



May 28, 2020

The Honorable Ralph Hise
Chairman, Senate Finance Committee
300 N. Salisbury Street
Room 300-A
Raleigh, NC 27603

Re: House Bill 1067

Dear Senator Hise:

I write on behalf of the American Financial Services Association (AFSA)¹ regarding HB 1067, which would take important steps to ensure consumers remain protected from the potential harm of the debt adjustment and settlement industries. The debt settlement industry is growing, and we applaud you for considering the damaging effect these companies have for consumers and legitimate creditors alike.

The debt settlement industry inundates consumers with ads promising relief from so-called “crushing” debt, but the debt settlement industry itself is a wolf in sheep’s clothing, as it typically presents itself as a fiduciary of consumers, when in fact it often poses more harm than good. The process typically leaves borrowers, at the very least, no better off and often much worse off. The potential for harm is so great that the Consumer Financial Protection Bureau (CFPB) warns consumers directly on its website that “debt settlement companies may well leave you further in debt than when you started.”

Debt settlement companies disrupt the important relationship that exists between borrowers and creditors by inserting themselves into process and cutting off communication between the two. This disruption creates barriers to any resolution the borrower may already have at their disposal, namely, the ability to work directly with the creditor on a new debt reduction or payment plan without additional charge. Creditors are committed to working with distressed borrowers, as keeping accounts current is in everyone’s best interest. Conversely, debt settlement companies always advise borrowers to stop making payments on their accounts and cease communications with their creditors. This advice increasingly comes to borrowers who are current on their account and have not yet missed a payment.

Advising a borrower to stop making payments leads to significant harm for the consumer, who will now have a credit report reflecting missed payments and higher loan balances. This damage

¹ Founded in 1916, the American Financial Services Association (AFSA), based in Washington, D.C., is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, payment cards, and retail sales finance. AFSA members do not provide payday or vehicle title loans.

reduces their future options for credit and increases its cost, which says nothing of the late fees and increased interest they will face directly as a result of the missed payments.

Debt settlement services come with significant costs for debtors. Accounting for late fees, the higher cost of future credit, fees charged by the settlement company, plus the taxes owed on any debt forgiven, it is easy for the consumer to come out of the process worse off, and it's clear why the CFPB warned of such an outcome. The National Black Caucus of State Legislators (NBCSL) recently ratified a 2020 policy position on protecting minority communities from debt settlement companies. In it, NBCSL recognizes that the process often puts consumers in a worse-off position. Because of these costs, we believe the bill's provision limiting fees on credit counseling, education, and debt management services is an important consumer protection.

Again, we applaud your efforts and thank you for your work on this important issue. If you have any questions or if AFSA can be of any further assistance to you as you move forward, please do not hesitate to contact me at 952-922-6500 or dfagre@afsamail.org.

Sincerely,



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cc: Senator Phil Berger
Senator Paul Newton
Senator Bill Rabon