

# Debt Collection

The Other Side  
of the Coin



Portfolio Recovery Associates, Inc.



Financial Education  
& Literacy Advisers

# \$683

The amount that consumer bad debt costs every adult in the United States.

Source: Federal Reserve Board, United States Census Bureau

# 400,000

The number of jobs provided by the debt collection industry.

Source: *The Washington Post*

# 23%

The percentage of identity theft cases that are discovered during the debt collection process.

Source: Federal Trade Commission

# 84%

The percentage of resolutions achieved, based on the 14,996 debt collection complaints filed in 2010.

Source: Council of Better Business Bureaus



Americans are under unprecedented financial pressure as the economic downturn continues. Many people are deeply in debt and struggling to keep up with their monthly financial obligations. Planning for long-term financial security has been put to the side. Unmanageable debt loads, delinquencies, foreclosures and bankruptcies are far too common.

Unpaid consumer debts affect everyone. Those unmet obligations raise the cost of doing business and are passed through to all of us in the form of higher prices for goods and services, higher taxes and banking and finance charges. Resolving unpaid consumer accounts and facilitating repayment is necessary to restore many consumers' financial health and help businesses weather difficult economic times.

The debt collection process and debt collectors are vital to our credit economy, recovering amounts owed to lenders, enabling them to continue lending to American families. Too often the industry is characterized by a few bad actors who are the exception, not the rule. Responsible debt collectors assist consumers in resolving their debts, and help businesses and municipalities mitigate their financial losses.

## The Consumer Protection Framework

The existing regulatory environment provides significant protections to consumers in the debt collection process. Consumers are protected by the Fair Debt Collection Practices Act (FDCPA), Fair Credit Reporting Act (FCRA) and other federal statutes. Many state laws that govern debt collection practices provide consumers with additional protections. Some of the most significant consumer protection laws related to debt collection have been in place for more than 30 years. Federal and state enforcement actions ensure that consumers are protected from unfair or abusive business practices.

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More and more restrictions on debt collection activity do not necessarily improve consumers' experiences with debt collectors. Consumers are able to most comfortably repay their debts when they have the greatest number of repayment options available to them, options that are the result of meaningful communication with debt collectors. Suggestions that consumers avoid communicating with debt collectors, give cease and desist instructions, or file complaints as a means of avoiding repayment only make the debt collection process longer and more uncomfortable. Proposals for new laws or rules that similarly restrict debt collectors from contacting their customers leave debt collectors with little choice but to file lawsuits to collect.

### **What is the Fairest Approach to Consumer Debt Collection?**

Portfolio Recovery Associates (PRA) believes that consumers would be better off if both debt collectors and consumer advocates worked to make debt collection less frequent and less adversarial. Consumers and the debt collection industry would benefit from adhering to some fundamental principles, such as:

- Better communication must exist between debt collectors and customers to ensure that all viable options for resolution are explored and considered for each individual.
- Civil litigation to collect debts should be a last resort; lawsuits are costly and uncomfortable, and ought to be unnecessary.
- Fairness and a level playing field for both parties are essential elements to a successful resolution.
- Improved consumer and financial education must be a priority for lenders, creditors, litigators and legislators.

# The Role of Consumer and Financial Education

Financial Education & Literacy Advisers (FELA) is a leading provider of consumer and financial education programs and is actively engaged in helping to protect consumers' interests through meaningful financial education programs.

FELA works closely with federal, state and local government agencies, corporations, financial services companies, community-based organizations and academic institutions to implement consumer education initiatives. FELA's programs are designed to help individuals make informed financial decisions, improve their financial capabilities, and achieve long-term financial security.

PRA and FELA believe that there is a significant opportunity for the debt collection industry to provide leadership in consumer education.



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## **Our position is that:**

The role and value of consumer and financial education cannot and should not be underestimated in the debt collection process. Informing consumers about their options in the debt collection process, the importance of good credit, the consequences of non-payment and many other issues should be of paramount interest to the debt collection industry.

We also believe every participant in the credit and collections process should share in the goal of providing consumer education and promoting financial literacy. We believe that participants in the debt collection industry are uniquely positioned to connect with consumers at highly valuable "teachable moments" related to

their personal finances. This kind of relevance to an individual is a critical element of effective education.

Consumer education in the debt collection industry needs to be comprehensive. Consumers will benefit greatly by understanding how effective debt management relates to the many other aspects of their overall financial health and personal financial goals. This approach helps to provide added relevance to each individual and improves the efficacy of consumer and financial education initiatives.

The benefits of consumer education are real, tangible and measurable for creditors, consumers and debt collectors alike:

- Through education, consumers are empowered to identify, address and fix their problems. This approach provides a definitive path for consumers to improve their financial capability and achieve long-term financial security.
- Without proper resolution and education, consumers risk repeating the same problems, creating a costly cycle for consumers and businesses.
- Financial education can empower consumers to make informed financial decisions in their daily lives and eliminate the fear and anxiety about personal finance issues that plague so many Americans.

