

Validating Debt and Managing Media in a Challenging Economy

the Paper

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Public Description: Recent regulatory and legislative efforts have the asset buying industry exploring solutions for complex data integrity, accuracy and consumer information security issues.

With an increase in legislative and regulatory actions and consumer validation requests, asset buyers and their servicing entities must be able to prove they have the right to collect purchased debt, have accurate data which they are acting upon and are collecting from the right consumer. This becomes more difficult for secondary and tertiary buyers, especially if someone upstream in the chain of title goes out of business and access to the media disappears.

Obtaining media from credit issuers is a critical aspect of solving the problem, but media availability only provides proof of the debt, not proof a company owns it or that the traded account data is accurate.

At ACA's 70th Annual Convention in Las Vegas, a panel of industry experts discussed the issues surrounding chain of title and media availability.

“When was the last time you bought a car without a title?” said Greg Ousley, co-founder of Global Debt Registry in Columbia, Mo. Many people are amazed by the transactions that take place in the debt buying industry. Many ask, “Is that really how you do business? A piece of paper, an Excel spreadsheet and somebody wires a couple million dollars.”

Every level of government is working on consumer protection legislation.

“Debt buyers are an easy target for regulators,” said David Mertz, president and founder of Compliance Security Partners, LLC in Lenexa, Kan. “There has been an increase in consumer complaints and members of the industry are not taking action. Local, state, and federal levels of government are working on legislation and the courts are starting to establish their own rules in their jurisdiction.”

In order to comply with legislative and regulatory requirements, asset buyers may have to establish proof of ownership and the validity of debt to both the courts and consumers.

[New York City Local Law No. 15](#) is an example of local government imposing this type of change. The law, which went into effect July 16, 2009, created new licensing and notification requirements for asset buyers and increased fines and penalties for failure to comply. It also covers the verification of debt. When a consumer requests verification of debt, collectors (including asset buyers) must cease collection efforts until verification of

the debt is provided. The verification must itemize the principal, interest, fees, fines, and late charges.

In 2004, California passed legislation dealing with the protection of person identification information. Within two years, almost every state passed similar legislation. The panelists agreed the New York City legislation could prove to have similar results.

So how does a fourth tier asset buyer establish a chain of title and verification of the debt independent of the number of previous sales and or assignments?

“There has to be a shift in how this information moves across the industry,” said Gary Portney, CEO and founder of Convoke Systems in San Francisco, Calif. “The system is broken and inconsistent.”

“The problem has to be resolved at the issuer level,” said Ousley. “It does not get resolved anywhere else. If the data is not put into a centrally managed environment at charge-off, the integrity of the data is questionable at best.”

According to Portney, many issuers have previously only taken into consideration their primary buyers and did not look past them.

“Technology innovation can replace the current process issuers are using with a process that will improve the flow of information throughout the industry,” said Portney, “thus, reducing the need for additional regulations.”

Ousley believes it would serve the industry well if issuers and the debt buying industry resolved the issues without regulation. With increased access to reliable data, he believes there will be enhanced liquidation numbers and downstream portfolios sales will see enhanced value.

“With increased account integrity, there will be an extended life cycle value on your portfolios,” said Ousley. “It won’t matter how deep you are in the chain or how old the debt is, you will still have access to 100 percent of the original account level data and media that has been validated with each ownership transfer.”

[Purchase an audio recording](#) of “Validating Debt and Managing Media for Purchased Debt in a Challenging Environment.”