Report: Which States Put Families at Risk of Poverty During the Covid Crisis?

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

Boston – 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. A new state survey from the National Consumer Law Center finds that ***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?* surveys the exemption laws of the 50 states, the District of Columbia (D.C.), Puerto Rico, and the Virgin Islands that protect wages, assets in a bank account, and property from seizure by creditors. "By reforming their exemption laws, states will not only protect families from destitution but will promote economic recovery by enabling families to spend their money in state and local communities," **said Carolyn Carter, National Consumer Law Center deputy director and author of the report.**

The COVID-19 pandemic has exposed the enormous gaps in the states' exemption laws. Only when stimulus checks were deposited in families' bank accounts and garnished by debt collectors did many states realize that they had *no* state laws to protect a basic amount in a family's bank account. 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.

Weak exemption laws also exacerbate the racial wealth gap. Communities of color are disproportionately burdened by debt, disproportionately subject to judgments in collection lawsuits, and disproportionately subject to wage garnishment. Because of longstanding discrimination, Black and Latinx households have less wealth and less of a safety net to draw on during challenging financial times. Communities of color have disproportionately suffered the effects of the pandemic — not just job loss and financial hardship but also illness and death.

States that made improvements since NCLC's report in 2019: California, Idaho, Maryland, Minnesota, Mississippi, New Hampshire, Utah, and Virginia. In addition, in California, Colorado, Connecticut, D.C., Illinois, Maine, Massachusetts, North Dakota, and Washington, which base their wage garnishment protection on the higher of the state or federal minimum wage, the amount protected from garnishment increased because of increases in the state minimum wage.

Despite the importance of state exemption 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;

- Preserving a basic amount in a bank account so that the debtor has minimal funds to pay such essential costs as rent, utilities, and commuting expenses, and
- Preventing seizure and sale of the debtor's necessary household goods.

Better states: High B grade states are Massachusetts and Nevada. Jurisdictions earning a solid B are California, Texas, Puerto Rico, and the District of Columbia. Low B ratings are: New York, Oklahoma, and South Carolina, while Kansas, North Dakota, and Wisconsin each earned a high C.

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. Earning an F grade are: Georgia, Kentucky, Michigan, New Jersey, and Utah. Close on the failing heels with a low D grade are: Alabama, Arkansas, Indiana, Maryland, Missouri, Pennsylvania, and Wyoming.

Key recommendations include automatically updating exemption amounts for inflation and making them self-enforcing to the extent possible so that the debtor does not have to file complicated papers or attend court hearings. (See the report for the full list of recommendations.)

Model language for states to achieve these goals is provided in the National Consumer Law Center's *Model Family Financial Protection Act*, 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 them not even owed.

By updating exemption laws, states can prevent over-aggressive 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. Overall, both creditors and society at large benefit when consumers have 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 standards 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

- 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*
- Model Family Financial Protection Act (model state law)
- What States Can Do to Help Consumers: Debt Collection
- State Debt Collection Fact Sheets
- *Fair Debt Collection* and *Collection Actions* (legal treatises):
- *Surviving Debt* (consumer book) and Consumer Debt Advice (free articles)