Testimony to the Economic Matters Committee

H.B. 661 Consumer Protection and Debt Collection - Exemptions from Attachment and Requirements on Judgment Creditors

Position: Favorable

February 16, 2024

The Honorable C.T. Wilson, Chair
Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401

cc: Members, Economic Matters Committee

Honorable Chair Wilson and Members of the Committee,

We are writing today in strong support of H.B. 661, which will increase the amount of wages an individual can protect from seizure for a debt to $750 a week or 85% of weekly wages, whichever is greater. Under current law, only 30 times the state minimum wage ($450 assuming a 40-hour workweek at $15/hr) or 75% of weekly wages is protected. This change would move Maryland from a "D" grade up to a "B" grade (under current criteria) for wage protections in NCLC's annual No Fresh Start Report, putting Maryland on a par with other states that protect enough wages so that a paycheck does not drop below the poverty level—$576.92 per week for family of four in 2023.[1]

Protecting a basic amount of wages from seizure is particularly important right now as families face increasing economic uncertainty and continue to struggle with ever rising costs of basic necessities like food, medicine, housing and transportation.

Why State Exemption Laws Are Important

State exemption laws (like the wage seizure protection that H.B. 661 will amend) are a fundamental protection for families. Without these laws, once a creditor obtained a ruling from a court that a consumer owed it a sum of money, the creditor could seize the debtor's entire paycheck, bank account, car, and household goods, and sell the debtor's home. Exemption laws place limits on these seizures. They are designed to protect consumers and their families from

[1] See Carter, Best, NCLC, No Fresh Start 2023: Will States Let Debt Collectors Push Families Into Poverty as Economic Uncertainty Looms?, Table 1, Dec. 2023.

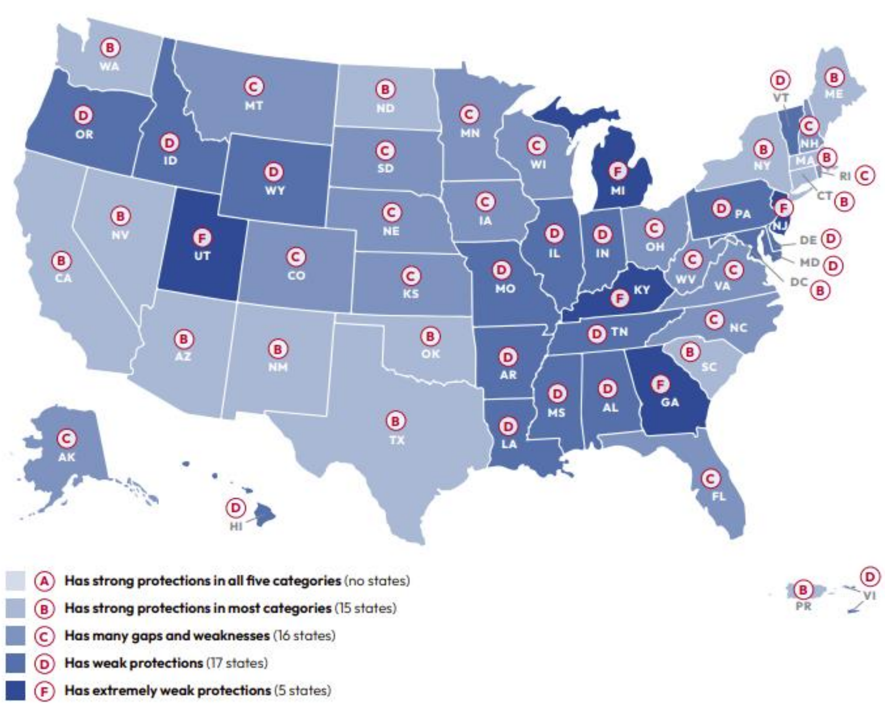
poverty, to preserve their ability to be productive members of society, and to recover from financial setbacks.

Restrictions on wage seizure are particularly important because they protect the income that workers need to stay in the workforce—the money to pay for commuting, child care, car payments, and stable housing. When individuals lose their jobs, the consequences fall not just on them and their families, but also on landlords, local merchants, and other creditors that the consumer might have paid.
Without improved exemption laws, seizures by debt collectors will drain away the wages and resources that families need—and that the local economy needs them to be spending at Main Street businesses. Reform of exemption laws not only protects families from destitution but can also act as an economic stimulus tool that steers money into state and local communities.

