



FAQs on Raising the Debt Exemption Threshold – Support HB 365/SB425

The Policy Question:

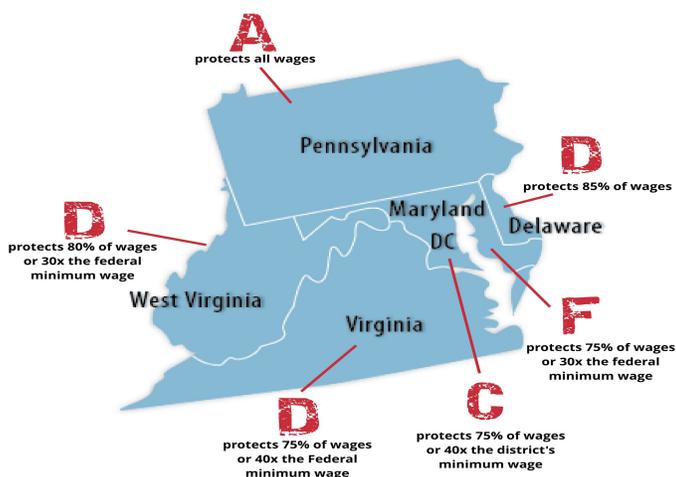
- Should repaying a debt plunge a person or family below the federal poverty line?
- How can a low-income worker stay afloat financially when at least 25% of their wages are taken from them each pay period?
- If 32 states have been able to raise what low-wage workers can protect from debt collectors without negative consequences, why can't Maryland?

What does HB365/SB425 do?

- HB365/SB425 raises the amount that low-wage workers protect from wage garnishment. **Maryland law hasn't been updated in 30 years.** Today, low-wage Maryland workers can protect \$217.50 per week or \$11,310 per year from wage garnishment – an income which is well **below** the federal poverty guidelines for an individual (\$12,490). \$11,310 is **less than half** of the federal poverty guidelines for a family of four.
- HB365/SB425 would change the exemption from 25% of wages or 30 times the federal minimum wage (\$7.25 per hour) to 25% of wages or 50 times the Maryland minimum wage (\$11 per hour).
 - This legislation would mean that a low-wage worker could protect \$550 a week, or \$28,600 a year. The formula is tied to **disposable wages**, not gross wages. Disposable wages is the figure always used in garnishment – any statement about gross wages is wildly inflates the actual money a worker will take home.

How does Maryland law fare compared to other states?

32 states are doing a better job than Maryland in ensuring that workers who are repaying their debts are not pushed below the federal poverty guidelines through wage garnishment. **Maryland lags behind surrounding states and the District of Columbia, which just updated its wage garnishment law in December, 2018 to 40 times the District's minimum wage law of \$13.25, or \$27,560 per year.** Among surrounding states, Maryland is the worst at protecting low-wage workers from wage garnishment. Nationally, we received an "F" grade by the National Consumer Law Center.





Will this law mean that businesses will not be able to collect on their debts?

Not at all – and **any suggestions that this law would eliminate debt collection is simply wrong.**

First, *debts can still be collected through wage garnishments. Anyone earning above \$28,600 will have 25% of their wages garnished to the limit protected.* While those earning \$28,600 a year and less will be exempt from wage garnishment, **debt collectors can still collect from these low-wage workers** through seizure of bank accounts, property, and vehicles. And they do!

Will raising the debt exemption harm Maryland’s business competitiveness?

No – this is simply false. Thirty-two states have stronger laws than Maryland and maintain a competitive business environment. The creditors bar suggested it may be that these states have higher usury rate caps which would account for their competitiveness but that Maryland, with our 33% rate cap, would not be competitive. Again, as Table 1 illustrates, this is also false.

Table 1: Wage garnishment, usury rate cap, competitiveness by state

State	Wage Garnishment Law	Usury Rate Cap	Competitiveness Ranking ¹
Pennsylvania	Protects ALL wages	24%	23rd
North Carolina	Protects ALL wages	36%	5th
New Jersey	Protects 90% of wages	30%	32nd
New York	Protects 90% of wages	25%	38th
Maryland	Protects 75% of wages	33%	25th

These states have higher protections for wages, similar usury rate caps to Maryland, and half rank as more competitive, while half rank as less competitive, showing no relationship between protecting wages, usury rate caps, and competitiveness.

How will this affect child support?

¹ [America's Top States for Business](https://www.cnbc.com/2017/07/11/americas-top-states-for-business-2017-overall-ranking.html), <https://www.cnbc.com/2017/07/11/americas-top-states-for-business-2017-overall-ranking.html>



Child support payments are not affected by this legislation – these protections only pertain to consumer debts, not child support.

How will this affect unpaid taxes?

This will not affect taxes. The federal and state government can seize tax refunds and use other means to ensure taxes are paid.

Why is HB365/SB425 Needed?

- **It lifts low-wage Marylanders out of a debt spiral**

For low-wage Marylanders, these debts of under \$5,000, compounded by attorneys fees and interest, feel insurmountable. If someone is working full-time at minimum wage, and 25% of each paycheck goes to pay off a debt, it will be almost impossible for them to accumulate savings or any kind of financial stability. Any unexpected expense will push them into deeper debt. As consumers have testified, the amount currently taken from low-wage workers through wage garnishment means that they are forced to choose between food, utilities, rent, and medicine in order to satisfy a debt collector. *HB365/SB425 will enable low-wage workers to keep a little more of their income to save for an emergency or simply increase their financial stability.*

- **Protects small businesses**

As noted, many low-wage workers live at the financial margins. With so much of each paycheck going to a debt collector, many simply don't have enough money to pay for their other expenses and fall further behind. They borrow from Peter to pay Paul, as the saying goes. Passage of HB365/SB425 will give business owners more certainty that low-wage workers can pay their bills on time, which helps small businesses and property managers, as well as consumers.

- **Protects taxpayers**

Many low-wage workers lose their housing or ability to pay for adequate food or health care when they are so burdened by the debts and the amount taken from their paycheck each month. The costs to provide emergency housing, food supports, or health care to these individuals outweighs the amount that may be delayed by increasing the amount they can protect.

- **Incentivizes work**

Maryland has a number of programs and policies to support work and workforce development. However, as it stands, Maryland's wage garnishment law disincentivizes work. If a low-wage worker is garnished to below the federal poverty guidelines while working full-time, it may be better for the individual to stop working and collect disability or unemployment. Currently, our laws incentivize that choice. Passing HB365/SB425 would



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allow workers to keep more of each paycheck and instead, incentivize working full-time, even at a minimum wage.