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Download the full report, state maps and state-specific information:
http://www.nclc.org/issues/no-fresh-start.html

States Put Families at Risk to Feed an Insatiable Debt Collection Machine

National Consumer Law Center's 50-State Review: 'Horse and Buggy' Laws Need Major Reform

(BOSTON) The economic downturn has strained millions of families to the breaking point, and the astronomic growth of the debt buyer industry makes them increasingly vulnerable to seizure of essential wages and property to pay their oldest debts. A new report from the National Consumer Law Center surveys the exemption laws of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands that protect wages, assets in a bank account, and property from seizure by creditors. *No Fresh Start: How States Let Debt Collectors Push Families into Poverty* finds that ***not one*** jurisdiction's laws meet basic standards so that debtors can continue to work productively to support themselves and their families.

Some state exemption laws are still parked in the horse and buggy days. For example, while Pennsylvania has strong protections for debtors' wages, that state protects almost none of a debtor's property: just clothing, a Bible, school books, sewing machines not held for resale, military uniforms and $300 of other property—in total. Vermont protects one cow, two goats, three swarms of bees, but not a car worth more than $2500. Delaware protects a seamstress's sewing machine, $75 of work tools, and an additional $500 of property unless the debtor files bankruptcy. "It's a travesty when outdated state laws protect farm animals and their feed but not a living wage, a working car, and a bare bones checking account," said Robert Hobbs, National Consumer Law Center's Deputy Director and author of *Fair Debt Collection*.

States' archaic exemption laws fuel the lucrative and fast-growing debt buyer industry. For example, nine of the nation's largest debt buyers purchased (for just a few pennies on the dollar) nearly 90 million consumer accounts with a face value of $143 billion, according to a January 2013 Federal Trade Commission (FTC) study. Consumers disputed at least one million of these debts, yet only half of the disputed debts were verifiable at all by the debt buyer.

"In 2012, the FTC received more than 125,000 consumer complaints about debt collection, representing almost 25% of all consumer complaints it received. Debt collection lawsuits are clogging up civil courts across the nation," said Hobbs. "This report serves as a wake-up call for states to update their exempt property laws and stop putting millions of families at risk. Doing so will allow local courts to redirect their focus from the insatiable appetite of a debt machine that churns out millions of undocumented debt collection lawsuits each year."

Despite the importance of state exempt property laws, this National Consumer Law Center report finds that ***not one*** state meets five basic standards:

- Preventing debt collectors from seizing so much of the debtor's wages that the debtor is pushed below a living wage;
- Allowing the debtor to keep a used car of at least average value;
- Preserving the family's home—at least a median-value home;
- Preventing seizure and sale of the debtor's necessary household goods; and
- Preserving at least $1200 in a bank account so that the debtor has minimal funds to pay such essential costs as rent, utilities, and commuting expenses.

Better states: Massachusetts, which recently modernized its archaic exemption laws, and Iowa each rate a B+ grade. States earning a solid B are Nevada, New York, North Carolina, Oklahoma, South Carolina, Texas, and Wisconsin. **The worst states** allow debt collectors to seize nearly everything a debtor owns, even the minimal items necessary for the debtor to continue working and providing for a family. Alabama, Delaware, Kentucky, and Michigan each rate an F grade. Arkansas, Georgia, New Jersey, Pennsylvania, Utah, and Wyoming rate a D–.

Key Recommendations

The NCLC report recommends that state exemption laws should be reformed to:

- **Preserve the debtor's ability to work**, by protecting a working car, work tools and equipment, and money for commuting and other daily work expenses.
- **Protect the family's housing, necessary household goods, and means of transportation.**
- **Protect a living wage for working debtors** that will meet basic needs and maintain a safe, decent standard of living within the community.
- **Protect a reasonable amount of money in bank accounts** so that debtors can pay commuting costs as well as upcoming rent and utility bills.
- **Protect retirees from destitution** by restricting creditors' ability to seize retirement funds**.**
- **Be automatically updated for inflation.**
- **Close loopholes that enable some lenders to evade exemption laws.** For example, states that allow payday lending enable these lenders to evade state laws that protect wages and exempt benefits from creditors. States that allow lenders to take household goods as collateral enable these lenders to avoid state household good exemptions.
- **Be self-enforcing to the extent possible,** so that the debtor does not have to file complicated papers or attend court hearings.

Model language for states to achieve these goals is provided in the National Consumer Law Center's *Model Family Financial Protection Act*, available at **www.nclc.org/mffpa**. The model law also includes steps that states can take to reduce the pervasive abuse of the court system by debt buyers. Seizure of debtors' wages and property would not be such a problem if debt buyers did not churn out such an endless stream of judgments on old, poorly documented debts—many of which are based on mistaken claims.

By updating exemption laws, states can prevent over-aggressive debt buyers from reducing families to poverty. These protections also benefit the state by keeping workers in the work force, helping families stay together, and reducing the demand on funds for unemployment compensation and social services. Both current creditors and debt collectors collecting on old bills are benefited by consumers having the financial resources to improve their earning power and meet their new and old obligations in an orderly manner.

The report includes stories of real people harmed by draconian and dubious debt collection judgments, each state's overall rating, and ratings for the five primary asset-preservation standards as well as appendices with specific exemption information on all 53 jurisdictions. Also included: Recommendations for the minimal exemption amounts that will allow a debtor to continue to work to support a family. *For more information on NCLC's body of work related to fair debt collection, visit:* www.nclc.org/issues/debt-collection.html.

Related NCLC materials

- *The Debt Machine: How the Collection Industry Hounds Consumers and Overwhelms the Courts* (July 2010): http://www.nclc.org/images/pdf/pr-reports/pr-debt-machine.pdf
- Model Family Financial Protection Act (model state law revised October 2013): www.nclc.org/mffpa
- *Fair Debt Collection* (legal treatise): http://shop.consumerlaw.org/fairdebtcollection.aspx
- *Surviving Debt* (consumer book): http://shop.consumerlaw.org/survivingdebt.aspx

Other materials

Consumer Financial Protection Bureau report on consumer complaints about debt collection (March 2013): http://files.consumerfinance.gov/f/201303_cfpb_March_FDCPA_Report1.pdf
Federal Trade Commission study on the debt buyer industry (January 2013): http://www.ftc.gov/os/2013/01/debtbuyingreport.pdf

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