HOUSE BILL REPORT
SSB 5485

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to debt adjusters.

Brief Description: Concerning debt adjusters.

Sponsors: Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators Hobbs and Benton).

Brief History:
Committee Activity:
Business & Financial Services: 3/13/15, 3/18/15 [DPA].

Brief Summary of Substitute Bill
(As Amended by Committee)

- Permits nonprofit debt adjusters regulated by the Debt Adjusting Act to receive contributions from creditors of their clients.
- Requires nonprofit debt adjusters to report to the Department of Financial Institutions.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass as amended. Signed by 10 members: Representatives Kirby, Chair; Ryu, Vice Chair; Vick, Ranking Minority Member; Blake, G. Hunt, Hurst, Kochmar, McCabe, Santos and Stanford.

Staff: David Rubenstein (786-7153).

Background:

Debt Adjusting Act.

Washington's Debt Adjusting Act (DAA) regulates the provision of debt adjusting services, which are defined as managing, counseling, settling, adjusting, pro-rating, or liquidating a debtor's indebtedness, or receiving funds for distribution among creditors in payment of a

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debtor's obligations. A "debt adjuster" is a person who engages in debt adjusting for compensation and includes credit counselors and debt settlement providers.

The contract between the debt adjuster and the debtor must contain various disclosures, including the debt adjuster's fees, and must require the debt adjuster to notify the debtor if a creditor refuses to accept payment. The total fee for debt adjusting services is capped at 15 percent of the debtor's total debt; excess fees void the contract. The fee retained by a debt adjuster from any one payment made by a debtor may not exceed 15 percent of the payment. Before retaining the fee, the debt adjuster must notify all creditors that the debtor has engaged the debt adjuster's services.

A debt adjuster may not receive any cash, bonus, reward, or other compensation from a person other than a debtor or a person acting on the debtor's behalf in connection with his or her activities as a debt adjuster.

Violation of the DAA constitutes a misdemeanor offense, as well as an unfair or deceptive act or practice under the Consumer Protection Act. The Office of the Attorney General may investigate debt adjusting businesses and examine their books and records.

Summary of Amended Bill:

The prohibition against receiving compensation from any person other than the debtor excludes fair share, defined to mean creditor contributions paid to nonprofit debt adjusters by the creditors whose consumers receive debt adjusting services and pay down their debts accordingly. Fair share does not include grants received for services unrelated to debt adjusting and is not included in the 15 percent fee cap.

Nonprofit debt adjusters or nonprofit organizations exempt from regulation must submit a report to the Department of Financial Institutions (DFI) each year for two years. The report must contain the following information:

- the number and percentage of debtor clients who terminated or otherwise became inactive in debt adjusting services and what percentage of his or her debt each debtor settled;
- the total fees collected from Washington debtors; and
- the total fair share collected.

The report must also contain the following information for each debtor client:

- the date of contracting;
- the number of debts included in the contract;
- the principal amount of each debt at the time the contract was signed;
- the source of each debtor's obligations (e.g., credit card, student loan, medical debt, etc.);
- whether each debt is active, terminated, or settled;
- the settlement amount of the debt, if any;
- the total fees charged to the debtor; and

- the organization's Form 990 submitted to the Internal Revenue Service or a statement of the organization's compensation provided to high-earning employees.

The DFI is required to summarize the information received, make the summary report public, and submit it to the Legislature each December until December 2017.

Amended Bill Compared to Substitute Bill:

The amended bill limits availability of fair share contributions only to nonprofit debt adjusters and adds a reporting requirement.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) It is very important to pass this bill to allow nonprofits to continue operations as in other states.

(Opposed) None.

Persons Testifying: Tom Parker, Money Management International.

Persons Signed In To Testify But Not Testifying: None.