

SPECIAL REPORT: MERCHANTS OF DEBT



The debt collector "kept telling me I needed a lawyer because I was going to jail."

BARBARA ROAN, DESCRIBING EFFORTS TO COLLECT HER EX-HUSBAND'S SIX-YEAR-OLD CREDIT CARD BILL

Industry continues to grow despite uproar

COLLECTORS • from A1

tive is there to cross the line."

Agencies usually keep 10 cents to 50 cents of each dollar they collect, and their workers earn more the more they bring in.

Collectors say that deadbeats file groundless complaints to wiggle out of paying and that real abuses are a tiny fraction of the calls they make.

The consumer outcry "is largely due to the fact that there's a tremendous amount of bad debt that's being referred to collectors," said Rozanne M. Andersen, general counsel of ACA International in Minneapolis, formerly the American Collection Association.

Consumer debts are up 16 percent since 2001, and last year's bankruptcy law changes will make it harder to erase them. Collection agencies have added almost 10,000 jobs in the past four years.

But an increase in dunning calls isn't the whole story, consumer advocates say.

"When you compare the amount [collectors] pay for lawsuits compared to what they collect, it's a cost of doing business," Amherst consumer lawyer Kenneth Hiller said.

Fingers point at Buffalo

Consumers are howling about abusive tactics. And while Buffalo collectors are hardly the sole culprit, many fingers are pointing in this direction.

Watchdog agencies in Maine, Idaho, Colorado and New York have come down on Buffalo-area firms, while the FTC collects more than 500 complaints a year about the area.

Consumer lawyers say Buffalo is driving many clients like Beckmann, Frankfield and Barbara Roan to their doors. Roan laughed, at first, when the woman from Lenahan Law Office told her to pay \$7,300 for her ex-husband's six-year-old credit card bills. She hadn't spoken to him for years. But the caller said she faced a criminal charge.

"She finally got me convinced," Roan said of the collector. "She kept telling me I needed a lawyer because I was going to jail — I was such a nervous wreck I went to the doctor."

Besides going on antidepressants, the incident also forced her to contact her ex-husband for the first time in years — to ask if he had accused her of fraud. "I didn't want to [call]," Roan said, "but I wanted to find out what was going on."

When another Illinois woman came forward with a tale of similar threats, a federal judge fined the Buffalo-area firm the standard \$1,000 federal penalty — plus \$150,000 in state punitive damages.

"Why has Buffalo become the debt collection capital of America — the steel mills are gone and this is what they chose to replace them with?" asked Richard N. Feferman, a New Mexico lawyer and Eggersville native. "It's an industry that's a

Debt collection hub

Erie County ranks among the nation's top metros for the debt collection industry. Among the top 10 industry hubs, Erie County has the most industry jobs for its size.

The count of collection agency jobs excludes collectors at other firms like banks and utilities.

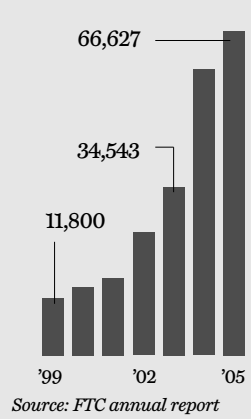
Metro Area	Collection Agency Jobs	Per 1000 People
Houston	7,755	1.66
New York	6,707	0.32
Atlanta	5,747	1.40
Phoenix	5,000	1.54
Chicago	4,970	0.54
Los Angeles	4,875	0.30
Kansas City	4,273	2.41
Minneapolis	4,164	1.40
Buffalo*	3,628	3.10
Dallas	3,472	0.66

*Erie County only

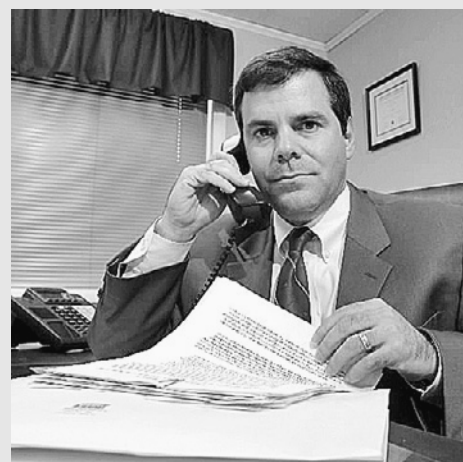
Source: U.S. Bureau of Labor Statistics

Complaints soar

The Federal Trade Commission is seeing an explosion of consumer complaints about debt collection agencies.



Source: FTC annual report



Harry Scull Jr./Buffalo News

Amherst consumer lawyer Kenneth Hiller says aggressive debt collection firms see the lawsuits that their practices incur as "a cost of doing business."

little out of control."

The phrase "Buffalo-style collecting" appeared in a New Jersey newspaper, the Randolph Reporter, in February as a synonym for tough tactics.

