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Market Snapshot: Online Debt Sales

Consumer Financial Protection Bureau

Office of Consumer Lending, Reporting, and Collections Markets

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1. Introduction

This report provides an introduction to the online marketplace for charged-off debt. This market consists of websites and in at least one case, a Facebook page, where portfolios of charged-off consumer debt are listed for sale. These portfolios, once purchased, are likely to provide sensitive personal and financial information about consumers.

Currently, online marketplaces appear to be a very small part of the broader debt collection industry. If designed properly, online marketplaces may have the potential to help responsible debt collectors acquire charged-off debts from responsible sellers more efficiently. However, the ease with which debts can be bought and sold online may increase the risk that debts – and the sensitive consumer information associated with them – will fall into the wrong hands. Assuming the online portfolios are similar to those traded in more traditional channels, the charged-off accounts available for purchase in these portfolios are likely to include personal information such as the consumer's name, social security number, home and work telephone number, and street address; they would also generally include financial information such as account number, original creditor name, current balance, date of last payment, and date of charge-off associated with the debt.[1]

There are troubling signs that some online marketplaces may not have adequate practices in place to prevent consumer data from falling into the wrong hands. An FTC complaint in 2014 alleged that Bayview Solutions, LLC, an online debt marketplace, "posted at least twenty-one

[1] *For discussion of industry practices, see* Federal Trade Commission. *The Structure and Practices of the Debt Buying Industry*. January 2013. https://www.ftc.gov/sites/default/files/documents/reports/structure-and-practices-debt-buying-industry/debtbuyingreport.pdf. *See also* DBA International. *Introduction to DBA's Response to Advanced Notice of Proposed Rulemaking.* February 2014. P. 6-7 footnote 4 for a list of data elements "required to sufficiently identify the consumer on [an] associated account."

portfolios of purported debts ... containing the unencrypted, unmasked, sensitive personal information of more than 28,000 consumers." The FTC also stated in the complaint that "Traffic counters on the website show that visitors to the website have accessed ... consumers' sensitive personal information over 340 times." In this case, according to the FTC, the websites failed to even protect sensitive consumer information from website visitors.[2] The FTC filed a similar complaint against another online debt sales website, Cornerstone and Company. In that complaint, the FTC wrote that, "On at least six occasions, Defendants have offered their debt portfolios for sale by posting them on this website in the form of unencrypted, unprotected Excel spreadsheets. By this means, they have exposed to public view consumers' sensitive personal information." The complaint states that the personal information of at least 40,600 consumers was exposed.[3] Both cases were ultimately settled. These early indications suggest that some online marketplaces may not be fully protective of consumer privacy.

This report describes the types of accounts available through online debt marketplaces which may contain sensitive information for hundreds of thousands of consumers and allow buyers to acquire debts at very low costs. In some cases these debt portfolios cost less than $1 per consumer account and in many cases less than $5. The asking prices for these debt portfolios on online marketplaces are often fractions of a cent per dollar of original debt.

This report is based on a review the CFPB conducted of 298 portfolios which entered at least one of three online marketplaces which the CFPB observed between January of 2015 and August of 2015. Altogether, these portfolios were advertised as containing the information of more than 1.2 million consumer accounts. We reviewed only the debt listings, including advertised asking price, number of accounts, face value, age, and number of prior placements, and did not review other characteristics of these specific websites (such as operating practices or safeguards). We reviewed these marketplaces because we believe them to be typical for online debt vendor websites. We believe that the debt characteristics and price trends are generalizable to the online debt market as a whole.

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[2] *FTC v. Bayview Solutions, Tomko, and Ortiz.* Civil Complaint, United States District Court – District of Columbia. Filed October 31, 2014. Accessed at https://www.ftc.gov/system/files/documents/cases/111014bayviewcmp.pdf

[3] *FTC v. Cornerstone and Company and Lambert.* Civil Complaint, United States District Court – District of Columbia. Filed August 27, 2014. Accessed at https://www.ftc.gov/system/files/documents/cases/141001cornerstonecmpt.pdf

The characteristics and trends which we will discuss in this report, if combined with questionable practices that have been highlighted at some other websites by the FTC, may create a situation where private personal information – including names, social security numbers, dates of birth, addresses, and account numbers – can be cheaply and easily acquired by anyone online, including for illegitimate purposes.

Section 2 of this report will describe the characteristics of the debt we found in online marketplaces. Section 3 contains an analysis of the debts, including information on source, number of prior placements, and asking prices (3.1), a model documenting the strong downward trend in price exhibited by these debts as they age (3.2), and an analysis of the distribution of debt ages in the portfolios (3.3). The appendix describes the methodology we used and contains images from the websites we reviewed.

