

D R A F T

FOR APPROVAL

**AMENDMENTS TO
UNIFORM DEBT MANAGEMENT SERVICES ACT
(Last Revised or Amended in 2008)**

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

MEETING IN ITS ONE-HUNDRED-AND-TWENTIETH YEAR
VAIL, COLORADO
JULY 7 - JULY 13, 2011

**AMENDMENTS TO
UNIFORM DEBT MANAGEMENT SERVICES ACT
(Last Revised or Amended in 2008)**

WITH PREFATORY NOTE AND COMMENTS

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By

NATIONAL CONFERENCE OF COMMISSIONERS
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May 18, 2011

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UNIFORM DEBT-MANAGEMENT SERVICES ACT

Prefatory Note 2005

Background

The consumer-credit-counseling industry originated in the early twentieth century in the form of debt adjusters (also known as debt poolers, debt consolidators, debt managers, or debt pro-raters). This first generation of credit counselors consisted of profit-seeking enterprises that communicated with a consumer's creditors to persuade them to accept partial payment in full satisfaction of the consumer's obligations. If the creditors agreed, the debt adjuster would collect a monthly payment from the consumer and forward appropriate portions of it to each of the creditors. They often charged hefty fees, leaving little for distribution to the creditors. Instances of deceptive advertising and theft of clients' funds were numerous enough that, starting in the 1950s, legislatures in more than half the states outlawed the business (e.g., N.Y. Gen. Bus. Law §§ 455-457). Of the remaining states, approximately two thirds opted for a regulatory approach, requiring licenses, imposing requirements on how the businesses operate, and restricting troublesome practices (e.g., Mich. Comp. Laws Ann. §§ 451.451-.465 (repealed in 1976 and replaced by §§ 451.411-.437)).

Many states exempted not-for-profit organizations from these statutes, enabling non-profits to render counseling services free of regulation. This led to the growth, starting in the 1950s, of the second generation of credit counselors. The growth of these non-profits was fueled by the National Foundation for Consumer Credit (NFCC) (later renamed the National Foundation for Credit Counseling), which was created by retailers and banks that issued credit cards. These creditors supported the formation of credit-counseling agencies as a means of helping consumers in financial difficulty gain control of their finances and pay their credit-card debts. The objectives were full repayment of debt and the avoidance of bankruptcy.

The counseling agencies provided community education, met individually with consumers, helped them develop or improve budgeting skills, and, when appropriate, enrolled them in debt-management plans (DMP's). To establish a DMP, the agency negotiated with each of the consumer's unsecured creditors to obtain concessions from them, in the form of some combination of reduced interest rate, waiver of default or delinquency fees, and monthly payments in an amount less than the contractual minimum. Thereafter, the consumer made monthly payments to the agency and the agency disbursed a pro-rata amount to each of the participating creditors. The creditors supported the counseling agencies by returning to them a percentage – often 15% – of the payments they received. The NFCC called this contribution the creditor's "fair share." The agencies also sometimes received charitable contributions from other sources and imposed modest fees on the consumer. As of 2005, this second generation of counseling agencies continues to operate.

Consumer advocates generally acknowledged the educational and budgeting benefits that the counseling agencies provided, but were critical – or at least skeptical – of their overall usefulness. They perceived the agencies as debt collectors for the credit-card industry and were critical of the limited range of advice the agencies provided. The last thing a card issuer wanted

to see was a consumer filing a petition in bankruptcy. Formed and supported primarily by the credit-card industry, most counseling agencies never recommended bankruptcy, and many never even mentioned it as a possibility. E.g., Gardner, *Consumer Credit Counseling Services: The Need for Reform and Some Proposals for Change*, 13 *Advancing the Consumer Interest* 30 (2001).

The late 1980s and 1990s saw a dramatic increase in credit-card debt as consumers' income rose and card issuers relaxed their standards of creditworthiness. The increase in the amount of debt was accompanied by an increase in the amount of debt in default and an increased opportunity for credit-counseling agencies. Many new entities arose, unaffiliated with the NFCC. They formed competing trade associations, e.g., the Association of Independent Consumer Credit Counseling Agencies (AICCCA) and the American Association of Debt Management Organizations (AADMO)). These new entities – the third generation – rely heavily on advertising and telemarketing, and many conduct their business with consumers entirely by telephone or over the Internet. Perhaps because of their aggressive marketing and innovative business methods, their share of the counseling market grew from approximately 20% in 1996 to approximately 80% in 2001. For the most part, their focus is on the creation of DMP's, not on counseling and education. Indeed, at many entities counseling and education have fallen entirely by the wayside.

