

# A SECOND CHANCE FOR SUBPRIME BORROWERS

**An Oregon company offers credit cards to those with bad debt. It's good business, for both sides.**

By **Kate Moser** | Correspondent of The Christian Science Monitor  
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*BEAVERTON, ORE.* - After Wes Smith was laid off from his job at a window-blind factory, he struggled to make rent and car payments. Unpaid bills went into collection after he charged thousands of dollars on his credit cards to get by.

Some six years later, Mr. Smith is back on his feet, working in Gallatin, Tenn. But those unpaid debts still haunt him. A low credit score prevented Smith from qualifying for a Federal Housing Administration loan to buy a home.

To repair his credit, he is now working with a debt-collection company that does more than just offer a monthly payment plan. Genesis Financial Solutions in Beaverton, Ore., is trying to help people like Smith restore their credit by offering them new credit cards – ones that encourage them to finally shed debt for good.

Many of its 150,000 to 200,000 credit-card customers are subprime borrowers – people whose credit score is so low that they cannot gain access to credit or must pay exorbitant fees in order to get a credit card. But Genesis's cards, sponsored by MasterCard, offer rates similar to what people with good credit might receive.

The customer's old debt is transferred to the new card, which carries an interest rate of 11.9 to 18.9 percent, depending on the initial balance amount.

At a time when many credit-card issuers are hiking interest rates, no interest accrues on Genesis cardholders' old debt, however. There is no annual fee. Late payment fees are \$29 and credit limits can reach \$2,500.

The idea, says Genesis CEO Irving Levin, is to give customers an incentive to pay Genesis back. If customers fail to make payments on their old debt, the card is revoked. "This only works if people keep paying us, and they only keep paying us if they understand and feel like they're not getting ripped off," he says.

Smith has stuck to his new credit card's payment plan, and in exchange, Genesis has made positive reports on his behalf to credit bureaus. Every time he makes a \$50 payment, Genesis credits his account for \$75. Levin says providing that additional \$25 credit has proved to be a popular practice, and it's part of the company's attempts to be flexible in recovering as much of the customers' original debt as possible.

Smith says he has yet to make any purchases with his new credit card. He tries to be disciplined about using plastic now that he is working with Genesis to repair his credit. "They're meeting their end of the bargain, and I'm meeting mine," says Smith, now an assistant supervisor at a fuel group company.

This reciprocal agreement brings "an element of redemption ... for someone with bad credit," Levin says. "They might be able to get a credit card [elsewhere], but it would be horrendously priced."

Besides collecting bad debt and issuing credit cards, Genesis also offers loans to students looking to attend vocational schools. The average loan is \$6,000 with a 12- to 60-month repayment period. Interest starts accruing after graduation. The student-lending side of the business is poised to grow rapidly, Levin says.

Genesis is a relatively small firm in a giant industry. The account receivables management industry was worth \$16.7 billion in 2006 and is on track to hit \$22.2 billion in 2011, according to industry consultant Kaulkin Ginsberg Co., in Rockville, Md. Other firms that issue credit cards to customers whose debt they've purchased include Sherman, a subsidiary of Resurgent Capital Services, and Jefferson Capital Systems, a subsidiary of CompuCredit.

When Levin first began offering credit cards to people with bad credit in the late 1980s through a different company, bankers sent him hate mail after seeing his ads in national newspapers. They criticized his attempts to extend credit to people who have unpaid bills and charged-off debt, he says. Such criticism is understandable today, since some subprime lenders have not done right by their customers, Levin says. "The treatment of the little guy is not always respectful."

Levin says his company's philosophy stems partly from a golden rule mentality, but it's also good business. "You're giving people a chance and a hope, and that's good," he says.

Consumer-advocacy groups, however, have reservations about deals like the one Genesis offers. The Genesis approach might be unique, says Ruth Susswein, a spokeswoman for Consumer Action based in San Francisco, but that doesn't necessarily make it good for the consumer. In many cases, debtors don't have a legal obligation to pay debts that have passed a statute of limitations, she says. By signing up for a new credit-card account that has rolled over old debts, the customer can unwittingly revive those debts.

"I wouldn't pay an old debt unless they could present me with the original contract that I signed – my John Hancock on that original loan or credit card," Ms. Susswein says.

Levin acknowledges that that situation can happen. Still, he says, his firm offers a way for customers to repair their credit and use credit cards that don't cost a fortune because of their credit histories.

"Try renting a car or a hotel room without a credit card," Levin says. "It's become much more than a lending tool. It's become a method of identification and access."

## LEVIN'S DEBT ADVICE

Irving Levin of Genesis Financial Solutions in Beaverton, Ore., offers these tips to avoid the pitfalls of credit-card debt:

- Pay your balance off in full every chance you get.
- If you don't think you can pay it off next month, don't buy anything.
- Know your credit report – and know that it can be wrong.
- If you're in trouble with your credit, don't "clam up." Communicate with creditors. It's not in anyone's best interest for you to have your account go into default.
- If an offer from a creditor doesn't make sense or you don't understand it, keep asking questions or don't take it.

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