2. Overall findings

- The three online marketplaces reviewed offered 298 portfolios with an aggregate face value of almost $2 billion and an aggregate asking price of roughly $18 million.[4] These portfolios include at least 1.2 million accounts, each of which may contain consumers' personal information.[5] The average asking price per dollar of face value is just under one cent. More than one hundred of the portfolios had asking prices of $0.004 (or 0.4¢) or less per dollar. There are some portfolios, including one with a face value of $156 million on sale for $125,000, which had asking prices lower than $0.001 (or 0.1¢) per dollar.

- Of the 214 portfolios with both asking prices and numbers of accounts listed, 25 cost less than $1 per consumer account. Another 37 had prices between $1 and $2. Most of the portfolios (114) had prices under $5 per consumer account.

- Measured by face value, most of the debt offered on the websites we reviewed was credit card debt. These online marketplaces list debts that originated from at least three of the largest credit card lenders.

- Payday loan portfolios (including internet, store-front, or a mix of both) make up a significant share of the online debts for sale at the websites we reviewed. We estimate that the price of debt in the portfolios we reviewed decreases by an average of roughly 33% each year for the first five years after charge-off and roughly 29% each year for years

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[4] Not every portfolio includes price data. For the 28 portfolios in our sample without pricing information, we assume that they are priced at the sample average.

[5] Of 298 portfolios we reviewed, 242 included the number of accounts. If the 56 portfolios in our sample without this information follow the same pattern of accounts per dollar of face value as the rest of the sample there would be 1.48 million accounts with consumer personal information.

6-10. After 10 years, the price levels off. This trend is consistent with the behavior of debt prices in other markets for charged-off consumer debt: as debts age, they become more difficult to collect and thus less valuable. This trend may enable buyers to acquire debts and consumer information related to those debts very cheaply.

- Most of the portfolios we reviewed were advertised as being five or more years past charge-off. Eighteen of the portfolios were nine or more years past charge-off. More than 75% of the portfolios had been collected upon by two or more prior collectors.

- Some of the debt portfolios were advertised as including "media" – or documentation with additional information about the debt, such as original account documents which may be used to ensure that a debt collector is collecting legitimate debts from the correct consumer or to respond to a consumer dispute about the debt. This type of documentary support may be used to ensure that a debt collector is collecting legitimate debts from the correct consumer or to respond to a consumer dispute about the debt, but it may also contain sensitive personal or financial information, such as account numbers or social security numbers. Other debt portfolios listed on the same websites did not advertise the presence of "media."

3. Detailed findings

The following section gives a detailed description of the online data collected by the CFPB for use in the report.

3.1 Descriptive statistics

As shown in Figure 1, payday debt comprised 46% of the accounts in the portfolios we reviewed and credit card debt accounted for another 27%. While these two debt types were the most common on the websites we reviewed, we also observed medical debts, auto deficiencies, telecom, utility, retail, and other types of debt for sale.

Figure 1: Number of accounts by debt type

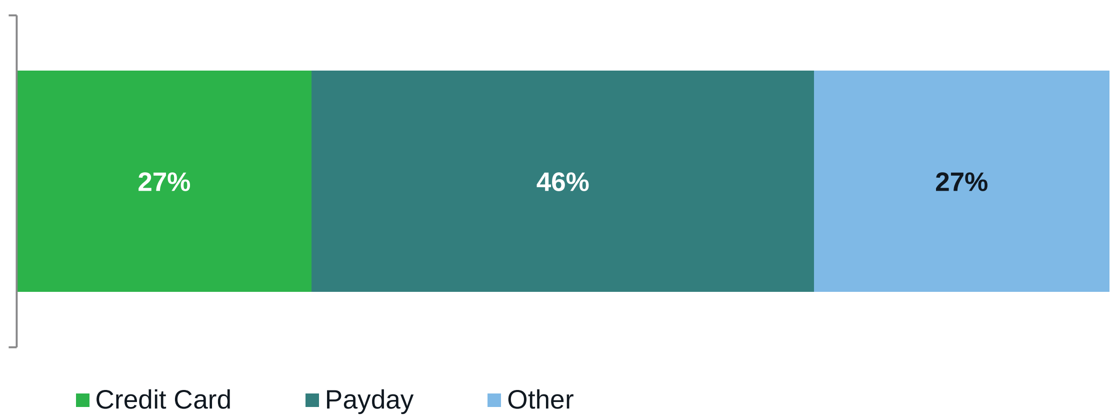


Figure 2 illustrates the number of times (as advertised on the websites) a given portfolio had been placed with collection agencies or sold to debt buyers before placement on the online marketplace we reviewed. Figure 2 shows information from only those portfolios that specified a number of prior placements (255 of the 298 in our sample). It is important to note that the composition of debt portfolios typically changes from placement to placement as a result of consumers paying off their debt or accounts being sent back to the original creditor. More than three quarters (78%) of portfolios we observed were advertised as having been worked by at least two collectors before being placed for sale online. This does not account for collection efforts undertaken by the originating creditor before placing portfolios with collection agencies or selling the debt.

