



## TESTIMONY BEFORE THE CONSUMER FINANCIAL PROTECTION BUREAU

July 28, 2016

Thank you, Director Cordray and the CFPB, for inviting me here today. My name is Susan Shin and I am the legal director of New Economy Project, which for the past 20 years has worked to promote economic justice in New York City's low-income neighborhoods and neighborhoods of color. For the past 11 years, we have run a free legal hotline, through which we have heard from thousands of New Yorkers harmed by discriminatory and abusive debt collection lawsuits.

We recently spoke to Ms. S, an African-American woman whose only income is from Social Security disability. She had just learned that a debt buyer – a company that buys old, charged-off debts for pennies on the dollar – had frozen her bank account. It turned out that the debt buyer had sued her years ago for a debt she didn't recognize; lied to the court about notifying her of the lawsuit and about having proof of the debt; and obtained a default judgment against her – which it then used to freeze her bank account.

We have heard from thousands of New Yorkers with stories just like this. Some people learned a judgment had been entered against them only after they were denied housing or employment because of the judgment, which was now on their credit report. All too often the judgments have been for debts that were in fact too old legally to be sued on, arose from identity theft, and/or were already paid.

In these lawsuits, New Economy Project's research has shown that debt buyers have attorneys 100% of the time, whereas New Yorkers sued by debt collectors have legal representation only 2% of the time. In case after case, debt buyers have obtained default judgments by blatantly lying to the courts.

As discussed in our report, "The Debt Collection Racket in New York," we found that the highest concentrations of these default judgments were in New York's communities of color – most of them middle-income black communities in southeast Queens, the same places that banks have redlined for decades, and that were at the epicenter of the predatory lending and foreclosure crises.

Through these abusive lawsuits, debt buyers have systematically extracted billions of dollars in wealth from communities of color, perpetuating economic inequality. Like many other consumer protection issues, abusive debt collection is also fundamentally an issue of racial and economic justice.

I would be remiss if I didn't mention that banks have played a major role in facilitating debt collection abuses.

With co-counsel, our organization recently settled a class action lawsuit against a network of debt collectors that we alleged had engaged in these very abuses, from fraud on the courts through robo-signing to a raft of due process violations. Not only have we secured the return of millions of dollars to New Yorkers, we are working with our state courts to vacate nearly 200,000 default judgments, with a total face value of \$800 million – and a major network of debt collectors is no longer in business.

We applaud the CFPB for the much-needed enforcement actions it has taken against banks, debt buyers, and debt collection law firms. In New York, we have worked hard to obtain strong, enforceable debt collection rules, and have seen a dramatic decrease in these abusive lawsuits as a result. We urge the CFPB to likewise issue strong rules that will hold all of these entities accountable for engaging in or facilitating these and other debt collection abuses. Issuing such rules is one critical way we can address wealth inequality and racial injustice. Thank you.