

Testimony to the House Financial Institutions, Housing and Urban Development Committee on House Bill 542

Kalitha Williams

Good afternoon, Chairman Adams, Ranking Member Cera and members of the committee. My name is Kalitha Williams and I am the policy liaison for asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. My work centers on household financial stability and consumer protection issues in Ohio. I also convene Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities in the state. Thank you for the opportunity to testify today regarding House Bill 542.

There are many consumers struggling in debt, and they are desperately seeking help and financial relief. The for-profit debt settlement industry aggressively markets its services to those struggling financially and promotes its services as a way for consumers to clear their debts. Once the consumer engages in a plan, the debt adjuster insists that the consumer stop making debt payments and fund an escrow account to be used to negotiate with the debtors. Unfortunately, while the escrow account is growing, compounding late fees, higher interest rates, and finance charges continue to increase the amounts of the original, unpaid debts. In many cases, consumers go into default, finding themselves in worse shape than before they involved the debt adjuster. Some end up filing for bankruptcy, the very thing they were trying to avoid.

The Federal Trade Commission (FTC) recently found the industry's practice of charging up-front fees (up to 20 percent of the actual debt) to be an unfair practice and has implemented an industry-wide requirement that the adjuster settle at least one debt before receiving payment. The FTC investigation found that fewer than 30 percent of consumers had had at least one debt settled, while in more than 40 percent of cases reviewed not a single debt had been settled. The Better Business Bureau rates the debt settlement industry as "inherently problematic" and has received complaints in all 50 states. In short, few consumers actually complete the program but many pay thousands of dollars in fees, and accrue more debt than before they engaged the debt settlement company.

Ohio has a statute, the Ohio Debt Adjusters Act, that protects Ohioans from unscrupulous debt settlement companies. The law prohibits debt adjusters from accepting more than \$75 for initial consultation fees, charging more than \$100 annually in consultation fees or contributions, or collecting more than 8.5 percent of the amount paid by the debtor each month or \$30, whichever is greater. House Bill 542 would exclude out-of-state debt settlement companies from these

important protections already in Ohio law and leave Ohioans vulnerable to predatory practices and exorbitant fees. This legislation is essentially an attempt to exclude the debt settlement industry from Ohio's current regulations.

We ask that you protect Ohio consumers and oppose House Bill 542. Several organizations agree that this legislation is not good for Ohioans, including Ohio AARP, the Coalition on Homelessness and Housing in Ohio, the Ohio Association of Community Action Agencies, and others. Passing this legislation will hurt the financial stability of Ohio working families, drive borrowers deeper into debt, and increase risks of bankruptcy. Many member organizations of Ohio CASH are direct service providers and have worked with consumers who have tried this program; they have told us that these practices leave consumers in worse financial shape rather than improving their outlook. Ohioans need real solutions to support their financial stability, not industries that take advantage of their economic challenges.

Mr. Chairman, thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have.

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*