Since many states prohibit for-profit debt-management businesses, and since card issuers have limited their fair-share payments to nonprofit entities, members of this third generation of agencies are organized as nonprofit entities. Many of them, however, have not operated as charitable or educational institutions. Instead, they have uncritically enrolled all their customers in DMP's, and they have charged fees much higher than the fees charged by the agencies affiliated with the NFCC. At the traditional level of the creditors' fair share contribution, and with the educational function stripped away, many of these entities have generated revenues much larger than needed to provide debt-management services. They have disbursed these excess revenues in the form of generous compensation to affiliated entities that provide back-office services. They also have paid salaries for the principal executives that are out of line with the salaries paid by other kinds of non-profit entities of comparable size. (For a description of three different models for channeling funds to related entities, see Staff Report, *Profiteering in a Non-Profit Industry: Abusive Practices in Credit Counseling* (Permanent Subcommittee on Investigations of the Senate Governmental Affairs Committee) (S. Rep. 109-55 April 2005), available at <http://hsgac.senate.gov/index.cfm?>).

Meanwhile, in the 1990s credit card issuers saw that their fair-share payments to counseling agencies had increased to the extent that those payments approximated the amounts they were paying for all their other collection activities combined. In addition, they discerned that some of the counseling agencies were accumulating large surpluses and were enrolling in DMP's consumers whom the creditors believed could pay their debts without the concessions the creditors had been giving. They responded by reducing the concessions they were willing to make to consumers and by reducing the amounts they were willing to pay the counseling agencies. Some card issuers have stopped supporting the agencies altogether, and on average the amount returned to the agencies has dropped from more than 12% to less than 8%. This decrease has adversely affected the ability of counseling agencies to provide individual counseling and

community education. Some major card issuers have abandoned the fair-share approach altogether and have developed proprietary models for compensating counseling agencies depending on such factors as the profiles of the debtors being served by an agency, the agency's record with the creditor, and the agency's advertising and business practices.

An objective of credit-counseling agencies, whether or not they provide reasonable educational services, is to enable consumers to repay their debts in full. There is, however, another segment of the industry – the fourth generation – whose members do not have this objective at all. These entities are known as debt-settlement companies, and they formed trade associations of their own (merged in 2004 into the United States Organizations for Bankruptcy Alternatives (USOBA)). Instead of helping the consumer pay his or her creditors in full, they attempt to persuade creditors to settle for less than the full amount of the consumer's debt, writing off the rest. Thus they represent a revival of the first generation of counseling agencies. Unlike their forebears, however, they do not negotiate with the creditors in advance of establishing a plan for dealing with the consumer's debts. Instead, they encourage the consumer to default on the debts and to make monthly payments to them or to a savings account of the consumer. When those payments reach a target percentage of the debt owed to one of the creditors, the agency submits an offer to that creditor (on the consumer's behalf) to settle the debt for the amount in hand. During the period when the funds are accumulating, the creditors receive nothing. As a result the creditors impose additional finance charges and delinquency fees, and they may undertake collection activity, including litigation.

Reports of abuses by credit-counseling agencies and debt-settlement companies and injury to consumers have appeared with increasing frequency in numerous media outlets. Reports of two prominent consumer organizations (Consumer Federation of America and the National Consumer Law Center) have documented the situation. (See CFA & NCLC, *Credit Counseling in Crisis: The Impact on Consumers of Funding Cuts, Higher Fees and Aggressive New Market Entrants* (2003); NCLC, *Credit Counseling in Crisis Update: Poor Compliance and Weak Enforcement Undermine Laws Governing Credit Counseling Agencies* (2004); NCLC, *An Investigation of Debt Settlement Companies: An Unsettling Business for Consumers* (2005), all available at <http://www.nclc.org>). The problems include:

- deception concerning the nature of, the need for, the benefits of, and the cost of debt-management plans to help consumers deal with their debt;
- excessive cost to consumers; and
- self-dealing and other conduct by agencies to evade limitations in the Internal Revenue Code.

In January 2003 the Executive Committee of the Conference authorized the appointment of a drafting committee to develop a uniform law that would address the problems that have developed and enable the states to take a common approach to regulation of the counseling industry. A uniform approach is particularly important because the great majority of agencies operate in multiple states and would otherwise be subject to multiple and sometimes conflicting requirements.

History of the Draft

When it first authorized this project, the Executive Committee focused on the segment of the industry that counsels consumers and forms debt-management plans to assist them pay their debts in full. It did not contemplate entities engaged in debt settlement. At the 2004 Annual Meeting, the Conference authorized the Drafting Committee to include debt-settlement companies within the scope of the Act. It also directed the Drafting Committee to draft the Act in such a way that states could authorize for-profit entities to provide debt-management services.

