

# SENATE BUDGET AND APPROPRIATIONS COMMITTEE

## STATEMENT TO

### SENATE CONCURRENT RESOLUTION No. 103

# STATE OF NEW JERSEY

DATED: MAY, 7, 2020

The Senate Budget and Appropriations Committee reports favorably Senate Concurrent Resolution No. 103.

This resolution urges efforts at the state and federal levels to provide protection to minority communities from certain practices of debt settlement companies.

Debt settlement companies can settle, renegotiate, or in some way change terms of a person's debt to a creditor, which can cause significant problems for the borrower and result in increasing the debt while complicating the process to become debt free. These companies also suggest that they negotiate "with creditors to settle debts for less than what is owed" and may require consumers to stop making payments, for up to two to three years, while the company is in negotiations. Stopped payments can lead to a default on an account and the consumer will have to make late payments with additional fees and other penalties attached.

Debt settlement negatively impacts a consumer's credit score and remains on a consumer's credit report for seven years, which makes it more difficult for that consumer to access and afford credit. Additionally, debt settlement companies typically charge the consumer a fee that can be up to 20 to 25 percent of the final settlement amount. There is also no guarantee that lenders will accept a settlement from a debt settlement company or even work with such a company. In addition, any forgiven amount of debt may be considered as income and require consumers to list that amount as income on their tax returns. Debt settlement companies have also been known to target minority communities, where individuals and families can have fewer resources to draw on when under financial pressure.

This resolution urges support for efforts at the state and federal levels to subject debt settlement companies to consumer protection laws, including licensing, regular examination, and prominent mandatory disclosure. The resolution also states that the Legislature acknowledges that debt settlement services do not release a consumer from their debt obligations and that ceasing to make payments without the consent of the creditor can damage a consumer's credit score and lead to collection activities, additional fees, and interest payments. The resolution urges the consideration of legislation that restricts a debt settlement company's unsafe or unsustainable loan practices that are either directly or indirectly provided to consumers. Lastly, the

resolution encourages the federal government to conduct a comprehensive review of its oversight of debt servicing companies, which would include a review of federal bankruptcy rules; how debt settlement companies act as credit counseling services; the status of these companies as money servicing businesses; and a review of the enforcement of current law and regulations by the Consumer Financial Protection Bureau and Federal Trade Commission.

FISCAL IMPACT:

This resolution is not certified as requiring a fiscal note.