

The Golden Age of Debt Collection

Debt collectors, people who buy debt for pennies on the dollar and then harass debtors to pay, are experiencing unprecedented growth. While almost non-existent 10 years ago, debt collection has experienced an annual growth of 30% in the last three years. What does this mean to debtors? The simple answer is an onslaught of harassing phone calls.

The economics of the industry are simple. A bad debt of \$100 can typically be purchased for less than \$1. If the debt collector can collect even \$2 from the debtor, they make a profit. These debt collectors will go to any lengths to collect this debt. Some of their techniques include:

- Threatening to sue the debtor over bad debt.
- Claiming the debt is a new debt on credit reports to extend the time they have to attempt collection.
- Offering to remove the negative credit report on the debt for a small payment. Often they do not follow through, but making payments can also extend the period of time the collectors have to collect.
- Placing degrading and abusive phone calls to the debtor's home and work hoping the debtor will pay to stop the calls.

Unfortunately for the debtor, debt collectors are often acting in violation of the law. In Texas and California for example, once a debt is four years old, collectors are supposed to stop trying to collect. In many cases, however, debt collectors ignore these laws.

There are a few things you can do to try and protect yourself from aggressive debt collectors. First and foremost, be familiar with the laws in your state. If a debt collector is trying to collect in violation of the law DO NOT PAY THEM. In addition to extending the time limit they have to collect, paying the debt collector may actually hurt your credit by updating the delinquency, which may lower your overall credit score. The best advice is to simply hang up on the harassing callers. As most debtors already know, however, ignoring the calls will not make them stop.

If the harassment is getting to be more than you can handle, the best option may be bankruptcy. Unlike the other debt management choices,

chapter 7 and chapter 13 are the only solutions that carry with them the weight of federal law. Once your bankruptcy is filed, all creditors, including debt collectors, are barred from contacting you. Upon discharge of your bankruptcy case, you will be free of financial obligations. If you are considering bankruptcy, your window of opportunity may be limited. Congress is in the process of passing legislation that may limit your options under bankruptcy law. For more information on the law change and how you may be affected, please see the article on this website entitled " Update on Bankruptcy Law Changes."