The definition of “debt-management services” encompasses both credit counseling and debt settlement. With very few exceptions, the provisions of the Act apply equally to both types of debt-management services and the entities that provide them. The Act is neutral on the question whether for-profit entities should be permitted to provide debt-management services. Each state must decide whether to permit for-profit entities to provide credit-counseling services, debt-settlement services, or both. The state’s decision is implemented by language in sections 4, 5, and 9. Each of these sections contains bracketed language and instructions on which language to adopt to implement the state’s policy concerning for-profit entities.

Bankruptcy Code Amendments

Shortly before the last meeting of the Drafting Committee, Congress enacted revisions to the Bankruptcy Code. These revisions are likely to increase the demand for the services of entities that provide debt-management services.

Section 109(h) of the Code requires a debtor who wishes to file under Chapter 7 to provide certification that he or she has received from an approved nonprofit credit-counseling agency assistance in preparing a budget analysis and information about credit counseling. In addition, section 727(a)(11) establishes the completion of an instructional course concerning personal financial management as a prerequisite to obtaining a discharge. These two new provisions are likely to increase the demand for services from entities regulated by this Act. The Bankruptcy Code’s regulation of persons regulated by this Act is terse and consistent with it. Since the revised Bankruptcy Code will induce more consumers to seek the services of those who provide debt-management services, the revisions increase the urgency of the need for states to adopt a uniform law governing debt-management services.

Description of the Act

The purpose of the Act is to rein in the excesses while permitting credit-counseling agencies and debt-settlement companies to continue providing services that benefit consumers. The Conference has benefited from the participation of credit-counseling agencies (and their trade associations), debt-settlement companies (and their trade association), representatives of consumer organizations, and attorneys general. The Act represents an accommodation of the conflicting views of these interested entities. As may be expected, it leaves all of them satisfied with some decisions and dissatisfied with others.

The Act applies to “providers” of “debt-management services” that enter “agreements”

with individuals for the purpose of creating “plans.” The definitions of the quoted terms are critical and appear in section 2, along with the definitions of several other terms. The Act speaks of “individuals,” as opposed to “consumers,” so that it applies to farmers and other individuals who are dealing with personal debt incurred in connection with their businesses.

To provide debt-management services to a resident of the enacting state, a provider must obtain a certificate of registration from the administrator of the Act. To obtain a certificate, a provider must supply information about itself, must meet specified requirements of competency, must obtain insurance against employee dishonesty, and must post a surety bond to ensure its compliance with the Act. The requirements concerning registration appear in sections 4-14 and 22.

The Act establishes requirements for providers to meet in connection with their interaction with the individuals they serve. Section 17 prescribes steps to be taken before entering an agreement with an individual. Sections 19-24 and 28 govern the content of an agreement, including limitations on the fees that may be charged (§§ 23-24). Other provisions deal with the performance and termination of agreements (§§ 25, 26, 28) and miscellaneous other matters.

The Act provides for enforcement both by a public authority and by private individuals. Sections 32-34 provide for public enforcement, including a rule-making power on the part of the administrator. Section 35 provides for private enforcement, including recovery of minimum, actual, and, in appropriate cases, punitive damages.

Prefatory Note 2011 Addendum

Federal Trade Commission Regulation

In 1995 the FTC promulgated the Telemarketing Sales Rule, as directed by the Telemarketing and Consumer Fraud and Abuse Prevention Act, to prevent deceptive and abusive telemarketing practices. It applies to outbound telemarketing phone calls, i.e. calls made by telemarketers to consumers. In 2010 the FTC amended the Rule to extend its reach to inbound phone calls, i.e. calls made by consumers to merchants, typically in response to TV or radio ads. In addition to subjecting these calls to the existing requirements of the Telemarketing Sales Rule, the amendment also created several new requirements applicable to providers of debt-management services. The two most notable of these requirements are a prohibition against receiving any compensation before the consumer has received a modification of debt and a specification of the circumstances in which a credit-counseling agency or a debt-settlement company may request or require a consumer to place funds in a bank account under the control of a person other than the consumer.

To avoid any inconsistency between this Act and the newly revised federal law, in 2011 the Conference approved changes in the provisions that address the timing of collection of fees and the use of powers of attorney. Several other changes were made throughout the Act, to clarify the disclosure and reporting requirements and to address circumstances that have changed since 2005. Among these changes is a provision addressing the conduct of lead generators.