PRA and FELA have partnered to develop consumer financial education and literacy programs that help PRA customers understand the debt collection process. We explain how customers can resolve their current debts in the most comfortable manner possible and learn the credit management skills that will enable them to make good financial decisions in the future.

## PRA's Leadership & Commitment to Consumers

We believe there are many reasons why PRA is a proven leader in its industry and why we stand behind our slogan, "We're giving debt collection a good name." For one, there is no question that our employees are our most valuable asset. PRA employees understand that debt collection provides the opportunity to help people resolve their burdensome debts and put them on a path to financial well-being. They are committed to their work and the positive impact they have on people's lives. Fundamental to PRA's success in working with our customers is open communication. We much prefer to achieve favorable results through one-on-one communication with every customer.

At PRA, our approach to the debt collection business is anything but business as usual.



**"We're giving  
debt collection  
a good name."**

- **We are solution providers** who happen to be in the business of collecting debts. Every day, we help remove the fear, guilt and inaction that plague so many people with debt problems and perpetuate their financial challenges.
- **We value our customers' well-being.** PRA uses innovative methods to ensure consumers understand the options available to them as well as the best approaches to fixing the problems their debts have caused them.
- **We are patient.** We own the debts we collect and have the time to be patient. Time allows us to work proactively and cooperatively with consumers to avoid unnecessary and costly litigation. We are often willing to offer compromises or extended payment plans to facilitate our customers' willingness to meet their payment responsibilities.

- **Our employees are highly talented professionals.** We invest significantly in our employees because they are our connection to our customers. We train our staff to help resolve debt issues instead of pursuing tactics to collect every last penny.
- **We don't resell debt.** Unlike some companies in our industry, we do not resell debt that we seek to collect from our customers. This approach reduces confusion to customers and gives us a wider range of options to resolve debts.
- **We will continue to provide leadership** in our industry and the communities we serve.
- **We are a publicly traded company (NASDAQ: PRAA).** This ensures that our business practices, operations and financials are transparent to consumers, investors and regulators.
- **We have been recognized** numerous times in *Forbes* magazine's "100 Best Small Companies," *Fortune Small Business*' "America's Top Small Businesses," and *Bloomberg BusinessWeek*'s "100 Hot Growth Companies."
- **We have a proven track record** of creating jobs and hiring American workers.
- **Our company has an A+ rating** from the Better Business Bureau.
- **PRA has been a BBB Accredited** business since 1996.

## Six Myths About Debt Collection Practices

**MYTH #1: Once a consumer pays a bill that is in collections, it will come off their credit report.**

**FACT:** It can take up to seven years for some items to “fall off” an individual’s credit report. Too often, less than scrupulous debt collectors or settlement firms will suggest otherwise – or some may fail to update the credit report to reflect the payment.

**MYTH #2: Once the statute of limitations for a debt has expired, the debt cannot be collected.**

**FACT:** In most states, expiration of the statute of limitations only means a lawsuit can no longer be filed to collect the debt. The debt remains outstanding and can be collected by means other than a lawsuit. In those situations, the fact that no one has contacted a consumer about a debt for one or more years does not render it uncollectible.

**MYTH #3: Debt settlement firms, which charge a fee to address consumers’ debt issues, offer consumers a unique savings opportunity on their debts.**

**FACT:** Any consumer can communicate with a debt collector to negotiate on their own and come to a similar arrangement, without paying any fees to a debt settlement firm.

**MYTH #4: If a debt has been “charged off” by the original creditor, it doesn’t have to be paid.**

**FACT:** “Charged off” is simply a financial accounting term and has no bearing on the relationship between the original creditor and consumers. It does not relieve consumers from their responsibility for paying any debt they may owe.

**MYTH #5: Debt collection companies send out 1099-C forms as an attempt to collect more money from consumers.**

**FACT:** Federal treasury regulations determine when lenders or debt buyers must send 1099-C forms to their customers. If a lender or debt buyer cancels or forgives a debt of \$600 or greater, treasury regulations consider the cancelled amount income to the consumer and require the lender or debt buyer to send a 1099-C to reflect the amount that was forgiven. PRA only sends 1099-C forms because federal regulations require it to do so.

**MYTH #6: The Internet can help consumers find the best course of action to undertake for their debt settlement needs.**

**FACT:** Information on the Internet represents a range of consumer experiences; each person has unique personal circumstances. It is often difficult to identify credible sources of information or legitimate resources for guidance. These risks make it extremely important for consumers to seek the counsel of highly trained professionals who understand the debt collection process and can work collaboratively with debt collectors to develop individualized solutions.



**Portfolio Recovery Associates, Inc.**

[www.portfoliorecovery.com](http://www.portfoliorecovery.com)



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