

FEDERAL TRADE COMMISSION  
ANNUAL REPORT 2004:  
FAIR DEBT COLLECTION  
PRACTICES ACT



## INTRODUCTION

The Federal Trade Commission (“Commission”) is required by Section 815(a) of the Fair Debt Collection Practices Act (“FDCPA” or “Act”), 15 U.S.C. §§ 1692-1692o, to submit a report to Congress each year summarizing the administrative and enforcement actions taken under the Act over the preceding twelve months. These actions are part of the Commission’s ongoing effort to curtail abusive, deceptive, and unfair debt collection practices in the marketplace. Such practices have been known to cause various forms of consumer injury, including emotional distress, invasions of privacy, and the payment of amounts that are not owed, and can severely hamper consumers’ ability to function effectively at work. Although the Commission is vested with primary enforcement responsibility under the FDCPA, overall enforcement responsibility is shared by other federal agencies.<sup>1</sup> In addition, consumers who believe they have been victims of statutory violations may seek relief in state or federal court.

The FDCPA prohibits abusive, deceptive, and otherwise improper collection practices by third-party collectors. For the most part, creditors are exempt when they are collecting their own debts. The FDCPA permits reasonable collection efforts that promote repayment of legitimate debts, and the Commission’s goal is to ensure compliance with the Act without unreasonably impeding the collection process. The Commission recognizes that the timely payment of debts is important to creditors and that the debt collection industry offers useful assistance toward that end. The Commission also appreciates the need to protect consumers from those debt collectors who engage in abusive and unfair collection practices. Many members of the debt collection industry supported the legislation that became the FDCPA, and most debt collectors now conform their practices to the standards the Act imposes. The Commission staff continues to work with industry groups to clarify ambiguities in the law and to educate the industry and the public regarding the Act’s requirements.

As in past years, the Commission took significant steps to curtail abusive, deceptive, and unfair debt collection practices in 2003. This report presents an overview of the types of consumer complaints received by the Commission in 2003, a summary of the Commission’s consumer and industry education initiatives last year, and a summary of the Commission’s debt collection enforcement actions that became public in 2003.

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<sup>1</sup> Section 814 of the FDCPA, 15 U.S.C. § 1692l, places enforcement obligations upon seven other federal agencies for those organizations whose activities lie within their jurisdiction. These agencies are the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of Transportation, and the Department of Agriculture. Almost all of the organizations regulated by these agencies are creditors and, as such, largely fall outside the coverage of the Act. When these agencies receive complaints about debt collection firms that are not under their jurisdiction, they generally forward them to the Commission.

The report also contains four recommendations for changes to the FDCPA that the Commission believes will improve the statute's clarity and its effectiveness as a law enforcement tool.

#### CONSUMER COMPLAINTS RECEIVED BY THE COMMISSION

Most of the Commission's information about how debt collectors are complying with the Act comes directly from consumers.<sup>2</sup> The Commission received more complaints<sup>3</sup> in 2003 about third-party collectors -- 34,543 -- than about any other specific industry.<sup>4</sup> The Commission continues to believe that the number of consumers who complain to the agency represents a relatively small percentage of the total number of consumers who actually encounter problems with debt collectors.<sup>5</sup> On the other hand, the

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<sup>2</sup> The Commission also receives consumer complaints that are referred by state attorneys general. Occasionally, debt collectors contact us to express concern about allegedly violative practices of competitors because they fear that such practices may cause them to lose business to collectors who violate the law.

<sup>3</sup> When this report refers to "complaints" received by the Commission, the term means consumer complaints about the practices of specific companies. It does not include requests for information about companies and other non-complaint consumer contacts.

<sup>4</sup> In late 1999, the Commission instituted a toll-free telephone number, 1-877-ID-THEFT, that consumers can call to report the theft of their identities and any impediments they may have faced in clearing up the related problems. The number of consumers contacting the Commission directly in 2003 to complain about such identity theft ("IDT") problems (207,691) was nearly six times the number complaining about third-party collectors (34,543), but such IDT complaints include complaints about merchants, debt collectors, credit bureaus, and individual identity thieves, rather than about one particular industry. The number of non-IDT complaints received by the Commission about third-party collectors rose from 25,185 in 2002 to 34,543 in 2003, an increase of 37%. However, the number of complaints the Commission received regarding in-house creditor debt collectors decreased, from 14,705 complaints in 2002, to 12,906 complaints in 2003. Thus, a portion of the increase in complaints about third-party collectors may be attributable to creditors turning to them rather than to in-house collectors. The total increase in consumer complaints received about third-party and in-house debt collectors combined was 47,449, an increase of 19% from the 39,890 complaints received in 2002, and a figure roughly proportional to the 16% increase in the total number of non-IDT complaints the Commission received about all industries (from 237,599 in 2002 to 275,498 in 2003).

