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TESTIMONY OF ATTORNEY GENERAL RICHARD BLUMENTHAL BEFORE THE BANKS COMMITTEE FEBRUARY 24, 2009

I appreciate the opportunity to support House Bill 5907, An Act Concerning Foreclosure Rescue and Debt Reducers.

Under this proposal, anyone who promises to reduce consumer debt, lower interest rates on consumer debt, or assist the consumer in avoiding foreclosure must:

(1) clearly describe in a written contract the services to be provided and an analysis of the consumer's debt including the likelihood that the debt can be reduced or foreclosure avoided;

(2) provide consumers with a three day right of cancellation;

(3) document all costs associated with the provision of debt reduction services;

(4) avoid charging any upfront or advance fees; and

(5) offer no such service unless they are a non-profit organization.

The proposal also would empower the Banking Commissioner to investigate and reduce debt reducer fees that are excessive when compared to industry standards or common prevailing fees and the consumers financial benefit of such services. Any violation of these requirements would be an unfair trade practice.

Banks, credit unions, existing creditors of the consumer and licensed debt adjusters are exempt from these provisions.

My office has received numerous complaints about companies and individuals who falsely claim they can help consumers avoid foreclosure, only to drive them deeper into debt. Con artists prey on desperate homeowners or consumers facing foreclosure or aggressive debt collectors. They offer a lifeline that is in reality a millstone, sinking consumers further.

In one case, a debt reducer lured the consumer into selling her home to the brother of the supposed rescuer by offering her a two year lease agreement that included a buy-back option. The terms of the agreement were so onerous that she could not possibly pay her steep 'supposed

rent' while simultaneously accumulating the additional funds necessary to buy back her home after the two year tenancy. When the consumer realized the scam, she stopped paying the rent and is now facing eviction from her own home.

We need tough regulations to provide consumers with necessary information to make informed decisions on these services.

I urge the committee to consider an amendment to exempt from the provisions of this act on line 32 "any attorney pursuant to an attorney-client relationship". There are good consumer lawyers who seek loan modifications and debt reduction on behalf of their clients. Consumers are protected from unscrupulous behavior through our attorney ethics regulations and grievance procedures.

I urge the committee's favorable consideration of House Bill 5907.