

**SENATE CONCURRENT
RESOLUTION No. 103**

STATE OF NEW JERSEY

219th LEGISLATURE

INTRODUCED MARCH 16, 2020

Sponsored by:

Senator RONALD L. RICE

District 28 (Essex)

Co-Sponsored by:

Senators Addiego and Cruz-Perez

SYNOPSIS

Urges efforts at state and federal levels to protect minority communities from certain practices of debt settlement companies.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 5/7/2020)

1 **A CONCURRENT RESOLUTION** urging efforts at the state and federal
2 levels to protect minority communities from certain practices of
3 debt settlement companies.

4
5 **WHEREAS**, The General Assembly recognizes that debt settlement
6 companies, which claim to settle, renegotiate, or in some way
7 change the terms of a person's debt to a creditor, cause significant
8 problems for borrowers, often increasing debt while complicating
9 the process of becoming debt free; and

10 **WHEREAS**, Debt settlement companies suggest that they are
11 "negotiating with creditors to settle debt for less than what is owed"
12 and can require that consumers stop making payment, usually for
13 two to three years, while they negotiate a settlement; and

14 **WHEREAS**, Stopping payments causes accounts to default, resulting in
15 additional late payments, late fees, and other penalties that will be
16 added to the amount already owed; and

17 **WHEREAS**, Debt settlement will have a negative impact on consumers'
18 credit scores and make it more difficult to access affordable credit,
19 since debt settlement remains on a credit report for seven years and
20 not paying the full amount owed or missing payments while
21 negotiating a settlement lowers credit scores; and

22 **WHEREAS**, A fee is normally charged by debt settlement companies to
23 negotiate on a consumer's behalf and can be as much as 20 to 25
24 percent of the final settlement owed, which means a consumer with
25 a \$5,000 settlement may have an additional \$1,000 to \$1,250 in fees
26 to pay; and

27 **WHEREAS**, Lenders are under no obligation to accept settlement offers
28 and in fact, some lenders refuse to work with debt settlement
29 companies; and

30 **WHEREAS**, There can be negative tax consequences from using a debt
31 settlement company, as whatever amount of debt is forgiven may be
32 considered as income and require that the consumer list this amount
33 as income on their tax returns; and

34 **WHEREAS**, These companies often disproportionately operate in
35 minority communities, where individuals and families often have
36 fewer resources to draw on when they come under financial
37 pressure; now, therefore,

38
39 **BE IT RESOLVED** *by the Sente of the State of New Jersey (the*
40 *General Assembly concurring):*

41
42 1. The Legislature supports efforts at the state and federal
43 levels that ensure debt settlement companies are subject to basic
44 consumer protections, including licensing, regular examination, and
45 prominent mandatory disclosure.

46
47 2. The Legislature recognizes that these services do not release
48 a consumer from existing debt, and that ceasing to make payments

1 without the consent of the creditor may damage the consumer's
2 credit score and may subject the borrower to collections activities,
3 additional fees, and interest.

4
5 3. The Legislature urges states, including New Jersey, to
6 consider legislation restricting debt settlement companies' unsafe or
7 unsustainable loans directly or indirectly to consumers.

8
9 4. The Legislature encourages the federal government to
10 conduct a comprehensive review of its oversight of debt servicing
11 companies, to include a review of federal bankruptcy rules; how
12 debt settlement companies act as credit counseling services; the
13 status of these companies as money servicing businesses; and a
14 review of the enforcement of current laws and regulations by the
15 Consumer Financial Protection Bureau and Federal Trade
16 Commission.

17
18 5. Copies of this resolution, as filed with the Secretary of State,
19 shall be transmitted by the Clerk of the General Assembly or the
20 Secretary of the Senate to the President of the United States, the
21 Vice President of the United States, members of the United States
22 House of Representatives and United States Senate, the United
23 States Secretary of the Treasury, and to other federal and State
24 government officials as appropriate.

25 26 27 STATEMENT

28
29 This resolution urges efforts at the state and federal levels to
30 provide protection to minority communities from certain practices
31 of debt settlement companies.

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

42 Debt settlement negatively impacts a consumer's credit score and
43 remains on a consumer's credit report for seven years, which makes
44 it more difficult for that consumer to access and afford credit.
45 Additionally, debt settlement companies typically charge the
46 consumer a fee that can be up to 20 to 25 percent of the final
47 settlement amount. There is also no guarantee that lenders will
48 accept a settlement from a debt settlement company or even work

1 with such a company. In addition, any forgiven amount of debt may
2 be considered as income and require consumers to list that amount
3 as income on their tax returns. Debt settlement companies have
4 also been known to target minority communities, where individuals
5 and families can have fewer resources to draw on when under
6 financial pressure.

7 This resolution urges support for efforts at the state and federal
8 levels to subject debt settlement companies to consumer protection
9 laws, including licensing, regular examination, and prominent
10 mandatory disclosure. The resolution also states that the Legislature
11 acknowledges that debt settlement services do not release a
12 consumer from their debt obligations and that ceasing to make
13 payments without the consent of the creditor can damage a
14 consumer's credit score and lead to collection activities, additional
15 fees, and interest payments. The resolution urges the consideration
16 of legislation that restricts a debt settlement company's unsafe or
17 unsustainable loan practices that are either directly or indirectly
18 provided to consumers. Lastly, the resolution encourages the federal
19 government to conduct a comprehensive review of its oversight of
20 debt servicing companies, which would include a review of federal
21 bankruptcy rules; how debt settlement companies act as credit
22 counseling services; the status of these companies as money
23 servicing businesses; and a review of the enforcement of current
24 law and regulations by the Consumer Financial Protection Bureau
25 and Federal Trade Commission.