<sup>5</sup> We cannot determine the extent to which abusive debt collection practices in general are  
(continued...)

number of consumer contacts by third-party collectors each year appears to be well into the millions. Thus, the number of consumer complaints received by the Commission about third-party collectors is a small percentage of the overall number of consumer contacts.

Not all consumers who complain to the Commission about collection problems have experienced law violations. In some cases, for example, consumers complain that a debt collector will not accept partial payments on the same installment terms that the original lender provided when the account was current. Although a collector's demand for accelerated payment or larger installments may, in these circumstances, be frustrating to the consumer, such a demand is not a violation of the Act. Many consumers, however, complain of conduct that, if accurately described, clearly violates the Act. Some of the allegations that we hear most frequently are the following:

**Harassing the alleged debtor or others:** As in 2002, this was the complaint we heard most frequently last year. We received 8,559 complaints from consumers alleging that collectors called them repeatedly or continuously, up sharply from the 4,570 complaints alleging the same conduct in 2002. (We note that infrequent contacts, such as once a week or once a month, certainly might induce stress in a consumer but would not constitute "harassment" under the FDCPA.) Another 5,650 consumers alleged that collectors used obscene, profane or otherwise abusive language, compared with 3,648 in 2002. The number of consumers alleging that collectors used or threatened to use violence if they failed to pay dropped sharply from 762 in 2002 to 249 in 2003.

**Failing to send required consumer notice:** The FDCPA requires that debt collectors send consumers a written notice that includes, among other things, the amount of the debt, the name of the creditor to whom the debt is owed, and a statement that, if within thirty days of receiving the notice the consumer disputes the debt in writing, the collector will obtain verification of the debt and mail it to the consumer.<sup>6</sup> In 2003, more than 1,900 consumers complained to the Commission that collectors who

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<sup>5</sup>(...continued)

represented by the complaints the Commission receives. Based on our enforcement experience, we know that many consumers never complain, while others complain to the underlying creditor or to other enforcement agencies. Some consumers may not even be aware that the Commission enforces the Act or that the conduct they have experienced violates the Act.

<sup>6</sup> Section 809(a), 15 U.S.C. § 1692g(a). The collector need not send such a written notice if the collector's initial communication with the consumer was oral and the consumer received this information in the initial communication.

contacted them did not provide such a notice. Many consumers who do not receive the notice are unaware that they must send their dispute in writing if they wish to obtain verification of the debt.

Some collectors call consumers demanding that they make payments directly to the collector's client, the alleged creditor. According to consumer complaints the Commission has received, some of these collectors send consumers nothing in writing while at the same time refusing to reveal the name of their collection agency or collection firm. This practice prevents consumers from even complaining about the collector to law enforcement agencies or Better Business Bureaus.

**Failing to verify disputed debts:** The FDCPA also provides that, if a consumer does submit a dispute in writing, the collector must cease collection efforts until it has provided written verification of the debt.<sup>7</sup> More than 1,600 consumers complained that collectors failed to verify debts that the consumers allegedly owed. Many of these consumers told us that collectors ignored their written disputes, sent no verification, and continued their collection efforts. Other consumers told us that some collectors who did provide them with verification continued to contact them about the debts between the date the consumers submitted their dispute and the date the collectors provided the verification, a practice that also violates the FDCPA.

**Impermissible calls to consumer's place of employment:** A debt collector may not contact a consumer at work if the collector knows or has reason to know that the consumer's employer prohibits the consumer from receiving such contacts.<sup>8</sup> The number of consumers alleging such contacts, 3,101, represents an increase of 33% from 2002. Many of these consumers told us that debt collectors continued to call them at work after they or their colleagues specifically told the collectors that such calls were prohibited by the consumer's employer. By continuing to contact consumers at work in these circumstances, debt collectors may put the consumers in jeopardy of losing their jobs.

**Revealing alleged debt to third parties:** Third-party contacts for any purpose other than obtaining information about the consumer's location violate the Act, unless authorized by the consumer or unless they fall within one of the Act's exceptions. In 2003, we received 1,925 complaints alleging that a third-party collector revealed an alleged debt illegally. The complaints allege that third-party collectors have contacted consumers' employers, relatives, children, neighbors, and friends, and informed them

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<sup>7</sup> Section 809(b), 15 U.S.C. § 1692g(b).