Elimination of the Option to Require Not-for-Profit Status

As promulgated in 2005, the Act presented enacting states with the decision whether to limit the business of providing credit-counseling services, debt-settlement services, or both, to not-for-profit entities. Every state to have enacted the Act between 2005 and 2010 decided to permit for-profit entities to provide both kinds of services. Similarly, several states with law other than the Uniform Act modified their statutes to eliminate provisions barring for-profit entities from providing debt-management services. Reflecting these developments, in 2011 the Act was revised to adopt the position that the business of providing debt-management services should be open to both for-profit and not-for-profit entities. Removal of the option to restrict the business to not-for-profit entities has the incidental benefit of simplifying the Act, which no longer needs the several lengthy Legislative Notes formerly used to guide states through implementation of the decision whether to permit for-profit entities to provide debt-management services.

1 (i) a person that directly or indirectly controls, is controlled by, or is
2 under common control with the entity;

3 (ii) an officer of, or an individual performing similar functions with
4 respect to, the entity;

5 (iii) a director of, or an individual performing similar functions with
6 respect to, the entity;

7 (iv) subject to adjustment of the dollar amount pursuant to Section 32(f), a
8 person that receives or received more than \$25,000 from the entity in either the current year or
9 the preceding year or a person that owns more than 10 percent of, or an individual who is
10 employed by or is a director of, a person that receives or received more than \$25,000 from the
11 entity in either the current year or the preceding year;

12 (v) an officer or director of, or an individual performing similar functions
13 with respect to, a person described in ~~subsubparagraph~~ clause (i);

14 (vi) the spouse of, or an individual occupying the residence of, an
15 individual described in ~~subsubparagraphs~~ clauses (i) through (v); or

16 (vii) an individual who has the relationship specified in subparagraph
17 (A)(iv) to an individual or the spouse of an individual described in ~~subsubparagraphs~~ clauses (i)
18 through (v).

19 (3) “Agreement” means an agreement between a provider and an individual for the
20 performance of debt-management services.

21 (4) “Bank” means a financial institution, including a commercial bank, savings bank,
22 savings and loan association, credit union, and trust company, engaged in the business of
23 banking, chartered under federal or state law, and regulated by a federal or state banking

1 regulatory authority.

2 (5) “Business address” means the physical location of a business, including the name and
3 number of a street.

4 (6) ~~(A)~~ “Certified counselor” means an individual certified by a training program or
5 certifying organization, approved by the administrator, that authenticates the competence of
6 individuals providing education and assistance to other individuals in connection with debt-
7 management services in which an agreement contemplates that creditors will reduce finance
8 charges or fees for late payment, default, or delinquency.

9 ~~(B)~~(7) “Certified debt specialist” means an individual certified by a training program or
10 certifying organization, approved by the administrator, that authenticates the competence of
11 individuals providing education and assistance to other individuals in connection with debt-
12 management services in which an agreement contemplates that creditors will settle debts for less
13 than the full principal amount of debt owed.

14 ~~(7)~~(8) “Concessions” means assent to repayment of a debt on terms more favorable to an
15 individual than the terms of the contract between the individual and a creditor.

16 ~~(8)~~(9) “Day” means calendar day.

17 ~~(9)~~(10) “Debt-management services” means services as an intermediary between an
18 individual and one or more creditors of the individual for the purpose of obtaining concessions,
19 but does not include:

20 (A) legal services provided in an attorney-client relationship, if:

21 (i) the services are provided by an attorney who:

22 (I) is licensed or otherwise authorized to practice law in this state;

23 (II) provides legal services in representing the individual in the

1 individual's relationship with a creditor; and
2 (III) conforms to all applicable standards of professional
3 responsibility; and
4 (ii) there is no intermediary between the individual and the creditor other
5 than the attorney or a person under the direct supervision of the attorney;
6 (B) accounting services provided in an accountant-client relationship, if:
7 (i) the services are provided by a certified public accountant who:
8 (I) is licensed to provide accounting services in this state; or
9 (II) provides accounting services in representing the individual in
10 the individual's relationship with a creditor; and
11 (III) conforms to all applicable standards of professional
12 responsibility; and
13 (ii) there is no intermediary between the individual and the creditor other
14 than the accountant or a person under the direct supervision of the accountant;
15 (C) financial-planning services provided in a financial planner-client relationship
16 by a member of a financial-planning profession;
17 (i) whose members the administrator, by rule, determines are
18 (i)(I) licensed by this state;
19 (ii)(II) subject to a disciplinary mechanism;
20 (iii)(III) subject to a code of professional responsibility; and
21 (iv)(IV) subject to a continuing-education requirement; and
22 (ii) there is no intermediary between the individual and the creditor other
23 than the financial planner or a person under the direct supervision of the financial planner.

1 ~~(10)~~(11) “Entity” means a person other than an individual.