Figure 2: Portfolios by number of prior placements

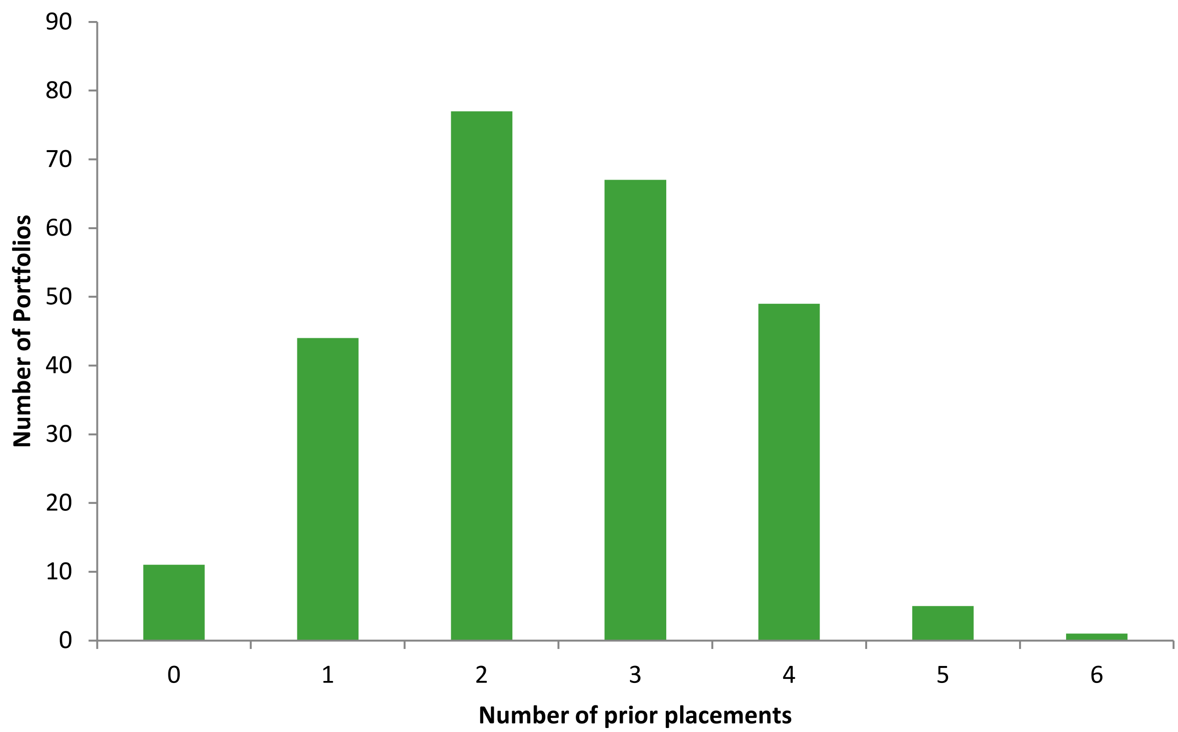
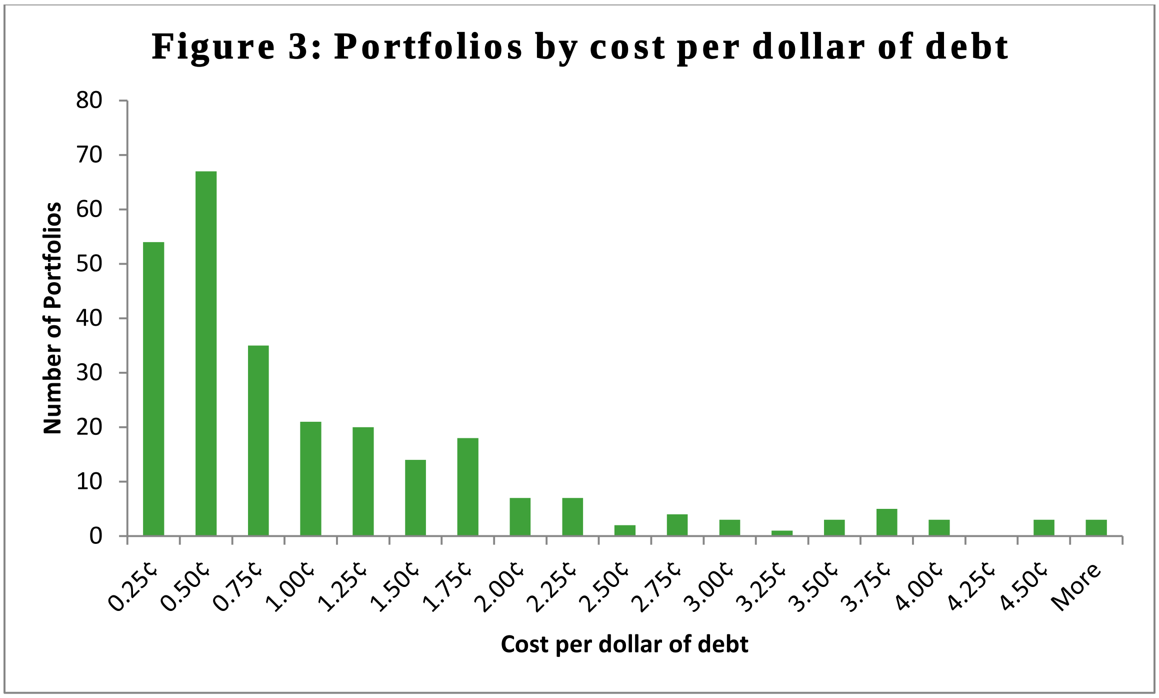
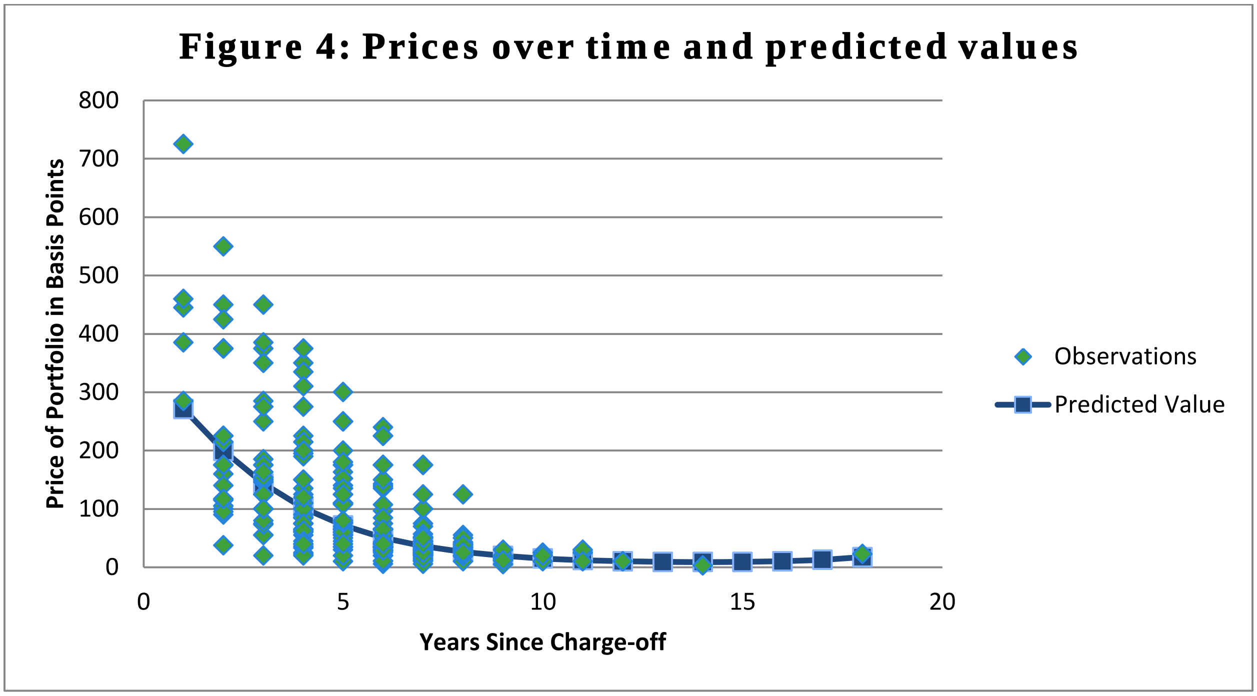


Figure 3 depicts the price of the portfolios in our sample per dollar of face value. A majority of the portfolios (168) cost less than a cent per dollar of debt. One hundred and seventeen of the portfolios cost less than one-half cent per dollar of debt, while 44 of the portfolios cost less than a quarter-cent per dollar of debt. The lowest price was $0.0003, or 0.03¢, per dollar of debt. These prices suggest that many debts in online marketplaces can be acquired very cheaply.