<sup>8</sup> Section 805(a)(3), 15 U.S.C. § 1692c(a)(3).

about consumers' debts. Such contacts typically embarrass or intimidate the consumer and are a continuing aggravation to third parties. Contacts with consumers' employers and co-workers about consumers' alleged debts jeopardize continued employment or prospects for promotion. Relationships between consumers and their families, friends, or neighbors may also suffer from improper third-party contacts. In some cases, collectors reportedly have used misrepresentations as well as harassing and abusive tactics in their communications with third parties.

**Continuing to contact consumer after receiving "cease communication" notice:** The FDCPA requires debt collectors to cease all communications with a consumer about an alleged debt if the consumer communicates in writing that he wants all such communications to stop or that he refuses to pay the alleged debt.<sup>9</sup> This "cease communication" notice does not prevent collectors or creditors from filing suit against the consumer, but it does stop collectors from calling the consumer or sending dunning notices. More than 1,350 consumers complained that collectors ignored their "cease communication" notices and continued their aggressive collection attempts.

**Threatening dire consequences if consumer fails to pay:** Another source of complaints involves the use of false or misleading threats of what might happen if a debt is not paid. These include threats to institute civil suit or criminal prosecution, garnish salaries, seize property, cause job loss, have a consumer jailed, or damage or ruin a consumer's credit rating. Such threats violate the Act unless the collector has the legal authority and the intent to take the threatened action.<sup>10</sup> The Commission received 3,364 complaints in 2003 alleging that third-party collectors falsely threatened a lawsuit or some other action that they could not or did not intend to take, and 1,413 complaints alleging that such collectors falsely threatened arrest or seizure of property. These numbers represent increases of 41% and 47%, respectively, when compared to 2002 complaints alleging the same violations.

**Demanding a larger payment than is permitted by law:** The FDCPA prohibits debt collectors from (1) misrepresenting the amount that a consumer owes on a debt<sup>11</sup> and (2) collecting any amount unless it is "expressly authorized by the

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<sup>9</sup> Section 805(c), 15 U.S.C. § 1692c(c).

<sup>10</sup> Sections 807(4)-(5), 15 U.S.C. §§ 1692e(4)-(5).

<sup>11</sup> Section 807(2)(A), 15 U.S.C. § 1692e(2)(A).

agreement creating the debt or permitted by law.”<sup>12</sup> In 2003, the Commission received 5,192 complaints about third-party collectors falsely representing the character, amount or status of a debt, and 1,561 complaints about collectors collecting unauthorized interest, fees or expenses.

**Complaints about creditors’ in-house collectors:** The Commission also received 12,906 complaints in 2003 about creditors that were collecting their own debts, down from 14,705 in 2002. Because creditors are not generally covered by the FDCPA, some in-house collectors use no-holds-barred collection tactics in their dealings with consumers. While the Commission cannot pursue such creditors under the FDCPA, it has done so under the Federal Trade Commission Act in the past, and will continue to do so in the future as appropriate cases present themselves.

**CONSUMER AND INDUSTRY EDUCATION:  
THE FIRST PRONG OF THE FDCPA PROGRAM**

The Commission’s consumer education initiative and industry education initiative combine to form the first prong of the Commission’s FDCPA program. The other prong is the Commission’s enforcement initiative, discussed below. The consumer education initiative informs consumers throughout the nation of their rights under the FDCPA and the requirements that the Act places on debt collectors. With this knowledge, consumers can identify when collectors are violating the FDCPA and exercise their rights under the statute. An informed public that enforces its rights under the FDCPA operates as a powerful, informal enforcement mechanism. The industry education initiative informs collectors of the Commission staff’s positions on various FDCPA issues. With this knowledge, industry members can then take all necessary steps to comply with the Act.

**Tools for both consumers and industry:** Two of the Commission’s educational tools are useful in both the consumer education initiative and the industry education initiative. The Commission’s staff issued a Commentary on the Fair Debt Collection Practices Act (“Commentary”)<sup>13</sup> in 1988 that provides the staff’s detailed analysis of every section of the Act. The comments serve as valuable guidance for consumers, their attorneys, courts, and members of the collection industry. The Commentary superseded staff opinions issued prior to its publication, but staff members issued many additional opinion letters after that date. Like the Commentary, these letters provide consumers, attorneys, courts and the collection industry with the Commission staff’s views on knotty statutory interpretations. Both of these educational tools -- the

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<sup>12</sup> Section 808(1), 15 U.S.C. § 1692f(1).

