

CFPB Sanctions Law Firm and Debt Buyer For Failing to Review Account Documentation

June 30, 2016

On April 25, the Consumer Financial Protection Bureau (CFPB) entered an enforcement order against New Jersey law firm Pressler and Pressler and its debt-buyer client, New Century Financial Services, for pursuing hundreds of thousands of debt collection lawsuits without reviewing the underlying documentation supporting the existence of a debt. The law firm agreed to pay a \$1 million fine, the debt-buyer client agreed to pay a \$1.5 million fine, and both agreed to extensive recordkeeping and compliance measures going forward. These recordkeeping and compliance measures include an obligation to file account information in the court file of defaulted debt-collection cases before obtaining a final judgment, and to do no prejudgment discovery of a debtor's assets. The sanction stemmed from the manner in which the debt-buyer client communicated with its law firm. Rather than sending account files of the purchased debts, the client would electronically send spreadsheets showing debtor information and amounts of debts to the law firm. The law firm, which was staffed by over 300 employees, only 19 of which were attorneys, would then use proprietary software to turn the information in the spreadsheets into civil complaints. Neither the debt-buyer client, nor the non-legal staff, nor the attorneys signing the complaints, would review the original account-level documentation substantiating the debt. As a result of these practices, the CFPB found the law firm filed an untold number of lawsuits based on false or unreliable information. Using the law firm's own software, CFPB determined that the law firm lawyers typically spent less than a few minutes reviewing a complaint package and comparing it to the summary information on the spreadsheet before signing the complaint and filing it with the court. The lawyers did not review the account level documentation or determine if the information in the spreadsheet was correct or disputed before filing suit. Since most of the debtors defaulted, the information was not disputed, and the false information harmed consumers. Thus, the CFPB found that a law firm's reliance on only summary information provided by a client constituted an unfair or unconscionable means to collect debts.

Related Practices

Consumer Finance

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