2 ~~(11)~~(12) “Good faith” means honesty in fact and the observance of reasonable standards
3 of fair dealing.

4 (13) “Lead generator” means a person that, in the regular course of business, supplies a
5 provider with the name of a potential customer, directs a communication of an individual to a
6 provider, or otherwise refers a customer to a provider.

7 ~~(12)~~(14) “Person” means an individual, corporation, statutory trust, business trust, estate,
8 trust, partnership, limited liability company, association, joint venture, or any other legal or
9 commercial entity. The term does not include a public corporation, government, or governmental
10 subdivision, agency, or instrumentality.

11 ~~(13)~~(15) “Plan” means a program or strategy in which a provider furnishes debt-
12 management services to an individual and which includes a schedule of payments to be made by
13 or on behalf of the individual and used to pay debts owed by the individual.

14 ~~(14)~~(16) “Principal amount of the debt” means the amount of a debt at the time of an
15 agreement.

16 ~~(15)~~(17) “Provider” means a person that provides, offers to provide, or agrees to provide
17 debt-management services directly or through others.

18 ~~(16)~~(18) “Record” means information that is inscribed on a tangible medium or that is
19 stored in an electronic or other medium and is retrievable in perceivable form.

20 ~~(17)~~(19) “Settlement fee” means a charge imposed on or paid by an individual in
21 connection with a creditor’s assent to accept in full satisfaction of a debt an amount less than the
22 principal amount of the debt.

23 ~~(18)~~(20) “Sign” means, with present intent to authenticate or adopt a record:

- 1 (A) to execute or adopt a tangible symbol; or
2 (B) to attach to or logically associate with the record an electronic sound, symbol,
3 or process.

4 ~~(19)~~(21) “State” means a state of the United States, the District of Columbia, Puerto
5 Rico, the United States Virgin Islands, or any territory or insular possession subject to the
6 jurisdiction of the United States.

7 ~~(20)~~(22) “Trust account” means an account held by a provider ~~that~~ which is:

- 8 (A) established in ~~an insured~~ a bank in which the deposit accounts are insured;
9 (B) separate from other accounts of the provider or its designee;
10 (C) designated as a trust account or other account designated to indicate that the
11 money in the account is not the money of the provider or its designee; and
12 (D) used to hold money of one or more individuals for disbursement to creditors
13 of the individuals.

14 **Legislative Note:** *In connection with paragraph (1), the state must decide whether to create a*
15 *new administrative agency or charge an existing entity with enforcement of this ~~Act~~act. If the*
16 *latter, the state must decide which existing entity to select. Logical choices include the attorney*
17 *general or other entity charged with consumer protection ~~generally~~ (under a little-FTC act,*
18 *deceptive trade practices act, or similar statute) or the entity charged with regulation of*
19 *consumer credit or financial institutions. It may be desirable to amend that entity’s organic*
20 *statute to refer specifically to this ~~Act~~act.*

21

22

Comment

23

24

1. Paragraph (2) (affiliate): The term “affiliate” is used in ~~six~~ seven sections in the Act:

25

26

- as a basis for exempting from the Act certain entities related to banks (section 3(c)(3));

27

28

- as a disclosure item in the application for registration (section 6(16) and (18));

29

- as a tool to ensure the independence of a provider’s board of directors (section 9(d));

30

- as a limit on who may administer a deposit account containing an individual’s money (section 22(b));

31

32

- as a limit on solicitation of payment on behalf of an individual (section 24);

33

- as a limit on a provider’s ability to engage in self-dealing (section 28(e); and

- as a ground for suspension or revocation of registration if a person related to a provider refuses to cooperate with the administrator’s investigation of the provider (section 34(b)(4)).

The Act does not impose obligations on affiliates *qua* affiliates, nor does any provision impose liability on them.

2. The definition in paragraph (2)(A)(iv) includes several specified relatives in the definition of “affiliate.” It stops short of including persons in a step relationship, nor does it include cousins in a once-removed or more remote relationship. In states that recognize civil unions, the word “spouse” is to be interpreted to encompass persons in civil unions.

3. The definition in paragraph (2)(B)(iv) includes a person that receives more than \$25,000 from a provider. It also includes an owner, director, or employee of the recipient. Since the principal purposes of defining “affiliate” are to require independent boards of directors and prevent self-dealing, the level of ownership and benefit necessary to constitute “affiliate” is set at the relatively low figures of 10 percent and \$25,000. With respect to the dollar-amount, a person is not an affiliate until it or the person of which it is an owner, employee, or director has received \$25,001 in the relevant period.