<sup>13</sup> 53 Fed. Reg. 50,097 (1988).

Commentary and the staff opinion letters -- are available on the Commission's FDCPA web page, located at [www.ftc.gov/os/statutes/fdcpajump.htm](http://www.ftc.gov/os/statutes/fdcpajump.htm). The web page was accessed 118,418 times in 2003.

**Tools specifically for consumers:** The Commission's "Facts for Consumers" brochure entitled "Fair Debt Collection" explains the FDCPA in the language of a layperson. In 2003, the Commission distributed 91,800 of these brochures to consumers through non-profit consumer groups, state consumer protection agencies, Better Business Bureaus, and other sources of consumer assistance, including copies sent directly to consumers in response to inquiries to the Commission. Like the Commentary and the staff opinions, the brochure is available from the Commission's website. Online users accessed the brochure 155,280 times in 2003 -- an increase of fully 55 percent over the previous year. The Commission also publishes Spanish-language versions of the "Fair Debt Collection" brochure and two related consumer brochures: "Credit and Your Consumer Rights" and "Knee Deep in Debt." All three of these brochures are available on the Commission's website and in paper form. The Commission distributed nearly 11,700 copies of the Spanish version of "Fair Debt Collection" in 2003, and online users accessed the brochure 7,660 times, a 90% increase from the previous year.

Another extremely valuable component of the Commission's consumer education initiative is the Consumer Response Center ("CRC"), whose highly trained contact representatives respond to telephone calls and correspondence (in both paper and electronic form) each day from consumers concerning a wide array of issues. A toll-free number, 1-877-FTC-HELP, makes it very easy for consumers to contact the CRC. As noted above, a large percentage of consumer contacts with the Commission relate to debt collection. For those consumers who contact the CRC seeking only information about the FDCPA, the contact representatives answer any urgent questions and then mail out the Facts for Consumers or refer the consumer to the web page to find it there. As also indicated above, however, many consumers who contact the CRC complain about specific debt collectors, both third-party collectors and creditor collectors. For those consumers who complain about the actions of third-party collectors, the CRC contact representatives provide essential information about the FDCPA's self-help remedies, such as the right to demand that the collector cease all communications about the debt and the right to obtain written verification of the debt. The contact representatives also record information about debt collectors who are the subjects of complaints, enabling the Commission to track patterns of complaints for use in its enforcement initiative described below. A third component of the consumer education initiative stems from the public speaking that Commission staff members do to groups of consumers across the country. From local talk shows, to military bases, to county fairs, staff members inform consumers of their rights under a number of consumer-finance statutes. Almost invariably, these presentations include a discussion of the FDCPA.

**Tools specifically for the collection industry:** The Commission staff also delivers speeches and participates in panel discussions at industry conferences throughout the year. In addition to the presentations at industry conferences, the Commission staff maintains an informal communications network with the leading debt collection trade associations, which permits staff members to exchange information and ideas and discuss problems as they arise. Recent topics of discussion between Commission staff members and trade association representatives have included proposed amendments to the FDCPA. Commission staff members also provide interviews to trade publications. These interviews provide yet another vehicle for the staff to make its positions known to the nation's debt collectors.

**ENFORCEMENT :**

**THE SECOND PRONG OF THE FDCPA PROGRAM**

Every consumer who learns which debt collection tactics are illegal and asserts his or her FDCPA self-help rights assists the Commission in policing the collection industry. Every debt collector who hears or reads about FDCPA compliance issues is that much more likely to comply with the Act without the need for a Commission investigation. Thus, both consumer education and industry education encourage voluntary compliance by debt collectors and conserve the Commission's enforcement resources.

There are times, however, when it appears to the Commission staff, based often on complaints from consumers, state or local agencies, or other industry members, that a debt collector is not complying with the statute voluntarily. Accordingly, the Commission's FDCPA program includes investigations of certain debt collectors. If an investigation reveals evidence of significant FDCPA violations, the staff usually attempts to negotiate a settlement with the debt collector before recommending that the Commission issue a complaint. If a settlement is reached and the Commission accepts the staff's recommendation to approve a proposed consent order, the Commission delivers the proposed order and accompanying complaint to the Department of Justice, which files the documents in the appropriate federal district court.<sup>14</sup> If the debt collector will not agree to an appropriate settlement that remedies the alleged violations, the Commission requests that the Department of Justice file suit in federal court on behalf of the Commission, usually seeking a civil penalty and injunctive relief that would prohibit the collector from continuing to violate the Act. On occasion, these debt collectors agree to an appropriate settlement after suit has been brought. In addition, when the Commission seeks equitable remedies such as injunctive relief and restitution for

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<sup>14</sup> Consent orders are for settlement purposes only and do not constitute an admission by the debt collector that it violated the law.

consumers, rather than civil penalties, the Commission can, and has, filed federal court complaints against debt collectors under the authority vested in it by the FDCPA and the Federal Trade Commission Act.

