

Collection agency hit with record fine

Joy Powell, Star Tribune

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A debt-collection company licensed to operate in Minnesota has paid a record fine of \$125,000 for 15 violations that included an unauthorized bank withdrawal and employing a violent felon as a collector.

Arrow Financial Services of Niles, Ill., also agreed to design and implement a compliance program within 60 days as part of the enforcement action by the Minnesota Department of Commerce.

Mary Coffey of St. Peter in Nicollet County was among 10 people whose complaints from late 2003 through June 2005 touched off a yearlong probe by the state agency, Commerce Department spokesman Bruce Gordon said. Coffey said the company even withdrew more money from her bank account than she owed on a credit card.

Violations included calls to debtors' employers after being asked to stop, and telling a debtor's co-worker about a collection action.

Arrow is a division of Sallie Mae, the nation's No. 1 student loan lender. The violations occurred before and after Sallie Mae bought Arrow in September 2004, Gordon said.

Arrow buys old debt that's been charged off by credit-card, telecom, auto or utility companies, said Tom Joyce, a spokesman for Sallie Mae and Arrow.

"We obviously agreed to this order to put this matter behind us, rather than get caught up in a longer process that would have likely cost our customers and shareholders more in legal and other fees," Joyce said.

Commissioner Glenn Wilson of the Commerce Department -- which regulates 879 licensed collection agencies and nearly 31,000 individual collectors -- said that laws are intended to protect consumers but that Arrow Financial Services "missed the mark."

"The violations are serious and we cannot and will not tolerate this type of activity in Minnesota," Wilson said. "That's why a comprehensive compliance plan is part of the consent order."

The Arrow enforcement action is among 33 imposed against collection agencies and individual debt collectors by the state agency since Jan. 1, 2003; those have resulted in \$309,500 in civil penalties.

Arrow's new state-monitored compliance program must include:

- A company compliance officer who reports directly to Arrow's president and board of directors.

- A training program educating Arrow's debt collectors in Minnesota concerning collection laws, and a signed statement that each received the training.
- Written policies and procedures for screening debt collector applicants, including criminal background checks, before they are registered.

Living check-to-check

Coffey, a grandmother who works at a clerical job in St. Peter, south of the Twin Cities, said her troubles began after she and her husband bought a house and he was laid off from his construction job.

"I've worked pretty hard all my life, but my husband and I live check-to-check," she said.

They fell behind with a credit-card payment, which triggered a higher interest rate and late fees. She agreed to let Arrow deduct \$235 a month on a balance of about \$1,200. Each month, Arrow sent a letter saying it would be deducting the amount on a certain date.

"I was keeping track of my debt going down, and it came to the last payment," Coffey said. "They said they were going to take out the same amount they always had. The problem was, I didn't owe that anymore. I owed less than that."

She called Arrow twice and was told that the extra money would not be taken. But the company took the full monthly amount, about \$50 more than was owed, without Coffey knowing it. In the meantime, she wrote about five small checks for groceries and other items. They all bounced, each with an \$18 fee.

"Fifty dollars, that's a lot to me," she said. "To have to go to the bank and explain to them what happened, that it was a collection agency, was embarrassing."

In another case, Arrow collectors repeatedly called a debtor at work, despite five letters and three e-mails asking them to cease.

Arrow also failed to establish procedures when screening collectors before applications to the Commerce Department for licensing. In one case, an applicant didn't qualify for licensing because of a recent felony conviction for aggravated assault of a police officer.

Arrow then failed to respond to the department's inquiries. The company now follows Sallie Mae's control and compliance program, Joyce said.

"Treating customers fairly is our primary concern," Joyce said.

"We do our utmost to comply with all federal and state laws and regulations."

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