4. Paragraph (3) (agreement): This definition does not incorporate any requirement of “written” or “record.” An oral agreement is within this definition. Requirements of form appear in section 19.

5. Paragraph (5) (business address): Sections 6, 17(d), 18(g), and 19(a) require providers to disclose their business addresses. The definition makes it clear that this means the place where the provider conducts business and not a post-office box or private-service mail drop.

6. Paragraphs (6) (certified counselor) and (7) (certified debt specialist): “Debt specialist” includes a person who communicates with an individual about the features of a debt-settlement program or who, on behalf of a provider, forms an agreement with an individual.

Section 17 requires providers to perform certain functions, including education, through the services of a certified counselor or certified debt specialist; section 16 requires providers to make certified counselors and certified debt specialists available for consultation. The definitions requires that the organization that trains or certifies counselors be approved by the administrator.

7. Paragraph ~~(7)~~(8) (concessions): The word “concessions” appears in sections ~~2(9)~~2(10), 17(c), and 19(a). The “debt” referred to in the definition of “concessions” typically is a contractual obligation, but it may be a judgment or other obligation of the individual. In those instances “terms of the contract” should by analogy be understood as “terms of the judgment” or other obligation. The “more favorable” terms include such changes as a reduction in finance charges or interest; a reduction or waiver of charges for late payment, default, or delinquency; and a reduction in the principal amount of the debt.

8. Paragraph ~~(9)~~(10) (debt-management services): The definition encompasses the

1 activity of entities that act as an intermediary between an individual and the individual's
2 creditors, for the purpose of changing the terms of the original contract between the individual
3 and those creditors. There is no requirement that the individual's money flow through the
4 provider. Hence, the definition includes the services of credit-counseling agencies and debt-
5 settlement companies even if they do not have control over the individual's money, as when it is
6 in an account managed by the individual or a third party.

7
8 The definition encompasses the services of persons that provide one-time assistance to an
9 individual who has accumulated money and wants help negotiating with one or more of his or
10 her creditors. This assistance is within the definition, and if the person provides this assistance to
11 an individual who it has reason to know resides in this state, the person must, unless exempt
12 under section 3, register and comply with the Act. Note that the assistance need not entail use of
13 a "plan," as defined in paragraph ~~(13)~~(15).

14
15 The definition includes the services of credit-counseling entities even if the concessions
16 offered by creditors are not subject to negotiation. It does not include services that consist solely
17 of counseling or education concerning the management of personal finance. Nor does it include
18 the activity of a creditor that compromises a claim with its debtor, because the creditor is not
19 operating as an intermediary.

20
21 9. A creditor may have an agent or other intermediary. Examples include independent
22 collection agencies and corporate subsidiaries whose mission is the collection of debts. For the
23 purposes of the definition of debt-management services, a person in this category is a
24 representative of the creditor. As such, a person who acts as an intermediary between an
25 individual and a debt collector (or other representative of the creditor) for the purpose of
26 obtaining concessions is providing debt-management services. Similarly, if a creditor transfers a
27 debt to a debt-collection agency or other person, the transferee becomes a creditor, and a person
28 acting as an intermediary between the individual and the transferee of the debt for the purpose of
29 obtaining concessions is providing debt-management services.

30
31 10. The definition excludes professional services provided by attorneys, ~~or~~ certified
32 public accountants, and financial planners, but only if the attorney is licensed or otherwise
33 authorized to practice in this state or the accountant or financial planner is licensed by this state.
34 The phrase "or otherwise authorized" is to recognize bar rules that contemplate interstate
35 practice of law.

36
37 The exclusion applies only if the services are rendered in an attorney-client, accountant-
38 client, or financial planner-client relationship. Thus it does not suffice that the owner of a
39 provider is an attorney, an accountant, or a financial planner. The attorney, accountant, or
40 financial planner must be providing legal, accounting, or financial-planning services,
41 respectively, to a client. Unless the services as an intermediary are provided in the course of
42 providing legal, accounting, or financial-planning services, the exclusion does not apply, and the
43 attorney, accountant, or financial planner is providing debt-management services and must
44 comply with the Act.

