Testimony to the Senate Finance Committee
SB 425: Debt Collection - Exemptions From Attachment and Execution
Position: Favorable
February 14, 2020

Senator Delores G. Kelley, Chair, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, Maryland 21401
Cc: Members, Economic Matters
Honorable Chair Kelley and Members of the Committee:

Thank you for the opportunity to submit this letter regarding HB 365/SB 425.

My name is Whitney Barkley-Denney, and I am Senior Policy Counsel with the Center for Responsible Lending (CRL), a non-profit, non-partisan policy and research organization dedicated to building family wealth through the elimination of predatory lending practices. CRL is affiliated with Self-Help Credit Union, a national community development financial institution that provides access to safe, affordable financial services to low-income communities and borrowers.

For more than five years, the Center for Responsible Lending has been engaged in research and policy regarding debt collection practices. Maryland Consumers Rights Coalition invited me to share CRL's work with you as you consider HB 365/SB 425.

Unfair Debt Collection Practices Harm People's Financial Well-Being

Although debt collection plays an important role in the functioning of the U.S. credit market, it may also expose American households to unnecessary abuses, harassment, and other illegal conduct. Debt collection is the leading cause for complaints to state and federal regulators, alike. It is estimated that 32% of Maryland residents with a credit report have debt in collections, with a median amount in collections of $1,105. This burden of debt collection is not spread evenly through the state, as 43% of people in non-white neighborhoods that are credit visible have a debt in collection, compared with 25% in white neighborhoods.

Unscrupulous debt collection practices can have devastating and long-lasting consequences for consumers. When people are forced to fend of unnecessary debt collection, they may be unable to meet other necessary expenses or build assets for the future, such as saving for a down payment on a house or car or starting a small business. Unfair debt collection practices also scar people's credit scores, which then becomes a barrier to opportunities such as good jobs and affordable housing.
Unlike states like North Carolina, Texas, South Carolina, and Pennsylvania, Maryland allows for another devastating consequence – wage garnishment. Garnishing wages can seriously hurt families who are already struggling to pay bills. Maryland, like other states around the country, needs to update the laws that protect residents' income and funds in bank accounts to allow them to continue to pay for necessities like food and shelter and ensure they do not fall into poverty at the hands of potentially unscrupulous debt collectors.

Debt Collection Reforms Do Not Restrict Access to Credit

As states seek to enact reforms to protect against debt collection abuses, debt collectors and debt buyers may claim that the law changes will restrict access to credit. A study of credit available before

Body and after debt collections reforms aimed at abusive debt buying practices in Maryland and North Carolina show in fact these claims are not warranted. While North Carolina's protections are stronger than Maryland's, the reforms enacted in both states in recent years are among the strongest examples of state laws providing protections against abusive collection practices by debt buyers. A 2016 analysis by Center for Responsible Lending analyzing credit markets in North Carolina and Maryland post reforms found that:

• Credit availability in North Carolina and Maryland appears to follow national trends rather than being impacted by regulatory changes.

• North Carolina and Maryland consumers seeking new credit cards generally fared better than consumers in peer states.

• Sub- and near-prime consumers in North Carolina and Maryland fared at least as well as those nationally and in peer states regardless of debt collection reforms aimed at debt buyers.

Critically, these trends held true even though North Carolina's laws are stronger than Maryland's current law and stronger than the reforms in HB 365/SB 425. In North Carolina, wage garnishment to collect a court judgment is prohibited for most consumer debts. Additionally, the state's statute of limitations is three years for all debts, and North Carolina's 2009 debt collection reforms not only extinguished debt buyers' right to sue on time-barred debt, but it also prohibits the collection of time-barred debt. Despite claims to the contrary, research on state-level reforms show that debt collection regulation can both protect consumers and credit access.

Thank you again for the opportunity to comment on this important legislation.

Sincerely,

Whitney Barkley-Denney

Senior Policy Counsel

Center for Responsible Lending