

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1269 (Delegate Bobo)
Economic Matters

Credit Regulation - Provision of Debt Management and Debt Settlement Services

This bill prohibits a person from providing, offering, or attempting to provide debt settlement services in the State.

Fiscal Summary

State Effect: The bill's requirements can likely be handled with existing budgeted resources related to debt management services.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill defines “debt settlement services” as acting, for consideration, as an intermediary between an individual and the individual’s creditors for the purpose of settling or in any way altering the terms of payment of any debt. Under the bill, debt settlement services do not include debt management services.

Current Law/Background: In Maryland, debt management companies are subject to the licensing and regulatory provisions of the Maryland Debt Management Services Act. The Commissioner of Financial Regulation is responsible for executing the Act. Although more than 30 states regulate debt settlement companies, Maryland does not.

Debt settlement companies generally are not subject to the licensing and regulatory provisions of Maryland's Debt Management Services Act. Consumer complaints

concerning debt settlement companies and reports of some companies' unscrupulous business practices, however, have led to a debate among policymakers and various interest groups regarding the need to regulate as well as the method of regulating, debt settlement companies in the State.

The General Assembly considered legislation to regulate debt settlement companies during the 2008 session. House Bill 1223 of 2008, which was referred to an interim study by the Economic Matters Committee, would have amended Maryland's Debt Management Services Act to include debt settlement companies in the Act's licensing and regulatory scheme.

As introduced, the bill would have required that debt settlement companies obtain a license to operate in the State, meet bonding requirements, and submit annual reports to the Commissioner of Financial Regulation. The bill also would have required that debt settlement companies enter into a debt settlement agreement with a consumer and disclose certain information before providing debt settlement services. Another provision in the bill would have imposed limits on the fees charged by debt settlement companies.

As noted earlier, at least 30 states regulate debt settlement companies in some manner. The majority of those states require debt settlement companies to be licensed or registered before they can provide debt settlement services. Of the states that have a licensing or registration requirement, many limit the fees debt settlement companies can charge and require debt settlement companies to post performance bonds. Some states require that providers of debt settlement services be nonprofit entities, while a few states altogether ban the practice of providing debt settlement services.

Small Business Effect: To the extent that any debt settlement services providers are classified as small businesses, such providers would experience a significant negative financial impact as they would be prohibited from operating in the State. Although the precise number of debt settlement service providers conducting business in the State is unknown, the Division of Financial Regulation estimates that approximately 100 debt settlement companies currently have State residents as customers.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 2, 2009
mam/ljm

Analysis by: Jason F. Weintraub

Direct Inquiries to:
(410) 946-5510
(301) 970-5510