45
46 Courts and the administrator should be alert to attempts to evade the requirements of the

1 Act by one claiming the exclusion of paragraph (A), (B), or (C). For example, a person that
2 otherwise meets the definition of provider (as “a person that provides . . . debt-management
3 services) is a provider even though its customers may receive materials written by an attorney or
4 communicate with an attorney as part of the person’s formation of the relationship with the
5 individual. For the exclusion in paragraph (A) to apply, the attorney must provide legal services
6 in representing the individual in the individual’s relationship with creditors and must conform to
7 the state’s standards of professional responsibility, such as those governing diligent
8 representation of clients and fee-sharing with non-lawyers. The exclusion is not applicable
9 merely because the individual speaks to or enters a nominal agreement with an attorney, if the
10 real intermediary between the individual and the creditors is a person other than the attorney.
11 Mere contact with an attorney or an attorney’s office does not suffice. Nor are services by an
12 attorney excluded from the definition merely because the attorney forms an initial agreement
13 with an individual if the person acting as the intermediary between the individual and the
14 creditors is not acting under the supervision and control of the attorney in conformance with
15 applicable standards of professional responsibility. A comparable interpretation must be given to
16 the exclusions in paragraphs (B) and (C).

17
18 The exclusion of ~~legal services and accounting services~~ exists if the services are provided
19 by a person licensed to provide those services. For the exclusion of financial-planning services,
20 however, there are additional requirements, enumerated in ~~subparagraph (C)(ii)-(iv)~~ paragraph
21 (C)(i)(II) through (IV). There are several kinds of financial-planning services, including
22 investment advice, estate planning, etc. Those services are excluded from the definition only if
23 the administrator, by rule, determines that the suppliers of those services ~~are~~ is subject to the
24 requirements specified in ~~subparagraph (C)~~. Thus the administrator must determine that the
25 particular branch of the financial-planning profession has in place a bona fide, reasonable system
26 of professional responsibility, discipline, and continuing education.

27
28 11. Paragraph ~~(11)~~ (12) (good faith): The term appears in section 15, which imposes on
29 providers the obligation to “act in good faith in all matters under this Act.” The definition is
30 relevant, then, under every section that governs the conduct of providers. In addition, the term is
31 used in several provisions governing remedies (sections 33(e), 34(a), and 35(f)).

32
33 12. Paragraph (13) (lead generator): The term has an expansive meaning, encompassing
34 any person that channels potential customers to a provider, whether or not the person is
35 compensated for its services. Section 31 prohibits lead generators from engaging in unfair,
36 unconscionable, or deceptive conduct. Section 28(a)(8) bolsters the prohibition against deception
37 by prohibiting a provider from compensating a lead generator if the lead generator compensates
38 its employees based on the number of individuals the employee refers.

39
40 ~~12.13.~~ Paragraph ~~(12)~~ (14) (person): The definition encompasses for-profit, not-for-profit,
41 and tax-exempt entities. A “public corporation” is a corporation that is authorized to exercise
42 governmental functions. It is not a “publicly traded” corporation.

43
44 ~~13.14.~~ Paragraph ~~(13)~~ (15) (plan): The definition of “plan” encompasses both what credit-
45 counseling agencies typically call “debt management plans” and what debt-settlement companies
46 typically call “programs.” The operative provisions of the Act thus use the term “plan” to apply

1 to both types of providers. To be a plan, the program or strategy need not encompass all the debts
2 of the individual. E.g., debt-management plans by traditional credit-counseling agencies have not
3 typically included secured debt or debts owed utilities. No provision of this Act requires that a
4 provider deal with all the creditors of an individual to whom it provides debt-management
5 services.
6

7 The definition requires a schedule of payments. As used here, “payments” includes the
8 deposit or transfer of money into an individual’s checking or savings account, as well as a
9 transfer to a provider (or the provider’s designee) for deposit into a trust account. The definition
10 requires that the payments be used to pay debts of the individual. This requirement is satisfied
11 even if part of the payment is used to pay a monthly service fee to the provider. The requirement
12 of payments of the individual’s debts encompasses (a) full payment of some of the individual’s
13 debts; (b) full payment of all of the individual’s debts; (c) partial payment of some of the
14 individual’s debts; and (d) partial payment of all of the individual’s debts. Each of these
15 arrangements suffices to bring the program or strategy within the definition of “plan.”
16

17 ~~14.15.~~ Paragraph ~~(14)~~(16) (principal amount of the debt): This term is used only in
18 connection with debt settlement. Treatment of accruing charges, such as interest or default fees,
19 may be different under various statutes, e.g., usury, Truth-in-Lending, etc. For purposes of this
20 Act, the definition of principal is a snapshot of the debt at the time an individual assents to an
21 agreement for debt-management services. Finance charges and other fees that accrue after
22 formation of the debt-management-services agreement retain their character as finance charges,
23 etc., even if the creditor adds them to the principal amount of debt and even if the creditor
24 thereafter calculates finance charges and fees on the increased amount.
25

