Maryland Consumer Rights Coalition

Testimony to the House Appropriations Committee
HB 364: State Finance & Procurement-Central Collection Unit-Powers
Position: Favorable

January 27, 2021

The Honorable Maggie McIntosh, Chair
House Appropriations Committee
Room 121, HOB
Annapolis, MD 21401
cc: Members, Appropriations Committee

Honorable Chair McIntosh and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial justice and economic inclusion for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

I'm here today in strong support of HB364.

MCRC's 2018 report "*No Exit: How Maryland's Debt Collection Practices Deepen Poverty and Widen the Racial Wealth Gap*", documented the ways in which numerous fines and fees, particularly local and state-owed fines, lead to a vicious cycle of debt for low-income and working families. Our report looked at both private consumer debt and state-owed debt. Our report highlights some troubling aspects of Maryland's state-owed debt collection practices, specifically concerning the Central Collections Unit (CCU).

CCU collects on civic debt for state agencies including video toll and EZ pass violations, tuition and fees from state schools, fines for lapsed auto insurance, and more. In 1992, in order to make CCU self-supporting, the General Assembly passed legislation to assess a 17% collection fee on all debts. Yet, this 17% fee dramatically raises the amount that the individual must repay. A $2500 debt becomes nearly a $3000 debt ($2925) with the added 17% fee; a $5000 debt nears $6000 ($5850) under this scheme. In other words, the Central Collection Unit is being funded on the backs of low-income households that the state is suing.

In the midst of a global health pandemic when thousands of Maryland workers have lost their jobs and 39% of Maryland households are economically struggling, adding additional interest to a debt that is already unaffordable deepens poverty for struggling households. CCU's efforts also exacerbate the racial wealth gap. Forty-three percent of non-white households in Maryland had at least one debt in collection

compared to 19% of white borrowers. In addition, MCRC's research found that racial demographics were a stronger indicator than income of where and for how much CCU sued to collect a debt.
Low-income households are paying for the CCU to collect upon their debts through this usurious 17% collection fee. As a result of this fee, financially fragile households find themselves deeper in debt as they subsidize the state to pursue them. In 2019, $15.9 million was expected from these fees. In other words, $15.9 million was charged to low-income Maryland families.

Yet, for consumer debts **not** owed to the state, Maryland charges 10% interest. According to a recent *Seattle Times* analysis, Maryland's 10% interest rate is still excessive. The *Times* analysis found that the national average for interest rates on consumer debts under $25,000 is 7.8%-far below our 17% CCU fee.

HB364 simply reduces the collection fee from this high 17% to a more modest 5% fee. While it is clear that there would be a serious revenue implication if this fee is reduced, the 17% fee hasn't changed since the legislation was passed in 1992. Conversely, the cost-of-living has skyrocketed, consumer debt has soared, and one in three Maryland residents have a debt in collection, with 40% of those debts found in communities of color.

It is time we reconsider Maryland's debt-collection policies by establishing income-based repayment plans for all state agencies, harmonizing private consumer debt protections and civic debt protections, and by passing HB364, which reduces the costly 17% CCU fee to a more affordable level for financially fragile households throughout Maryland.

For all these reasons, we support HB364 and urge a favorable report.

Best,

Marceline White
Executive Director