, Albin is also required to change the way it does business, rewrite their manual and train their people, and we will keep a close eye on them for the next two years.

Last year, the Minnesota Department of Commerce shut down Receivables Management Solutions, it was run by Robert Dunham, for taking money for personal luxuries from a trust account he's required to maintain in running a bankrupt, or bankrupt debt collection agencies. The practices go back in time however. In 2011, we stopped eight major national debt collection agencies from hiring people with criminal backgrounds who in then turn stole people's credit card information and stole their money, and for other abusive debt collection practices. My philosophy back then and throughout has been not on our watch.

I want to thank my staff who are dedicated for their work on these matters. In particular, I want to thank Kurt Johnson, Mark Hastie, Marty Fleischhacker in coordinating with the FTC staff and other agencies from around the country.

In the future Operation Collection Protection will help state and federal authorities working together to effectively take on more cases like these. This initiative sends a strong and clear message to bad actors in the debt collection industry - clean up your act.

I want to thank you, thank you, Chairwoman Ramirez, for your leadership. I applaud you for all that you do in bringing this together, and for this important effort. Thank you.

Peter Thanks, Mike. And now, we'll take questions from reporters here in the room. Can you please state your name and your affiliation [indiscernible].

Hernando Hello. I'm Hernando Quijano from Univision. I wanted to ask; regularly and fairly recently, I've seen DoJ news releases of when they crack down, or they've settled charges against companies that do these types of operations that sometimes they've based overseas. They're based in Latin

America, or other countries and in the case of the ones based in Latin America, they prey on Latinos here in the US who don't speak English well, who may not know the laws.

How much of these operations also— I know not these in particular, but are you seeing that as well?

Edith

I can't give you a figure, that's certainly something, a phenomenon that we are seeing. Unfortunately, we have seen a number of debt collection operations that do focus on particular communities. Certainly the Spanish-speaking community is one that has been targeted. So, I can't give you a number, but it is something that we do see.

I will say that while not part of this particular initiative, we do collaborate also internationally in order to be able to effectively tackle situations when we do malefactors who are outside the country.

Ben

Hi. Ben Neumeyer from The Capitol Forum. Just one quick question about other federal authorities working on this; are you partnering with CFPB as well, and if so, how?

Edith Absolutely. The CFPB is absolutely part of this initiative. We think all of us have been acting independently for some time now, focusing on these important questions. What we were trying to do with this particular initiative was to really have a comprehensive effort, build a national coalition that includes federal partners, state partners, local authorities. So, we're absolutely coordinating with CFPB and they're of course undertaking rulemaking in this area. But, we also believe enforcement is a crucial role as well as educating both consumers as well as other businesses.

Dick This is Dick Bedar [ph], CBS News. I'm wondering; is there legal action being taken against specific individuals either at the state level, or at the federal level, or is the goal simply to shutdown these debt collector agencies?

Lisa Lisa Madigan, the Illinois Attorney General. The way that we go after these folks is that you go after individuals and their corporate entities. You shut them down, and then you prevent these individuals from reengaging in the debt collection industry again.

And so, at least the example that I gave of the Payday Loan Recovery Group, it was operated by two individuals, the Dickeys out of suburban Chicago location, and we went after them as well as one of their many corporate incarnations to put them out of business.

Mike

From the state regulator's perspective, debt collection agencies are required and the debt collectors to be licensed and registered with a state, in Minnesota in particular. Our authorities include the ability to go after companies for not being licensed. So, if you're doing an unlicensed activity, we can take action, state action, civil action, investigations and shut people down for not being licensed.

If they're licensed and committing bad practices in violation of federal or state law, our agency can take actions, civil actions. We can do cease and desist orders, and we can yank a license. In the example I gave earlier, we actually not only took away their license, but put the company into receivership because it was basically a fraudulent and bankrupt company.

Jim

Jim spencer with *Minneapolis Star Tribune*. Could you talk about the \$50 million settlement with Chase Bank? Chase Bank admitted no wrongdoing in that settlement did they?

Edith No, they didn't.

Jim So, if they're not admitting wrongdoing and you're only getting \$50 million, and I know that sounds like a lot, but not to Chase Bank, how is it preventive to do this? Isn't there another way to get to the bigger players in this because they're filtering the ones down to the folks that you actually do get to shut down?

Edith I'm happy to get you all the information on the case settlement, which was, as I said, really a massive state/federal joint settlement. It involved a series of problems that we saw with Chase in terms of their debt collection practices, as well as their debt selling practices and so called robo-signing allegations. Not dissimilar in terms of some of what we saw when we talked about robo-signing back with the foreclosure crisis, but I think the total amount of the settlement is at least \$150 million, \$50 million of that going back to individuals who ended up paying money that they should not have had to pay in the first place on their debt.

