MCRC
MARYLAND CONSUMER RIGHTS COALITION

1531 Park Avenue Baltimore MD 21217 marylandconsumers.org

February 25, 2010

In Support of HB 392

The Maryland Consumer Rights Coalition (MCRC) and the undersigned organizations representing low-and-moderate income families, consumer advocates, and community-based organizations urge you to support HB 392 Commercial Law-Debt Settlement Services to protect the most vulnerable consumers from the abuses of many debt settlement businesses. This bill will prohibit unfair practices and provide essential disclosures for consumers.

For many reasons, including unconscionable practices of segments of the financial services industry, many Maryland consumers have excessive debt, are unemployed or underemployed, face foreclosure, and are threatened with legal action. These desperate consumers are easy prey for unscrupulous businesses promising help.
Families in Maryland are struggling in this current economic crisis. Job losses and foreclosures continue. In December, government figures showed that 219, 893 Marylanders were unemployed. Ten percent of homeowners with prime mortgages are at least one month late on their mortgage. A recent study by the Maryland Food Bank reports that 26,000 more Maryland families are receiving emergency food in the last three years.

Families have accumulated unsecured debt both to meet their basic needs and to improve their lives. This debt was often incurred in response to the aggressive marketing of financial products whose terms and risks were not fully understood. Now, as the availability of credit has tightened and credit card issuers have increased their annual percentage rates and fees, families are seeking ways to relieve their debt burden.

Debt settlement firms have offered to help these families reduce their debt. Debt settlement businesses promise to reduce unsecured debt by negotiating with creditors to settle for a lump sum that is less than the entire debt owed.

Unfortunately, many debt settlement firms take advantage of the situation by collecting large upfront fees, fail to perform much if any work, and often do nothing to reduce the consumer’s debt. Debt settlement firms often encourage consumers to imprudently stop paying creditors on the promise that that the individual can save for a lump sum settlement. However, they do not adequately disclose the adverse impact this will have on a consumer's credit report or score. Firms often fail to effectively disclose that debt collection activities will continue. Most egregiously, they fail to effectively disclose that the first 3-6 months of savings will go directly to the firms' fees before any money is available for creditors.

These practices wreak havoc on Maryland families. Their credit deteriorates. Their debts increase. They end up in far worse shape than when they started the debt settlement program.

A common-sense approach is called for. HB 392 does not prohibit debt settlement services or require additional licensing or regulatory agency action. The bill simply requires fair practices that reputable services engage in.

Thus, HB392:

- allows debt settlement firms to charge a small set up fee for their services
- allows them to collect up to 15 percent of the debt settled, AFTER the debt is settled. Thus, debt settlement companies will only be paid for performance, not for the promise of performance.
- provides clear disclosures for consumers so that they can make an informed decision about whether debt settlement is the best option for them.

We urge you to support HB 392 and issue a favorable report from the Economic Matters Committee.

Sincerely,

Maryland Consumer Rights Coalition
Baltimore CASH Campaign
Center for Responsible Lending
Consumer Federation of America
Consumers Union
Jobs Opportunity Task Force
Maryland PIRG
National Consumer Law Center (on behalf of its low-income clients)
Progressive Maryland
Public Justice Center