No Fresh Start in 2020: Will States Let Debt Collectors Push Families Into Poverty In The Wake of a Pandemic?

As millions of families suffer job loss or struggle to pay bills during COVID-19, states have an important role in protecting them from seizure of essential wages and property to pay old debts by over-aggressive debt buyer and collection industries. By updating exemption laws, states can prevent these debt collectors from reducing families to poverty. These protections also benefit the state by keeping workers in the workforce, helping families stay together, and reducing the demand on funds for unemployment compensation and social services.

NCLC surveys the exemption laws of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. Sadly, not one jurisdiction’s laws meet basic standards so that debtors can continue to work productively to support themselves and their families.
NO FRESH START 2020

WILL STATES LET DEBT COLLECTORS PUSH FAMILIES INTO POVERTY IN THE WAKE OF A PANDEMIC?

Published: October 29, 2020
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Overview

The COVID-19 pandemic has exposed the enormous gaps in the states’ exemption laws and exacerbates the racial wealth gap. Once the pandemic recedes, families struggling to get back on their feet are likely to face a wave of debt collector lawsuits for medical bills, back rent, credit card debt, the balance due on repossessed cars, and even utility bills. States’ outdated exemption laws fuel the lucrative and fast-growing debt buyer industry, pushing families into destitution. By updating their exemption laws, states can prevent debt buyers from reducing families to poverty. Both creditors and society benefit when consumers have the financial resources to improve their earning power and meet their new and old obligations in an orderly manner. Not one jurisdiction’s laws meet basic standards.
Key Recommendations

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 in a bank account** so that debtors can pay rent, daycare, and utilities.
- **Protect retirees from destitution** by restricting creditors’ ability to seize retirement funds.
- **Be automatically updated for inflation.**
- **Close loopholes that enable some lenders (such as payday lenders) to evade exemption laws.**
- **Be self-enforcing to the extent possible** so that the debtor does not have to file
complicated papers or attend court hearings.

This report builds on NCLC’s advocacy, training, publications, and public policy work on fair debt collection to promote family financial well-being. Learn more

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**Model Family Financial Protection Act:**

NCLC has written model language for states to achieve these goals. The model law also includes steps that states can take to reduce the pervasive abuse of the court system by debt buyers.

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**Related Publications**

- Wage Garnishment for Consumer Debts: Reforms Needed in the Current Covid Crisis and Beyond
- Coronavirus Emergency: Consumer Debt Collection Lawsuits – How States Can Help
- *The Debt Machine: How the Collection Industry Hounds Consumers and Overwhelms the Courts* (July 2010)
- What States Can Do to Help Consumers: Debt Collection, May 2019
- State Debt Collection Fact Sheets, 2018
- For attorneys: *Fair Debt Collection and Collection Actions*
- For consumers: *Surviving Debt* (personal finance book) and Consumer Debt Advice (free articles)