The Commission staff is currently conducting a number of non-public investigations of debt collectors to determine whether they are or have engaged in serious violations of the Act. As discussed below, in 2003, the Commission also filed a new action against a nationwide debt collector, reached a \$40 million settlement with a subprime mortgage servicer that it charged with violating the FDCPA and numerous other consumer protection laws, and prepared for trial against a subprime mortgage lender that it similarly charged with violating the FDCPA and other consumer protection laws.

In May 2003, the Commission sued and obtained a temporary restraining order against *Check Investors, Inc.*, two of the corporation's predecessors, its owner, his wife, and the corporation's attorney. The restraining order, and a subsequent preliminary injunction, halted what the Commission alleged was a nationwide scheme to extract millions of dollars from consumers by falsely threatening them with arrest and prosecution unless the consumers immediately paid Check Investors amounts that the consumers did not owe. The complaint alleged the six defendants violated the FDCPA and the Federal Trade Commission Act by: (1) threatening to initiate civil and/or criminal charges against consumers if they failed to pay the debt, when the defendants had no intention of doing so; (2) making harassing telephone calls and using abusive techniques to collect or attempt to collect purported debts; (3) falsely claiming that consumers owed up to \$130 more than the amount of the actual debt; and (4) stating or implying that certain communications were from an attorney, when they were not. The complaint also alleged that the defendants failed to inform consumers of their right to receive more information about the debt or to dispute the defendants' claims prior to payment. The matter was pending in federal district court.

In November 2003, the Commission reached settlements with subprime mortgage servicer *Fairbanks Capital Holding Corp.*, its wholly-owned subsidiary, Fairbanks Capital Corp., and their founder and former CEO, Thomas D. Basmajian (collectively, "Fairbanks"). The settlements required the corporate defendants to pay \$40 million, and Basmajian to pay \$400,000, in consumer redress. The Commission's federal district court complaint, filed jointly with the U.S. Department of Housing and Urban Development ("HUD"), charged Fairbanks with violating the FTC Act, the FDCPA, the Fair Credit Reporting Act, and the Real Estate Settlement Procedures Act in the servicing of subprime mortgage loans. The FDCPA charges alleged that Fairbanks (1) falsely represented the character, amount, or legal status of consumers' debts; (2) communicated or threatened to communicate credit information that it knew or should have known was false; (3) used false representations or deceptive means to collect or attempt to collect debts, or to obtain information concerning consumers; (4) collected amounts not

authorized by the agreement or permitted by law; and (5) failed to validate debts. In addition to the payment of consumer redress, the settlements enjoined the defendants from future law violations and imposed new restrictions on their business practices.

In addition, discovery in anticipation of trial proceeded in the Commission's action against *Capital City Mortgage Corp.* ("Capital City"). In 1998, the Commission filed a complaint alleging that Capital City and its owner, Thomas K. Nash, violated the FTC Act, the Truth in Lending Act, the FDCPA, and the Equal Credit Opportunity Act, both in its origination and servicing of subprime mortgage loans. The FDCPA charges alleged that the defendants falsely represented that letters from the company's in-house attorney were from a third-party collector, made false and misleading representations when collecting loan payments, and engaged in unfair debt collection practices. In March 1999, the Commission added Capital City's in-house attorney, Eric J. Sanne, as a defendant, based on its discovery during litigation of hundreds of additional letters that Sanne sent. The trial, originally set for April 2002, was postponed due to Mr. Nash's death. The Commission was seeking a combination of civil penalties and injunctive and equitable monetary relief.

#### **LEGISLATIVE ENACTMENTS AND RECOMMENDATIONS :**

Congress approved and the President signed in 2003 the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), which made sweeping changes to the Fair Credit Reporting Act ("FCRA"), including the addition of new provisions that provide consumers with added protections against collection actions wrongly targeted against them due to identity theft. We describe these provisions below, as well as recommend four amendments, or clarifications of, the FDCPA, as permitted by Section 815 of the Act. These recommendations have been proposed in annual reports in prior years.

