HB 1376

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1376 (Delegates Bobo and McIntosh)
Economic Matters

Task Force to Study Debt Management Services

This bill establishes a Task Force to Study Debt Management Services staffed by the Office of the Attorney General and the Office of the Commissioner of Financial Regulation. The task force is required to report on its findings and recommendations to the Governor and the General Assembly by January 1, 2009.

The bill takes effect July 1, 2008 and terminates June 30, 2009.

Fiscal Summary

State Effect: Any expense reimbursements and staffing costs for the Office of the Attorney General and the Office of the Commissioner of Financial Regulation could be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The purpose of the task force is to study and make recommendations regarding the debt management services industry in the State, including an evaluation of • the demand for debt management services in the State; • the impact on consumers of permitting persons other than nonprofit organizations to provide debt management services in the State; and • the appropriate level of State regulation of the debt management services industry.

Task force members may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations, as provided in the State budget.

Current Law/ Background: Debt management service providers act as intermediaries between debtors and creditors. These providers typically offer to assist individual consumer debtors by helping them obtain lower interest rates, waivers of late fees, and favorable debt repayment plans. Debt management service providers often charge a single monthly payment from the debtor and use these funds, minus a commission fee, to repay the debtor's creditors. In some cases, such service providers are also able to supplement the commission earned from the debtor with rebates obtained from creditors. It is not unusual for debt management commissions to be 10% or more of the debtor's monthly payment.

The number of organizations providing debt management services, both nonprofit and for-profit, has risen dramatically in the past decade as the national rate of consumer debt has soared. In 2003, Maryland created a licensing and regulation system for debt management service providers through Chapters 374 and 375, and established a debt management regulation special fund that is administered by the Commissioner of Financial Regulation. In 2005, Chapter 574 amended the licensing requirements in order to determine the biennial license fee based on the gross annual revenue of a debt management service provider.

Under current State law, for-profit entities are not permitted to be licensed as debt management service providers. Recently, the Internal Revenue Service revoked the tax-exempt status of a number of debt management firms because they were deemed to be for-profit entities, and as a result several such companies lost their State licenses. When debt management services began to grow in popularity, many believed that for-profit companies would charge exorbitant commissions and that nonprofits would simply be performing a public service, but as the IRS discovered, many debt management service providers have used their nonprofit classification fraudulently.

There are currently 36 debt management service companies licensed in Maryland, 9 of which are still challenging determinations by the IRS that revoked their tax-exempt status.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Office of the Attorney General; Department of Legislative Services

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