



U.S. Department of Justice

Executive Office for United States Trustees

Office of Research and Planning

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PRESS RELEASE

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RETAILER FEDERATED DEPARTMENT STORES INC. **TO PAY \$14.64 MILLION FOR IMPROPER DEBT COLLECTION PRACTICES**

WASHINGTON, D.C.--Nationwide retailer Federated Department Stores Inc., has agreed to a multi-state settlement worth \$14.64 million arising from improper debt collection practices, it was announced today by Jerry Patchan, Director of the Executive Office for United States Trustees, and Jan Ostrovsky, United States Trustee for Region 18.

A consumer protection investigation, led by Washington state and the United States Trustee's office in Washington state, confirmed that Federated enticed and threatened customers who filed for bankruptcy under Chapter 7 to sign contracts agreeing to repay their debts to Federated, rather than have those debts discharged in bankruptcy. Federated then failed to file those agreements, called "reaffirmation agreements," with the bankruptcy court as required by the federal Bankruptcy Code. Federated engaged in this practice for at least five years, the investigation found.

Federated operates retail stores nationally under the names Abraham and Strauss, Bloomingdales, The Bon Marche, Broadway, Burdines, Emporium, Goldsmith, Jordan Marsh, Lazarus, R.H. Macy and Co., Rich's, Sterns, and Weinstocks.

Under the settlement, the company will pay approximately \$5 million in compensation to customers; forgive approximately \$6.9 million in improperly reaffirmed debt; pay \$2.5 million to the states involved in the investigation; and contribute \$240,000 to an education fund.

The following states participated in the agreement: Alabama, California, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Massachusetts, New Hampshire, New Jersey, New Mexico, Nevada, New

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York, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, and Washington. The states are filing separate settlement agreements in their state courts today.

The United States Trustee Program, a component of the Justice Department charged with supervising the administration of bankruptcy cases nationwide, worked closely with a core group of states in negotiating the settlement.

"This settlement resulted from a cooperative effort by the various states and the United States Trustee Program, which works to ensure the integrity of the bankruptcy system," Patchan stated. "Because of the United States Trustee Program's continuing involvement in bankruptcy cases nationwide, we will be in the position to assure that the Federated settlement is carried out in individual consumer cases."

The investigation followed a similar case last year involving a national settlement with Sears, Roebuck & Co. for similar debt collection practices. "As in the Sears case, the settlement will clean up prior illegal practices and assure that they don't recur," Ostrovsky explained.

Of the states covered by the settlement, Washington, California, and Florida have the highest numbers of affected consumers with 3,138, 2,807, and 2,039, respectively. Those states also have the highest total amounts of debt reaffirmed in agreements with Federated: in Washington, the total is \$1.64 million; in California, \$1.79 million; and in Florida, \$1 million. Of the \$2.5 million payable to the states under the settlement, Washington's share is estimated at \$584,013, California's at \$522,411, and Florida's at \$379,478.

Under the settlement, affected customers will:

- Have all their reaffirmed debt stricken, with Federated waiving any right to repossess merchandise;
- Be reimbursed, or receive credit, for finance charges and penalties charged by Federated;
- Be reimbursed for any money paid on the reaffirmed debt, plus 10 percent interest; and
- Be eligible to receive a pro rata payment based upon the amount of payments they made on an unlawful debt.

A reaffirmation agreement is a written contract under which a Chapter 7 debtor agrees to repay a debt that would otherwise be discharged in bankruptcy. These agreements are supposed to be voluntary. To be enforceable they must be either filed with or approved by the bankruptcy court.

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Federated cooperated in the investigation and voluntarily took steps last summer to identify and credit customers' accounts for amounts improperly collected.

The United States Trustee Program is a component of the Justice Department that supervises the administration of bankruptcy cases nationwide. The program is divided into 21 regions, each of which is administered by a United States Trustee. Region 18 includes the state of Washington.

The Executive Office for United States Trustees, located in Washington, D.C., performs administrative and supervisory functions for the Program. Patchan serves as director of the Executive Office for United States Trustees under authority derived from the Attorney General.

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