#### **New Provisions of the FCRA**

The FACT Act expands Section 615 of the FCRA to specifically prohibit the sale or transfer of debt caused by identity theft. Amended Section 615 also provides that if a debt collector receives notice that any information relating to a debt may be the result of identity theft, the collector must notify the third party on whose behalf it is collecting the debt of the allegedly fraudulent nature of the debt. The collector also must, at the consumer's request, provide the consumer with all information to which the consumer would otherwise be entitled if the consumer were not a victim of identity theft, but wished to dispute the debt.

In addition, the FACT Act expands Section 623 of the FCRA, which sets forth the obligations of all those who furnish information to consumer reporting agencies, including debt collectors. It amends Section 623(a) to provide that, if a consumer submits an identity theft report to a furnisher stating that information the furnisher

maintains on the consumer resulted from identity theft, the furnisher may no longer furnish the information to consumer reporting agencies, unless the furnisher subsequently knows or is informed by the consumer that the information is correct. The FACT Act also expands Section 623(a) to require information furnishers to follow procedures to ensure that they accurately determine and report the delinquency dates of the accounts they report. In addition, the FACT Act expands Section 623(b) of the FCRA, which sets forth the obligations of a furnisher upon receiving notice from a consumer reporting agency that a consumer disputes the completeness or accuracy of any information about the consumer that the furnisher provided to that agency. The amendment provides that if a furnisher determines that the information is inaccurate or incomplete, or that it cannot be verified after a reinvestigation, the furnisher, for purposes of reporting to a consumer reporting agency only, shall promptly either modify that item of information, delete the item, or permanently block the reporting of the item.

The FACT Act also contains new provisions directing the Commission, federal banking agencies, and the National Credit Union Administration to prescribe new regulations pertaining to collectors and others who furnish information to consumer reporting agencies. An expansion of Section 623(a) of the FCRA directs the agencies to jointly prescribe regulations that identify the circumstances under which furnishers shall be required to reinvestigate a dispute concerning the accuracy of information contained in a consumer report, based on a consumer's direct request to the furnisher. In addition, a new Section 623(e) of the FCRA directs the agencies, with respect to the entities that are subject to their respective enforcement authority, and in coordination with each other, to establish and maintain guidelines for use by furnishers regarding the accuracy and integrity of the consumer information that they report to consumer reporting agencies.

### **Legislative Recommendations**

**Section 809(a) –Clarity of Notice:** The Commission continues to recommend that Congress amend Section 809 to make explicit the standard for clarity to be applied to the notice required by that section. Section 809(a) of the Act requires debt collectors to send a written notice to each consumer within five days after the consumer is first contacted, stating that if the consumer disputes the debt in writing within thirty days after receipt of the notice, the collector will obtain and mail verification of the debt to the consumer.

As presently drafted, the FDCPA does not specify any standard for how the 809(a) notice must be presented to consumers, such as the color and size of the typeface and the location on the collection notice. Attempting to take advantage of this lack of clarity, some debt collectors print the notice in a type size considerably smaller than the other language in the dunning letter, or obscure the notice by printing it on a non-contrasting background in a non-contrasting color. Significantly, two courts of appeal

have held that collection letters that use small or otherwise obscured print in the notice required by Section 809(a) and at the same time use much larger, prominent or bold-faced type in the text of the letter violate the Act.<sup>15</sup> The courts reasoned that the payment demand in the text both contradicts and overshadows the required notice.<sup>16</sup> Neither of the courts attempted to specify which elements of presentation would constitute a clear disclosure to consumers of their dispute rights under Section 809(a).

The Commission recommends that Congress eliminate this problem by amending Section 809 explicitly to require a more conspicuous format for the notice by mandating that it be “clear and conspicuous.” That standard could be defined as “readily noticeable, readable and comprehensible to the ordinary consumer.” The definition could also reference various factors such as size, shade, contrast, prominence and location that would be considered in determining whether the notice meets the definition. A number of Commission decisions and orders define the “clear and conspicuous” standard in a variety of contexts.<sup>17</sup> Proper application of such a standard in Section 809(a) would help ensure that the information in the required notice is effectively conveyed and eliminate dunning letters artfully designed to confuse their readers and frustrate the purposes of this provision of the FDCPA.