The industry shows a different face to the local economy. One agency owner wears the license plate "WELUVDBT" on his Land Rover. That could be the motto for the entire region: Call centers from downtown Buffalo to rural Wyoming County make this one of the collection industry's top 10 hubs. The offices employ some 5,000 people, and the pay is good. Workers earn \$34,000 a year on average. A grateful state gave \$1.4 million in taxpayer money to area agencies since 2002.

Some way out-of-bounds collection tactics:

- Calling your co-workers and implying that you're involved in some sort of financial scam.
- Demanding payment on an old bill although you're not even the debtor but a relative or just someone with a similar name.
- Selling an unpaid debt to multiple buyers, who each demand that you pay them the full amount.
- Threatening to have you — or a family member — put in jail, or threatening to seize your home and wages when no court has authorized that.

"Collections is a legitimate industry — it's not run by a bunch of thugs," said Larry Costa, marketing vice president at Capital Management Services in Buffalo.

A few bad apples?

The region hosts some 43 collection agencies, including an office of the nation's biggest, NCO Financial.

The actions of a few companies shouldn't tarnish the industry's reputation, Costa said. "There are good, highly reputable firms here," he said. "There may be ones that are questionable, but that's not unique."

But other collectors called for stronger enforcement to rein in harsh tactics.

"The FTC and the attorney general haven't really done what they should be doing," said Joel Castle, a second-generation collector and a founder of the industry's Buffalo presence.

"There have been people in the past that have crossed the line, [but] I've never seen it as bad as now with these law firms that are in collections," he said.

Several collection offices that operate as law firms around Buffalo are using abusive tactics, according to regulators and consumer lawyers around the country. The owners of Lenahan Law Offices went bankrupt in December under the weight of court penalties for collection abuses. Giove Law Office was banned from collecting in Idaho for threatening debtors with criminal charges. Collins Law Office agreed to stop calling Maine consumers after a crackdown by state consumer officials.

Officials also point the finger at some of the area's oldest and largest collectors. Creditors Interchange in Cheektowaga paid New York's attorney general \$60,000 in 2003 to settle complaints about revealing people's debts to outsiders. The next year, Minnesota fined the company \$10,000 for false threats and other violations.

Even industry leader NCO Financial, with an office in Getzville, has come under fire. In January the company paid \$300,000 to Pennsylvania's attorney general to settle 800 complaints from around the country.

NCO and Creditors Interchange denied wrongdoing.

Collection is a necessary cog in a debt-

fueled economy, but collectors who push too hard can jeopardize jobs with a barrage of calls to the office, damage reputations by revealing debts to outsiders and make people cower in their homes with fear.

Even worse, the pressure isn't reserved for debtors. A growing number of people say they're being hounded for money they don't owe. At the FTC, 42 percent of complaints charge that collectors had the wrong person or demanded extra money.

Paying another's bills

Seattle-area resident Sally Beckmann paid \$5,300 in credit card charges in 2004 after a collector convinced her she was on the hook for her sister's bill.

"They threatened to garnish my wages and put a lien on my house," the supermarket worker said. "They had so much information, I just believed it."

The collector said her sister put Beckmann's name on a credit card application, but the sister denied it and took the collector to court. Beckmann wound up getting her money back when her sister settled with Giove Law Office in Niagara Falls. The incident tore a rift in her family, she said.

"I had put out \$5,500, so I was a little irked," Beckmann said. "We wanted to retire — this put a wedge between us. It was bitter for a while."

Rodney A. Giove denied wrongdoing in court papers and didn't respond to inquiries.

Abusive practices can spread quickly, one Buffalo-area worker said. "There's so much money to be made, it's easy to cross the line," he said. At this worker's office, managers gave lucrative accounts to top performers while turning a deaf ear to their tactics. Aggressive collectors pulled down bonuses of \$4,000 a month and threats became common, even though

managers officially denounced them.

"The bottom line was how much money you were putting on the board," the worker said. "I heard collectors threatening children on the phone [that] the marshals would be there to take their mother and father away."

Mere telephone calls — even threatening ones — may seem harmless, but they can squeeze some people like a vise.

Nadine Frankfield was resting at home in Bethlehem, Pa., after lung cancer surgery when a collector barraged her with angry calls. When she told him to stop because she was short of breath, the man said he "didn't call to hear about your lungs," she said in court papers.

The company, National Action Financial Services in Amherst, denied making the calls, but phone company records showed seven calls on a single day in 2003.

Frankfield's court case turned up a training booklet that urged workers to exploit "gray areas" in rules against false threats by using "hypothetical statements" instead of explicit threats. Company officials didn't respond to questions.

Collectors explain surge

Industry representatives aren't convinced that abuses are growing. Friction with debtors is a fact of life in the collection business, and a slowdown in the rise of FTC complaints last year shows the trend is "turning the corner," Andersen of the industry association ACA said.

While collectors say that deadbeats use complaints to skip debts, consumer advocates say that many other people face threats and harassment in silence.

Buffalo isn't just a source of the problems, it's also a target. Metro area residents filed 121 complaints about collectors with the FTC last year, among 2,700 statewide.