And so, that really was the restitution piece of it and again, I'm happy to get you more information on that. But, it really is a significant settlement

that in addition to the money, completely reformed how it is they engage in debt collection practices and when they do end up selling debt, they are only allowed to sell it once as opposed to really creating this zombie debt where it gets sold repeatedly. In addition, making sure that there is more documentation as to how much the debt is, the correct individual so that it can be substantiated. So actually, it was a very good settlement all in all.

Jim I just want to say being from Minnesota it's good to see you.

Peter So, if there are no other questions in the room, operator, can you open up the phone lines to any questions we have on the phone?

Moderator We have a question from the line of Kirk Victor of FTC Watch.

Kirk I just wanted to quickly follow-up on that last question and ask if you all are— you talk about the growth in this area of these rip off artists, etc. and I'm just curious as to whether you're satisfied that what you've done is in fact creating a deterrent. Again, while \$50 million or \$150 million sounds like a lot, but do you think this is getting out and in fact, you are discouraging folks from doing this down the road?

Edith

I think that we are. I think we're having an impact. There's no question that the reason that we've launched this initiative was that we did feel we needed to take a new approach. It's a big problem given the amount of debt that American consumers have in this country. We felt that we needed to do more, and we created this national coalition. I think this comprehensive targeted approach that we're taking is going to have an impact.

That doesn't mean that there isn't more to be done. Absolutely there is, and that also includes educating consumers about their rights and working with the industry to make sure that we can put a stop to these types of intimidation and abusive debt collection practices.

Lisa

If I can follow-up, I think what scam artists, as well as legitimate debt collectors in our country need to recognize is that the full enforcement of state level individuals and agencies, as well as federal level agencies is directed toward going after illegal practices and illegal tactics when it comes to debt collection. So, there's that piece and there's also the other piece where hopefully you all in the media are helping us on this front in terms of better educating consumers.

The reality is that even if you owe debt, you still have rights. The law puts constraints on how that debt can be collected. And so, you cannot be called at all hours of the day. You cannot be endlessly harassed. If somebody is trying to collect a debt, you have to provide with documentation that you in fact owe that debt. You have a right to dispute that.

And so, people need to be educated about their rights. They need to recognize that if they are being harassed, they have recourse and some of that resource should be reaching out to the law enforcement agencies at the federal and state level who can shut these individuals down and make sure that their practices are reformed if they are operating outside of the law.

Mike

I'd just like to follow-up too. From a regulator's perspective, all along the companies are required to have good practices. They're required to keep track of their records. They're required, as you heard, even to have these phone conversations taped and they're required to maintain good accounts, and should have all along. When we do our investigations, examinations, that's what we're looking for.

So, if they haven't been doing it, they should be from here, making sure that they do change their practices, make sure their manuals are appropriate and not illegal, and when we do an examination or investigation, that's what we're going to be looking for.

And so, I would just, again, echo what I said before. The people, the companies in the debt collection area here need to clean up their practices.

Moderator The next question will come from the line of Jim Henry of *Auto Finance News*.

Jim Oh, hello. I just switched from my headset. My particular narrow interest is in auto lenders. I see a couple of the auto lending cases that we have covered are now listed as part of this operation. Are there others that haven't been mentioned?

I'm also interested in whether it's a thing, whether it's something you're looking into where a more reputable lender sells debt, specifically auto debt to the shadier debt collectors, or is it a case of they're collecting their own debt that they originated?

Edith Edith Ramirez.

Jim Okay. Sorry. Thank you.

Moderator Our next question will come from the line of Bill Werner of Minnesota News Network.

Bill This question is specifically for the Commissioner. We've got another Minnesotan in the mix here, Commissioner. I'm wondering from your perspective, do you see any still existing loop holes either in state or federal agency rulemaking or enforcement, or in terms of legislation that's needed to continue this fight against these illegal collection and unethical collection practices.

Mike Bill, it's always good to talk to you. Thank you for the question. I do. Minnesota, the agency licensing, we do have significant authority. So for example, we have the Audit Examination Investigation Authority. We can issue cease and desist orders, and we can suspend people's licenses or take them away.

The area that we have been looking at in terms of improving perhaps either legislatively or in other ways, things that we can get authority in is in the origination and in the selling, in the debt selling area. I want to echo Attorney General's Madigan's point, which is that when a debt is originated, it may start in one place, but then is sold to another and then sold to another. Then it once goes down the line, the people that it's sold to, the companies can wind up in some very bad debt collection practices.

So, all along that route needs to be, I think, I tightened up for further regulation.

Moderator Ladies and gentlemen of the panel, there are no further questions in queue at this time.

Peter Since there are no further questions that concludes our event today. If you have anything else that you need, feel free to reach out to the press offices, the Public Affairs Office at FTC, and the information on the press release. Thank you.

Moderator

Ladies and gentlemen that does conclude our press conference call for today. We'd like to thank you for your participation. Have a wonderful day. You may now disconnect.