**Section 809 (b) –Effect of Thirty-day Period:** Section 809(b) of the FDCPA provides that if a consumer, within the thirty-day period specified in Section

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<sup>15</sup> *Miller v. Payco-General American Credits, Inc.*, 943 F.2d 482 (4th Cir. 1991); *Swanson v. Southern Oregon Credit Serv.*, 869 F.2d 1222 (9th Cir. 1988). *See also United States v. National Fin. Serv.*, 98 F.3d 131, 139 (4th Cir. 1996) (“bold commanding type of the dunning text overshadowed the smaller, less visible, validation notice printed on the back in small type and light grey ink”); *Macarz v. Transworld Sys.*, 26 F. Supp. 2d 368, 373 (D. Conn. 1998) (collection letter violated Section 809, in part, because validation notice was “relegated to the very bottom of the page in a difficult to read and nondistinctive print, where it appear[ed] to look purposefully insignificant”).

<sup>16</sup> *Miller*, 943 F.2d at 484; *Swanson*, 869 F.2d at 1225-26. Each case held that the format and the substance of the letter overshadowed the notice required by Section 809(a).

<sup>17</sup> *See, e.g., Palm, Inc.*, Docket No. C-4044, 2002 FTC Lexis 17, \*11-12 (Apr. 17, 2002) (consent order) (challenging ads for personal digital assistants that represented that products came with built-in wireless access to the Internet and e-mail while revealing only in an inconspicuous, four-point disclosure “[a]pplication software and hardware add-ons may be optional and sold separately. Applications may not be available on all Palm handhelds”); and *Gateway Inc.*, File No. 992-3276, 2001 FTC Lexis 84, \*39-40 (May 15, 2001) (consent order) (challenging ads for “free” or flat-fee internet services that disclosed in fine-print footnote that many consumers would incur significant additional telephone charges).

809(a), disputes a debt in writing or requests verification of the debt, the collector must cease all collection efforts until verification is obtained and mailed to the consumer. The Commission and its staff have consistently read Section 809(b) to permit a debt collector to continue to make demands for payment or take legal action within the thirty-day period unless the consumer disputes the debt or requests verification during that time. Nothing within the language of the statute indicates that Congress intended an absolute bar to appropriate collection activity or legal action within the thirty-day period where the consumer has not disputed the debt or requested verification. The Commission articulated this position in an April 2000 advisory opinion. The Commission's staff has taken the same position in staff opinion letters and the Staff Commentary on the FDCPA.<sup>18</sup>

Federal circuit courts that have addressed this issue have arrived at the same conclusion. In a 1997 opinion, the Seventh Circuit stated that “[t]he debt collector is perfectly free to sue within the thirty days; he just must cease his efforts at collection during the interval between being asked for verification of the debt and mailing the verification to the debtor.”<sup>19</sup> More recently, the Sixth Circuit stated that “[a] debt collector does not have to stop its collection efforts [during the thirty-day period] to comply with the Act. Instead, it must ensure that its efforts do not threaten a consumer's right to dispute the validity of his debt.”<sup>20</sup>

Although these courts have been consistent with the position taken by the Commission and its staff, some continue to argue that the thirty-day time frame set forth in Section 809 is a *grace* period within which collection efforts are prohibited, rather than a *dispute* period within which the consumer may insist that the collector verify the debt. The Commission therefore recommends that Congress clarify the law by adding a provision expressly permitting appropriate collection activity within the thirty-day period, if the debt collector has not received a letter from the consumer disputing the debt or requesting verification. The clarification should include a caveat that the collection activity should not overshadow or be inconsistent with the disclosure of the consumer's right to dispute the debt specified by Section 809(a).

**Section 803(6)–Litigation Attorney as “Debt Collector”:**

The Supreme Court has resolved the conflict in the federal courts concerning whether attorneys in litigation to collect a debt are covered by the Act. In *Heintz v. Jenkins*, 514 U.S. 291 (1995), the Court held that they are, in fact, covered like any other debt

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<sup>18</sup> 53 Fed. Reg. at 50,109, comment 809(b)-1. The Commentary, the Commission's advisory opinion, and staff opinion letters are available at [www.ftc.gov/os/statutes/fdcpajump.htm](http://www.ftc.gov/os/statutes/fdcpajump.htm).

<sup>19</sup> *Bartlett v. Heibl*, 128 F.3d 497, 501 (7th Cir. 1997) (Posner, J.).