Exemption laws also deter predatory lending. Creditors are less likely to make unaffordable loans if they know they will have to rely on the consumer's ability to repay the debt, not on seizure of wages the consumer needs in order to get to work and keep a roof over the family's head. Gaps in exemption laws also give debt collectors enormous leverage. By threatening to take a debtor's wages, a debt collector may persuade a debtor to use the money needed for rent or medicine to pay an old credit card bill that ought to be a much lower priority.

Exemption laws are primarily an area of state authority. Most distressed consumers depend on state garnishment and attachment rules for their protection. In NCLC's 2023 report, [No Fresh Start 2023: Will States Let Debt Collectors Push Families Into Poverty as Economic Uncertainty Looms?](), we gave Maryland's exemption laws **an overall grade of D**.

Map 1: Overall Ratings: The Strength of State Protections for Family Finances



Protecting a Basic Amount of Wages from Seizure with H.B. 661

Protection of wages is one of the most important roles of exemption laws. When creditors seize a consumer's wages, the employer is required to take the money from the consumer's paycheck and send it to the creditor. The consumer never sees that money and cannot use it to pay higher-priority obligations, such as rent, food, and childcare. Instead, the money goes to pay old credit card debts, written-off medical bills, or the amount still owed after a car was repossessed and sold. Year after year, the wages of about four million workers are seized for consumer debts.[2]

The chart below[3] determines the amount of wages that can be seized under current law, and compares it to what would be allowed under H.B. 661.

Gross Hourly Wage	Gross Annual Income	Net Weekly Pay	Annual Wages Seized HB 661	Annual Wages Seized Current MD Law
$15.00	$31,200.00	$519.00	$0.00	$3,588.00
$20.00	$41,600.00	$689.00	$0.00	$8,957.00
$25.00	$52,000.00	$858.00	$5,616.00	$11,154.00
$30.00	$62,400.00	$1,014.00	$7,909.20	$13,182.00
$35.00	$72,800.00	$1,164.00	$9,079.20	$15,132.00
$40.00	$83,200.00	$1,311.00	$10,225.80	$17,043.00
$45.00	$93,600.00	$1,457.00	$11,364.60	$18,941.00
$50.00	$104,000.00	$1,602.00	$12,495.60	$20,826.00

Under current law even a minimum age worker can have over $3,000 in wages seized per year, an amount that could make the difference between just getting by and being evicted from a home. Under H.B. 661, wage seizure would phase in once a worker was earning around $25/hr. For that worker, it would cut the amount of wages that can be seized from over $11,000 a year to just under $6,000 a year—a far more manageable amount for a working family.

Wage seizure can doom a family's efforts to stay afloat. Enacting H.B. 661 would represent a major improvement for working families in Maryland that are struggling with debt.

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[2] Paul Kiel and Keith Ernsthausen, ProPublica, Capital One and Other Debt Collectors are Still Coming for Millions of Americans (June 8, 2020), https://www.propublica.org/article/capital-oneand-other-debt-collectors-are-still-coming-for-millions-of-americans. See also Julia Barnard, Kiran Sidhu, Peter Smith, & Lisa Stifler, Center for Responsible Lending, Court System Overload: The State of Debt Collection in California after the Fair Debt Buyer Protection Act at 2, 28-29 (Oct. 2020), available at https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-california-debt-oct2020.pdf (California study; finding that 27% of all collection actions end in wage garnishment).

[3] Wages assume 40 hours of work a week for 52 weeks for zip code 21401. Tax burden approximated using smartasset calculator with worker being married and claiming two exemptions to determine weekly disposable income.

Respectfully,

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About NCLC

The National Consumer Law Center (NCLC) is a non-profit organization, founded in 1969, that works to advance fairness in the marketplace for low-income consumers. This testimony was prepared by Michael Best, a Senior Staff Attorney at NCLC whose work focuses on advocacy for fair debt collection. She is the co-author of NCLC's Fair Debt Collection and a contributing author to Surviving Debt. This analysis draws from NCLC's 2023 report, No Fresh Start 2023: Will States Let Debt Collectors Push Families Into Poverty as Economic Uncertainty Looms? Please contact Michael Best (mbest@nclc.org) if we can provide any further information.