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A New Threat To Your Credit Rating

*Unpaid Parking Tickets, Library Fees Start to Hurt
Consumer Credit as Strapped Cities Seek Payment*

By JANE SPENCER

A GROWING number of routine municipal fines and fees—including unpaid parking tickets, library fines, and trash-collection charges—are starting to damage consumer-credit scores.

In the face of budget crunches, major cities, including New York, Chicago and Miami, are hiring private collection agencies to chase down small debts that are frequently shrugged off by consumers. Since an outstanding account handled by a private collection company can wind up in a credit file, more consumers are discovering that niggling government fees—like unpaid speeding tickets or dog-catcher fines—are marring their credit. It's up to each city to decide whether such information will end up in a consumer's credit file.

Claude DaCorsi, a management consultant in Portland, Ore., used to pride himself on his near-perfect credit rating. But during a recent routine credit check, he discovered his credit scores had plunged to "below average."

The reason: Two late library books, including a picture book taken out for his two-year-old son. The library had turned over the \$40 late fee to a private collection agency.

Mr. DaCorsi, who says the black mark affected his interest rate on a home loan, has since barred

Pay Up

Municipal fines can damage your credit, as more local governments enlist private collection agencies.

- Overdue parking violations in cities including Philadelphia, San Diego and Chicago are being pursued by collection agencies.
- Unpaid library fines may go to collection agencies in New York, Baltimore, Portland, Ore., Dallas, and other cities.
- Late E-ZPass toll bills will soon be handled by a private collection agency in New York State.

his children from visiting the library. "We go to Barnes & Noble now," he says. "We can get books there without fear of retribution."

A handful of cities, including San Diego and Chicago, have worked with collection agencies since the late 1990s. But the trend is spreading rapidly around the country as strapped local governments look for creative ways to boost revenue without raising taxes and fees. Over the past few years, local governments in places including Seattle; Anchorage, Alaska; Austin, Texas; and Florida's Miami-Dade County have contracted with private agencies to collect late parking tickets and court fees. In New York City, Baltimore and Dallas, libraries use private collection firms to recover fines. New York

state recently hired a collection company to pursue overdue E-ZPass toll bills.

While shaking down citizens over small debts might sound petty, hundreds of cities around the country are owed millions of dollars in unpaid fines. Since 1997, when Chicago began using a collection agency to track down unpaid parking fines, ticket revenue has more than doubled, rising from \$68 million to \$154 million last year. (The total number of parking tickets issued has dropped slightly over the period.) Since the Omaha, Neb., public-library system hired a private collection company in March, it has collected more than \$40,000 in

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A New Threat to Credit Ratings

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fines and recovered about \$75,000 worth of overdue books and materials.

Local governments are also using collection agencies to track down some more-unusual fees. In Florida, some municipalities have used a private agency to track down swimmers who fail to pay "beach rescue" fees after they are rescued by lifeguards. San Diego courts have used collection agencies to collect fines issued to people caught riding the trolley system without tickets, according to AllianceOne, a Pennsylvania-based collection firm that works with court systems around the country.

As local governments increasingly outsource collections, more companies are focusing on collecting for public agencies. Unique Management Services in Indiana works exclusively with libraries, and currently handles collections for about 750 of them in North America. The company says it has annual revenue in the millions of dollars, and the business has been growing at about 15% a year.

Since its clients usually want to maintain good relations with patrons, Unique Management says it tries to avoid the hardball tactics normally associated with collection agencies. "We use a gentle tone of voice," says Kenes Bowling, manager of customer development at Unique. "We let patrons know that the library isn't angry with them, and wants them to return the books." (About half of the company's call-center employees are students from a local Baptist seminary.) Still, patrons who don't pay up are sometimes reported to credit bureaus.

City officials say the revenue from aggressive collections efforts can help keep taxes low. They're also an issue of fairness. "We have a responsibility to apply the law equitably," says Bea Reyna-Hickey, director of revenue for Chicago. "It's not fair to have some people paying parking tickets, and other people just ignoring them." Typically, a collection agency takes between 15% and 35% of whatever it successfully collects, according to Kaulkin Ginsberg Co., a collections-industry research firm.

Some cities are using collection agencies to chase down debts that are over a decade old, which can lead to surprises for consumers. Last July, Phillip Remstein of King of Prussia, Pa., received a notice in the mail from a collections company requesting \$53 for a Philadelphia parking ticket issued in 1993. "It was ridiculous," says Mr. Remstein. "I didn't hear from them for 12 years and suddenly they want to collect?"

Mr. Remstein says he is sure he resolved the ticket at the time, but he has no record since it was so long ago. The Philadelphia Parking Authority had contracted with a collections agency to pursue about \$8 million in unpaid tickets that were more than seven years old. But

after numerous complaints from consumers like Mr. Remstein as well as media coverage, the city called off the collections program in November. However, the city still uses a private collection agency to go after unpaid fines on current parking violations.

Technically, any bill more than 30 days old can be reported to a credit bureau, though many local governments opt to give citizens more time before deploying hardball tactics. Both Trans-Union LLC and Experian, two of the country's three major credit bureaus that compile information about consumers' credit history, include information about overdue municipal fines and fees on credit reports. Equifax Inc., the third credit bureau, makes an effort to weed out small charges like library books and parking violations from credit files. The company says it is not fair to include them in credit reports since municipal fines are reported unevenly around the country.

Even when the dollar amounts involved in the fines are small, any collections activity in a credit file can do serious damage to a credit score. "It's a very serious negative item on your report, on par with a tax lien or a bankruptcy," says Maxine Sweet, vice president of public education at Experian. "You will definitely pay more for your credit, in higher interest rates and higher down payments."

A library fine reported to a credit bureau, for example, can knock as much as 100 points off a credit score, making it difficult for someone with previously good credit to get the best rate on a loan, consumers and industry experts say. (Credit scores calculated by Fair Isaac Corp., the leading provider of such scores, typically range from 300 to 850; any score above 700 will generally get you the best rate on a loan.) Collections activity can stay on a report for seven years.

Consumers hoping to get municipal fines wiped off their credit records do have some options. Since collections activity can stay on a credit file even after the bill is paid, consumers should try to come to an arrangement before they pay. They should call the government agency or collection company and try to strike a deal that if they pay the fine, it will be removed from their file. The Web site creditboards.com offers sample letters to collection agencies and other advice to help consumers get items removed from their credit files.

Battling a collection agency can be an ordeal. Kevin Howard, a Houston attorney, estimates he spent about 25 hours last year trying to get a \$30 library fine removed from his credit file. He says he has spoken up about his experience at two city council meetings, told his story on the local news and contacted the Federal Trade Commission, which enforces the Fair Credit Reporting Act, but he's yet to get the item removed.

Competitor Aims to US Airways

By I

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