The Bell Policy Center

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Continuation of the Regulation of Debt-Management Service Providers by the Attorney General

SB15-203

Rich Jones, Director of Policy and Research
Testimony to the House Business Affairs and Labor Committee
April 21, 2015

Thank you for the opportunity to present this testimony to the committee today.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to making Colorado a state of opportunity for all.

The Bell Policy Center supports Senate Bill 15-203 to continue the regulation of debt-management and debt-settlement service providers by the attorney general.

The continued regulation of these service providers represents an important protection for consumers. The Coloradans who use these services are already in substantial debt and extremely vulnerable. Regulation helps to ensure abusive practices are prevented and consumers receive the disclosures they need.

This is particularly true for debt-settlement companies that often promise to help families settle their debts for less than they owe. However, many of the financially struggling families find themselves worse off than before they entered the debt-settlement process. These companies often charge high fees to negotiate with creditors to reduce the amount of debt to be repaid. Research shows that consumers need to settle at least two-thirds of their debt to be better off — a level that many consumers do not reach.[1]

These companies usually require consumers to stop paying their debts while they pay toward a separate account. Once there is enough money in the account, the debt-settlement company begins to negotiate agreements with each creditor to settle a percentage of the debt owed. As a result, consumers often suffer late fees, increased interest rates, reduced credit scores, additional collection actions by creditors, wage garnishments and even bankruptcy while they are building up this account. Nearly two-thirds of the Colorado consumers terminate the program within two years, well before they reach the threshold of settling enough debts to be successful.

This is a high-risk gamble for families who are already strapped financially, and regulation is needed to ensure these families are not harmed by this practice. Keeping Colorado's existing law and regulations will provide important protections so that Coloradans who are working to become debt-free don't become deeper in debt due to the high-risk debt-settlement gamble.

Thank you for the opportunity to testify to the committee, and we thank Rep. Pabon for bringing this bill to you today.

I am happy to answer any questions.

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[1] Center for Responsible Lending, Roll of the Dice: Debt Settlement Still A Risky Strategy for Debt-Burdened Households," Nov. 19, 2013, http://www.responsiblelending.org/other-consumer-loans/debt-settlement/research-analysis/CRL-Debt-Settlement-Research-Paper-and-Appendix.pdf