Major credit lenders investigated for debt collection practices

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Federal regulators announced plans last month to expand an investigation into widespread allegations of illegal credit card debt collection practices by major banking institutions. The activities under scrutiny are similar to those exposed in the so-called "robo-signing" scandal that came before the courts in 2012, in which thousands of homeowners were placed into foreclosure without proof of them being behind on their payments.

The Federal Office of the Comptroller of Currency (OCC) announced it would be widening its investigations as part of a case initially launched against banking firm JPMorgan Chase in 2011. The OCC indicated that the government is now examining the activities of several other large financial institutions, although it was unspecific as to which banks it was targeting.

In California alone, JPMorgan Chase has been accused of running "a massive debt collection mill" between 2008 and 2011. The Wall Street giant attempted to gain default judgments and wage-garnishing rights against more than 100,000 cardholders. On one day, according to investigators, the firm filed a whopping 469 debt collection lawsuits, followed the day after by 226.

The complaint filed in California states that "[a]t nearly every stage of the collection process, [JPMorgan] cut corners in the name of speed, cost savings, and their own convenience, providing only the thinnest veneer of legitimacy to their lawsuit … without any knowledge of the facts alleged in the document and without regard to the truth and accuracy of those facts."

The investigation was first initiated in 2011 when an employee of Chase bank, Linda Almonte, sought to bring to her employer's attention over 23,000 overdue accounts whose documentation was replete with inaccuracies. The bank promptly fired Almonte for doing so. She then pressed charges on grounds of wrongful termination.

Last year, the Virginia-based Capital One bank settled a $210 million lawsuit for deceiving its customers by signing them up for services that carried fees without their knowing. According to the Consumer Financial Protection Bureau's (CFPB) director, Richard Cordray, Capital One's "customers were pressured or misled into buying credit card products they didn't understand, didn't want, or in some cases, couldn't even use."

Similarly, last October American Express was forced into a $112.5 million settlement for abusive collection practices and "deceptive marketing" tactics that involved unstated late fee charges on credit card debt.

A factor in the investigation is the action of third party debt buyers who have purchased accounts from lenders in order to repackage and sell them on the market. They are often unaware of the particulars in the accounts they own. Despite this, these loan sharks attempt to get the courts to approve legal judgments against the debt holders. In October, the District Court of Maryland dismissed several thousand such cases because the third parties could not provide adequate information about the borrowers or the terms of the loans.

As was the case with earlier investigations into mortgage lenders signing off on foreclosures without accurate documentation, the current investigation into credit collection abuses will amount to little more than a whitewash and a slap on the wrist for the banks.

In the case of unlawful foreclosures, with the full backing of the Obama White House, federal investigators signed a sweetheart deal with financial institutions that shielded them from any further lawsuits by thousands of homeowners in the wake of the housing crisis. Under the decision, financial giants such as JPMorgan, Bank of America, Wells Fargo and others were obligated to pay $5 billion to the states where they carried out their illegal activities. They are expected to turn over another $20 billion over a longer period of time. Based on these amounts, individuals whose homes were illegally foreclosed upon will receive somewhere between $1,500 and $2,000.

Tom Miller, the attorney behind the $25 billion foreclosure settlement, will also be taking charge of any prosecution that emerges out of the investigation into phony debt collection practices. As with the mortgage settlement, the attempt to "finalize" and consolidate the many lawsuits brought against debt collectors is ultimately aimed at protecting these financial institutions from future lawsuits.