<sup>20</sup> *Smith v. Computer Credit, Inc.*, 167 F.3d 1052, 1054 (6<sup>th</sup> Cir. 1999).

collector because they fall within the plain language of the statute.<sup>21</sup> The difficulties in applying the Act's requirements to attorneys in litigation, however, and the anomalies that result, still remain. For example, pretrial depositions could violate Section 805(b) because they involve communicating with third parties about a debt.<sup>22</sup> In addition, if a complaint represents an attorney's initial contact with a consumer, it appears that the attorney must include the Section 809 validation notice in a complaint itself or in some other written communication within five days after serving the complaint on the consumer. Such a notice does not make sense in a litigation context. It would state that, if the consumer sends a written request for verification within thirty days, the attorney will provide the verification. If the consumer does make such a request, it appears that Section 809(b) requires the attorney to put the lawsuit on hold until he or she provides the verification.<sup>23</sup>

Because it still seems impractical and unnecessary to apply the FDCPA to the legal activities of litigation attorneys, and because ample due process protections exist in that context, the Commission continues to recommend that Congress re-examine the definition of "debt collector" and state that an attorney who pursues alleged debtors solely through litigation (or similar "legal" practices) -- as opposed to one who collects debts through the sending of dunning letters or making calls directly to the consumer (or similar "collection" practices) -- is not covered by the statute. Alternatively, Congress could amend the definition of "communication" to state that the term "does not include actions taken pursuant to the Federal Rules of Civil Procedure or, in the case of a proceeding in a State court, the rules of civil procedure available under the laws of such State."

**Model Collection Letters:** The Commission's fourth recommendation for an amendment to the FDCPA grew out of discussions between Commission staff and representatives of the debt collection industry. These collectors often complain that, no matter how hard they try to make their collection letters comply with the FDCPA notice requirements, there is always an attorney who will allege that their letters violate the

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<sup>21</sup> *Heintz*, 514 U.S. at 299 ("[T]he Act applies to attorneys who 'regularly' engage in consumer-debt-collection activity, even when that activity consists of litigation.").

<sup>22</sup> Section 805(b) permits collectors to reveal a debt to third-parties under certain circumstances, including with "the express permission of a court of competent jurisdiction." Thus, an attorney could obtain "express permission" from the court before taking each third-party deposition, but this seems an inefficient method of proceeding.

<sup>23</sup> Because of a 1996 amendment to Section 807(11), attorneys do not have to state in their pleadings that they are attempting to collect a debt and that any information obtained will be used for that purpose -- the so-called "mini-Miranda" notice.

statute in some way -- and a judge who may agree. These collectors have suggested that the FDCPA be amended to contain model collection letters that, if adhered to precisely, would insulate them from liability for the form of their letters. The Commission believes that model letters would benefit both collectors and consumers. Collectors would benefit from having specific guidance regarding the form of their collection letters. Because the creation of such model letters would reduce the number of illegal collection letters sent by debt collectors, consumers would benefit in that they would be less likely to receive an illegal letter and, therefore, less likely to be deceived or intimidated by a debt collector.

While we agree that model collection letters would be highly beneficial, we do not think such models should be included in the FDCPA itself. Model letters might have to be altered, or a new model added to or deleted from the existing set, from time to time. We believe that specifically giving the Commission the limited authority to issue model letters or forms would provide the best solution. Model forms in Regulation Z, which implements the Truth in Lending Act, and Regulation B, which implements the Equal Credit Opportunity Act, provide valuable guidance for the nation's creditors. As the Federal Reserve System's Board of Governors does with the Regulation Z and Regulation B models, the Commission could alter existing models, add new ones, or delete models that are no longer appropriate.

The Commission therefore recommends a slight amendment to the FDCPA to allow the Commission to issue model collection letters. Section 814(d) currently provides, in pertinent part, that the Commission may not promulgate "trade regulation rules or other regulations with respect to the collection of debts by debt collectors."<sup>24</sup> The following language could be added to the end of Section 814(d):

" . . . except that the Commission shall be authorized to promulgate by regulation, under Section 553 of Title 5, United States Code, model collection letters or forms for those debt collectors who choose to use them. If a debt collector adheres precisely to one of these models in creating a collection letter, the collection letter shall be deemed to be in compliance with [the FDCPA]."<sup>25</sup>

## CONCLUSION

Although most debt collectors covered by the FDCPA already comply with the statute, the Commission continues to receive a significant number of complaints about those who do not. Through its balanced FDCPA program of education and enforcement,

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<sup>24</sup> 15 U.S.C. § 1692l(d).

<sup>25</sup> Section 553, 5 U.S.C. § 553, is the section of the Administrative Procedures Act that prescribes procedures for notice and comment rulemaking.

the Commission encourages collectors who comply with the law to continue to do so, and provides strong incentives for those who are not complying to conform their future practices with the dictates of the law.