Industry rolls on

Fighting with consumers isn't hurting the collection industry's growth. In Erie County, jobs leapt 35 percent in three years through 2004, and agencies say they're poised to expand further. Since Jan. 1, four collectors announced expansion plans that could add another 855 workers by 2008.

"In bad economic times, business is good. In good economic times, business is better," said Castle, the former head of Great Lakes Collection Bureau, one of the nation's largest agencies before he sold it in 1997. Now he's starting another agency in Amherst that he says will grow bigger than Great Lakes.

"There is a bubble coming down in debt," he said, "that I think is going to be unprecedented."

e-mail: fwilliams@buffnews.com
Tomorrow: Terrorizing tactics of rogue collectors.

"I tell everybody, 'Leave your heart at the door. This is a business.'"

On the other end, high pressure to collect

Tall and lean with piercing gray eyes, Eric Boryszak has the charisma of a natural salesman.

Not that it helps in his job. He never meets the people who ultimately provide his living — people with unpaid car loans or credit card bills. They only know him from his businesslike voice on the phone.

The voice is enough. It brings in about \$1 million a year of unpaid debt, putting Boryszak among the stars at Account Solutions Group, an agency with 580 workers where some collectors earn six-figure checks.

A thick skin is required.

"I've been called a lot of different names in the book," the 38-year-old said. "I don't take it personal."

Debt collectors have a tough-guy image, and lately complaints about the industry have exploded. But the people making the calls reject the stereotype of a burly, cigar-chomping tyrant.

Collectors say they're just trying to make a living under sometimes extreme conditions. They're under pressure to bring in thousands of dollars a month without resorting to threats or snapping back at irate debtors.

"Rarely do I raise my voice," Boryszak says. "If it gets to that point, I get up and walk around."

The Tonawanda resident is one of the thousands of people who make Western New York a hub for debt collection. The industry journal Collections & Credit



Harry Scull Jr./Buffalo News

Eric Boryszak, a star collector at Account Solutions Group in Amherst, said you need a thick skin to make it as a debt collector. "I've been called a lot of different names in the book. I don't take it personal."

Risk recently profiled the area as a mecca, and the numbers bear out the claim.

Erie County had 3,600 collection jobs in 2004, putting it among industry centers like Houston and New York, according to the U.S. Bureau of Labor Statistics. Add another 1,100 jobs at Pioneer Credit Recovery in Wyoming County.

Low rents and wage rates make Buffalo attractive for call center businesses, including collections. Beyond that, agencies here say they actually benefit from the region's harsh winters, which keep workers at their desks during tax refund time —

prime time for collecting debts.

Area collectors "work paper" for retail chains, car finance companies and credit card issuers like Capital One and Bank of America. Agencies' help-wanted ads offer jobs with no experience necessary — sometimes to people who are "aggressive, assertive and \$\$\$\$\$\$ hungry."

Former truck driver Jim Kuklewicz carved out a living as a collector when a layoff snuffed his job at a linen service in 1994.

"After a month I was ready to quit because I didn't think it was for me," he

said. A manager turned him around and now, at age 46, he is a manager at Northstar Group in Amherst, making \$70,000 to \$100,000 a year.

Kuklewicz coaches struggling collectors to improve, and his advice is stern. "I tell everybody, 'Leave your heart at the door. This is a business.'"

Some collectors say their companies boost results by tacitly encouraging hardball tactics beneath a facade of upright behavior.

When he went to work at Redline Recovery in Getzville, Frank J. Bennett received a squeaky clean telephone script to use with debtors.

That was in training. In reality, the rules against threats and harassment went out the window in the fervor to bring in money, the Youngstown man said.

"They're so hungry for profits they'll cut every corner," said Bennett, 44.

One collector urged a woman to get her son to pay his debt, Bennett said. Others mocked the spiritual message on a debtor's answering machine and used racial slurs in conversations that could be overheard by debtors, he said.

When Bennett objected, he was told to ignore what he overheard. He said he was fired in June after run-ins with managers, having failed to meet his monthly goal of \$3,500.

Joseph Moran, head of the Georgia-based company's Amherst office, denied running roughshod over collection rules,

saying that would put his company at risk.

"Our clients are national banks," he said. "If we get ourselves in trouble, they will pull their business."

Collectors' bland-looking call centers are really pressure cookers, workers say. While top performers earn big money, others burn out from sparring with debtors — or bail out after struggling to meet quotas. How much, or little, they have collected is displayed on white boards for co-workers to see.

"It's competitive," a Buffalo agency official said. "If your name's not up there, you've got some explaining to do."

At Account Solutions Group in Amherst, Boryszak watched batches of former co-workers fail. "You have to have — I don't want to say an edge — you have to have control of the conversation," he said.

On the first day of one recent month, he was at his cubicle before 8 a.m., getting ready to call 87 BMW drivers. Or rather, ex-drivers whose bimmers had been towed back to the lot. Boryszak's voice was hoarse, having worked the previous eight days leading up to the end-of-month "closeout," when bonuses are determined.

At the end of a month "I'm walking out of here thinking, 'God, I'm beat' — then you come in the next day and you've got to start all over again."

— Fred O. Williams