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Now who's drowning in debt? Bill collectors

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NEWS STAFF REPORTER

You know the economy's bad when debt collectors can't pay their bills.

First American Recovery Services in Amherst, the owner of \$500 million in overdue accounts, has filed for bankruptcy, blaming a slowdown in payments from debtors.

“Consumers are really struggling,” company President Mark F. Bohn said.

The company and three affiliates filed for Chapter 11 reorganization in U. S. Bankruptcy Court in Buffalo this month, reporting debts of up to \$50 million.

A bad economy might seem like a good time for bill collectors, but it turns out to be more complicated than that. The industry depends partly on payments for old bills — a low priority in many households, now that prices for necessities are high and good jobs are hard to find.

So collectors in Buffalo and across the country are feeling consumers' pain.

“It's getting harder and harder to collect, because people simply don't have the money,” said John Nemo, spokesman for the industry association ACA International in Minneapolis.

At First American, much of the company's revenue comes from monthly payment plans designed to wipe out debts over time, Bohn said.

“Now, somebody paying an amount over six or 12 months may take 24 or 36 months,” he said.

Prices for items such as food and fuel are coming down, but the period of high costs over the last year has left many households tapped out, he said.

As a debt buyer, Bohn's company hires 12 to 15 local firms to collect past-due amounts, supporting about 100 jobs in the region, he estimated. The company has only six direct employees in its office on Wehrle Drive, he said.

At Amherst collector First- Source Advantage, the repayment rate on older debts is only about half of last year's level, collections Vice President Tim Smith said. However, the 500- job company is getting more accounts from creditors, helping keep the overall business stable.

“The amount of debt out there is 10 times what it had been,” he said, “but the ability to pay is less.”

Do hard times for collectors mean harsher treatment for the debtors they pursue?

“They have more accounts chasing fewer dollars, so the pressure to be abusive would mount,” said Robert J. Hobbs, deputy director of the National Consumer Law Center in Boston.

Harassment and threatening behavior by debt collectors already are sources of complaints by those they target. In the last five years, more than 300,000 consumer complaints have been filed with the Federal Trade Commission.

But the industry denies that it is squeezing consumers harder. As households tighten their belts, collectors are setting up more long-term payment plans, according to ACA, when they otherwise would have demanded payment in full.

Even so, sympathy may be in short supply for the industry, for which Buffalo is a hub.

Several major collection firms have offices in the region, including NCO Group, Creditors Interchange, Capital Management Services and Pioneer Credit Recovery, a unit of Sallie Mae.

NCO, with a 600-job office in Amherst, reported a \$14.8 million loss for its most recent fiscal quarter. The results included a \$24 million write-down of past-due accounts that it holds for collection.

“It’s been harder to collect for some time,” said Brian Callahan, vice president of financial reporting. The silver lining, he added, is that more unpaid accounts are being referred to collection.

The last industry downturn in 2000 and 2001, after the collapse of the dot-com bubble, was smaller in scope, said Michael Ginsberg, president of industry analyst Kaulkin Ginsberg in Rockville, Md. In this economy, high prices for necessities have affected consumers across the board.

Still, most collection companies are putting off job cuts, he said. They fear that losing experienced people now will leave them shorthanded when debtors get in better financial shape.

“They’re at a wait-and-see point,” Ginsberg said, about whether they should “cut [jobs] or shoulder the expenses to see if we can ride this out.”

The big question mark is the long-term outlook for jobs, he added. Sustained high unemployment will further tighten household budgets.

First American’s Chapter 11 bankruptcy filing was triggered when its biggest lender shut off funding because of the financial crisis, according to the company.

“They called the loan,” Bohn said.

The lender, CapitalSource Finance LLC, paints a different picture. It said in court papers that First American funneled money to outside firms while failing to make its loan payments.

A First American entity “has made unauthorized distributions” to outside companies, including a real estate and a construction firm, CapitalSource said in a lawsuit filed in U. S. District Court in Buffalo. The Maryland-based lender tried to seize First American’s cash in an effort to protect \$25 million in loans.

First American is owned by Bohn and Douglas J. Mackinnon, bankruptcy papers said.

The company is actually showing a profit for 2008, Bohn said, and given time, it can make good on its debts. “Our assets are greater than our liabilities,” he said.

The bankruptcy filing also could shut off funds for consumers across the country who are suing First American for alleged collection abuses. First American’s bankruptcy filing lists 15 lawsuits that it is facing.

“It looks like our client is out of luck,” said David P. Schafer, a consumer lawyer in San Antonio. He represents Texas resident Karen Gleinser, who alleges that First American illegally revealed her debt to her neighbor.

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