



Office of The Attorney General
State of Connecticut

*TESTIMONY OF
ATTORNEY GENERAL RICHARD BLUMENTHAL
BEFORE THE BANKS COMMITTEE
MARCH 11, 2010*

I appreciate the opportunity to comment on House Bill 5409, An Act Concerning Debt Settlement Services.

House Bill 5409 eliminates several significant consumer protections which I had advocated and the legislature enacted during the 2009 General Assembly session regarding companies that offer to reduce or eliminate consumer debt.

Tough economic times are too often a breeding ground for consumer scams.

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 into debt.

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.

Public Act 09-208 requires any person who seeks, on behalf of the consumer, to reduce or otherwise change the terms of any consumer debt to be licensed. No debt negotiation work may be initiated without a written contract with a three day right of cancellation. The debt negotiator must review the consumer's financial situation prior to signing the contract, which shall contain specific steps that the negotiator will take on behalf of the consumer and an explanation of the likelihood of success. Advance fees -- one of the most pernicious and prevalent aspects of scammers -- are prohibited.

House Bill 5409 would exempt debt negotiators for credit card and other unsecured debt from the protections and licensure requirements in Public Act 09-208. In its place, it establishes a separate but unequal licensing procedure that: (1) most egregiously authorizes advance fees; (2) fails to provide consumers with a three day right of cancellation; (3) fails to declare voidable any contract that does not meet all the statutory requirements; and (4) contains a broad loophole

from licensure and all the other protections in our law for any person who 'acts pursuant to any law of this state or the United States'.

There is simply no justification for weakening our debt negotiator consumer protections because the underlying debt consists of credit card obligations rather than a mortgage.

I urge the committee to take no further action on House Bill 5409.