

An Exploratory Analysis of the Costs of Invalid Disputes



Introduction

Invalid disputes refer to uninformative or generic form letters that appear to originate from consumers, but are actually mailed in bulk by consumer law firms or credit repair companies to debt collection agencies. This tactic includes sending multiple letters disputing information on a consumer's credit report that is often accurately reported. The intended outcome of this tactic is to encourage collection agencies who furnish credit information to either delete all of the consumer's trade lines or report them as "disputed," even in cases where there is no basis for a dispute. Additionally, this approach is used to inundate collection agencies with disputes expecting that the data furnisher will be overwhelmed by the volume of disputes and fail to appropriately respond. As a consequence of this failure to respond, the credit information provider can then be targeted with a Fair Debt Collection Practices Act lawsuit.

To gain insight into the costs associated with handling, processing, and responding to letters disputing consumer debt that do not represent a legitimate, consumer-initiated dispute, ACA International solicited data from member companies for this pilot study. This *Research Note* presents data collected from three member companies relative to managing the costs of invalid disputes. While this sample represents only a microcosm of the broader ACA membership, strong anecdotal evidence suggests that this is a widespread concern impacting actors across the industry. As such, this pilot study represents a foundational starting point for future association research.

Organization Size

Of the organizations that provided data to ACA, two reported annual revenue over \$15 million. These organizations are categorized as Large Market Participants (LMPs). The third organization reported annual revenue under \$10 million and is classified as a small business. Additionally, the LMPs reported having 205 and 1,000 full time employees; the small business reported 23 total employees.

The Volume and Nature of Disputes

Table 1 shows the volume and types of disputes by organization size. This data suggests that organization size is related to the volume of disputes received, with LMPs receiving significantly more disputes than the small business. Nevertheless, all organizations estimated a relatively high number of invalid disputes, that is, disputes initiated by and originating from some entity other than the consumer. While the LMPs estimated that 70% - 75% of disputes received were invalid, the small business estimated that 95% of disputes could be categorized as invalid.

Indirect disputes refer to those disputes received via the e-OSCAR platform. These disputes can be costly to collection agencies and easily automated by consumer law firms or credit repair companies, thus they are often characterized as "robo-disputes", particularly when received in continuous or large batches. Table 1 shows the disproportionate numbers of indirect disputes relative to direct disputes received by both LMPs and the small business.

Table 1. Volume and Type of Dispute by Organization Size*

	Total Annual Disputes	Estimated Percent of Valid Disputes	Estimated Percent of Invalid Disputes	Total Form Letters Received Annually	Total Direct Disputes Received Annually	Total Indirect Disputes Received Annually
LMP 1	368,000	30%	70%	66,700	95,300	272,700
LMP 2	157,500	25%	75%	33,000	43,500	120,000
Small Business	2,500	5%	95%	2,500	100	2,500

*Numbers across categories may not sum to total; values are presented exactly as reported.

Costs Associated With Responding to Disputes

Table 2 shows the costs associated with responding to disputes by organization size. Of particular interest here are the reported annual costs associated with the e-OSCAR platform and the total estimated costs of responding to invalid disputes. LMPs report annual e-OSCAR costs ranging from \$30,000 to \$81,800; the small business reported e-OSCAR costs of \$5,400. Overall, the total estimated annual costs of responding to invalid disputes was between \$148,000 and \$172,500 for LMPs and \$15,000 for small businesses.

Table 2. Costs Associated with Responding to Disputes by Organization Size*

	Annual e-Oscar platform costs	Annual Estimated Costs of Mailing Responses to Form Letters	Annual Estimated Costs of Mailing Responses to Direct Disputes	Total Estimated FTE Employee Costs Associated with Invalid Disputes	Total Estimated Costs Associated With Responding to Invalid Disputes Annually
LMP 1	\$81,800	\$28,000	\$44,800	\$128,800	\$148,000
LMP 2	\$30,000	\$16,500	\$21,750	\$15,600	\$172,500
Small Business	\$5,400	\$1,200	\$50	NA	\$15,000

*Numbers across categories may not sum to total; values are presented exactly as reported.

Conclusion

This data suggests that there are an extraordinarily high number of indirect disputes generated via e-OSCAR, with little evidence that these disputes are originating from an actual consumer. Furthermore, there are significant costs associated with responding to invalid disputes, particularly those generated via the e-OSCAR platform.