



MARCH 23, 2022

Repaying Debt Should Not Leave Maryland Families Destitute

Position Statement Supporting House Bill 322

Given before the Senate Judicial Proceedings Committee

While it is reasonable to expect people to pay debt they owe, it is unreasonable to require families to experience extraordinary hardship in order to pay back debt. **The Maryland Center on Economic Policy supports House Bill 322 because it would create some automatic protections from creditors for Maryland households.**

State exemption laws provide protections for families from income or property garnishment. The goal of state exemption laws is to leave families with enough assets that they can make a fresh start as they repay debt. Maryland law already provides \$6,000 of protection for all of an individual's property—home, car, cash, and other valuables. To protect these assets, an individual must elect to protect them. Very few Marylanders are aware of or able to take these exemptions and as a result almost all of their income and property can be garnished to satisfy a debt.

HB 322 sets an automatic exemption for \$500 that an individual can protect in their bank account from creditors. Providing this minimal protection without the individual having to apply for it will increase economic security for Marylanders as they work to repay medical bills, student loans, or other debt.

In 2016 more than 27,000 Maryland residents had their bank accounts or other property seized to satisfy a debt. A majority of the debt collection lawsuits and these garnishments took place in low-income communities or communities of color.

HB 322 is particularly critical legislation as families recover from the pandemic. While tens of thousands of households are still having trouble affording rent, food, and other basics, many pandemic protections including financial assistance and eviction moratoriums are waning or have disappeared.

While \$500 has little impact on creditors, it is expected to help protect approximately 50% of Maryland residents in collections from having their bank account zeroed out. As is the case with family income supports, ensuring low-income households have funds to use also benefits local businesses and our economy.

The Maryland Center on Economic Policy supports policies that end the criminalization of poverty. We respectfully ask that the Judicial Proceedings Committee issue a favorable report on HB 322.

Equity Impact Analysis: House Bill 322

Bill Summary

HB 322 sets an automatic exemption for \$500 that an individual can protect in their bank account from creditors.

Background

State exemption laws provide protections for families from income or property garnishment. The goal of state exemption laws is to leave families with enough assets that they can make a fresh start as they repay debt. Maryland law already provides \$6000 of protection for all of an individual's property-home, car, cash, and other valuables. To protect these assets, an individual must elect to protect them. Very few Marylanders are aware of or able to take these exemptions and as a result almost all of their income and property can be garnished to satisfy a debt.

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Equity Implications

- Due to various structural barriers to opportunity, Black and Latinx workers are far more likely than white workers to earn poverty-level wages and are therefore more likely to have trouble paying back debt while meeting other basic needs.
- Looking at student loan debt, as one example of racial disparities in debt burdensⁱ:
 - Black college graduates owe an average of \$25,000 more in student loan debt than white college graduates.
 - Four years after graduation, 48% of Black students owe an average of 12.5% more than they borrowed.
 - Black American student borrowers are the most likely to struggle financially due to student loan debt, with 29% making monthly payments of \$350 or more.
 - 54% of all student loan debt is held by White and Caucasian student borrowers.
- An October 2020 Gonzales poll that the Maryland Consumer Rights Coalition commissioned found that 45% of Black respondents would have to either use credit or would be unable to pay an unexpected \$500 bill.

Impact

House Bill 322 will likely **improve racial and economic equity** in Maryland.

ⁱ Education Data Initiative, Student Loan Debt by Race, <https://educationdata.org/student-loan-debt-by-race>