3.2 Pricing over time

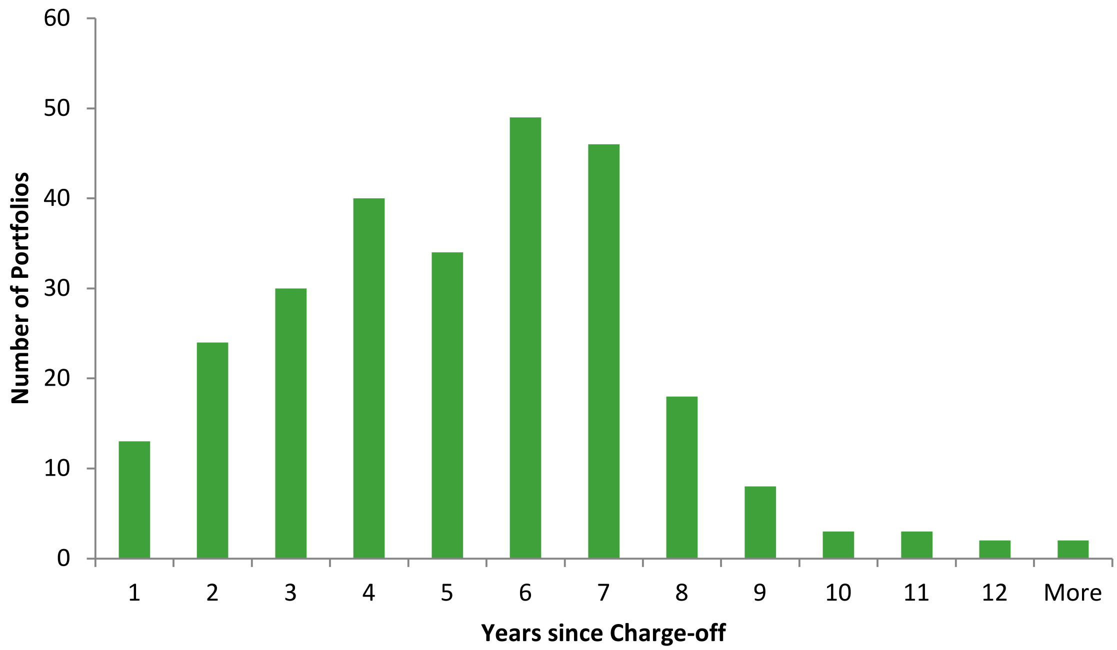
The following figure shows charged-off debt prices in our portfolios by time, and the values our model predicts for the average trend of prices.



The drop in price by age of debt (years from charge-off) follows an exponential depreciation pattern, as seen in Figure 4. Regression analysis confirms this pattern and shows that the price of debt decreases by an average value of roughly 33% each year for the first five years and roughly 29% each year for years 6-10. After 10 years, the price levels off. Our findings suggest that, as debts on online debt marketplaces become older, they can be acquired more and more cheaply. This trend is consistent with the normal behavior of debt prices in markets of charged-off consumer debt: as debts age, they become more difficult to collect and therefore can be bought and sold more cheaply. This suggests that online market places may contain debts that are very old and very cheap.

3.3 Age of Portfolios

Figure 5: Portfolios by years since charge-off



Many of the accounts we reviewed contained old debts. Figure 5 shows the ages of the 277 portfolios in our sample (of 298 portfolios overall) that listed year of charge-off. The median age for a debt portfolio in our sample was five years past charge-off. 18 portfolios were nine or more years past charge-off.

A substantial portion of accounts in our sample are likely to be time-barred (in other words, past the statute of limitations for debts). Accounts generally reach the statute of limitation after three to fifteen years of delinquency depending on the state and type of debt.

Appendix: Data Collection

Source of data and data collection

The data set was compiled from publicly available websites listing debts for sale. These websites connect debt sellers with debt buyers. We reviewed three such websites. We also noted a company that sells debt portfolios on Facebook but did not include those debts in the survey. We believe the three markets we reviewed to be fairly typical online debt vendors. We observed listings between January and August 2015. Each observation (298 portfolios) entered the market between January of 2015 and August of 2015.

The four websites discussed in this report (with names of individuals and contact information redacted) were:

- Debtconnection.com
- Debtselling.net
- This Facebook account advertises sales from Portfolio Investment Solutions, LLC
- Accountsrecovery.net – Once individuals sign up and receive approval, they can view a section that shows portfolios for sale.