26 ~~15.16.~~ Paragraph ~~(15)~~(17) (provider): This definition makes no reference to the location
27 of the person that provides debt-management services. This means that the location of that
28 person is irrelevant to the definition. Regardless of a person’s location, if the person provides
29 debt-management services, it is a provider under this Act. Subject to section 3, which exempts
30 from the Act providers that do not enter agreements with individuals who reside in this state, the
31 intention is for the Act to have as expansive a reach as is constitutionally permissible. See, e.g.,
32 Cambridge Credit Counseling Corp. v. Foulston, 303 F. Supp. 2d 1188 (D. Kan. 2003)
33 (upholding the constitutionality of applying to a Massachusetts company the Kansas statute
34 regulating credit counseling), appeal dismissed on motion of appellant and judgment vacated,
35 No. 03-3317 (10th Cir. Oct. 19, 2004).
36

37 ~~16.17.~~ The definition includes persons that offer to provide debt-management services, as
38 well as those that actually provide the services. Unless exempt under section 3, a person that
39 offers to provide debt-management services must comply with all applicable provisions, e.g.,
40 section 28(a)(16) (prohibiting deceptive acts and practices). If a person forms an agreement with
41 an individual and then transfers the account to another person, both those persons are within the
42 definition of “provider.”
43

44 ~~17.18.~~ The definition of “debt-management services” speaks of “acting as an
45 intermediary between an individual and one or more creditors.” A creditor acting on its own
46 behalf is not acting as an intermediary and therefore is not a “provider.” The definition of “debt-

1 management services” also speaks of acting as an intermediary “for the purpose of obtaining
2 concessions.” This excludes from the definition of “provider” an entity that collects debts owed
3 to its affiliate if the purpose is collection of the debt and not obtaining concessions from the
4 creditor on behalf of the individual.

5
6 ~~18.19.~~ The definition of “provider” encompasses those who, acting directly or through
7 others, act as intermediaries between an individual and the individual’s creditors. If a provider
8 contracts with another person for that person to perform services other than acting as an
9 intermediary, such as maintaining the trust account required by section 22 or sending out the
10 notices required by section ~~2527~~, the other person may not be a “provider.” But the provider for
11 which it is performing services is liable for any conduct of the other person that does not comply
12 with the duties and obligations that this Act places on providers. See section 31. Conversely, the
13 person whose conduct fails to conform to the Act is liable for causing the provider to violate the
14 Act. See section 35(c).

15
16 At several places the Act speaks of “provider or its designee,” referring to the person
17 holding money of an individual pursuant to a plan. This is intended to foreclose any attempt by a
18 provider to evade its responsibilities under the Act by delegating to an independent contractor the
19 tasks incident to receiving money of the individuals with whom it has agreements.

20
21 ~~19.20.~~ Paragraph ~~(17)~~(19) (settlement fee): Use of the expression “a charge imposed on
22 or paid by” is designed to be expansive. It does not matter what the provider calls the charge.
23 Nor does it matter whether payment of the charge is described as voluntary or whether the
24 payment occurs by debit to a demand-deposit account of the individual, debit to ~~a trust an~~
25 account held by an agent administered by a person who is independent of the provider, or
26 otherwise. The definition encompasses any transfer of money from or on behalf of the individual.
27

28 **SECTION 3. EXEMPT AGREEMENTS AND PERSONS.**

29 (a) This [act] does not apply to an agreement with an individual who the provider has no
30 reason to know resides in this state at the time of the agreement.

31 (b) This [act] does not apply to a provider to the extent that the provider:

32 (1) provides or agrees to provide debt-management, educational, or counseling
33 services to an individual who the provider has no reason to know resides in this state at the time
34 the provider agrees to provide the services; or

35 (2) receives no compensation for debt-management services from or on behalf of
36 the individuals to whom it provides the services or from their creditors.

1 (c) This [act] does not apply to the following persons or their employees when the person
2 or the employee is engaged in the regular course of the person’s business or profession:

3 (1) a judicial officer, a person acting under an order of a court or an
4 administrative agency, or an assignee for the benefit of creditors;

5 (2) a bank;

6 (3) an affiliate, as defined in Section 2(2)(B)(i), of a bank if the affiliate is
7 regulated by a federal or state banking regulatory authority; or

8 (4) a title insurer, escrow company, or other person that provides bill-paying
9 services if the provision of debt-management services is incidental to the bill-paying services.

10 **Comment**

11
12 1. Under section ~~2(15)~~ 2(17) a person may be a provider even if the person has no
13 physical presence in this state. If not exempted by this section, all persons within the definition
14 of “provider” must comply with the Act. The objective of subsections (a) and (b)(1) is to limit
15 applicability of the Act to providers that enter agreements with persons who they should
16 reasonably know to reside in this state. Section 19(a)(3) requires the agreement between a
17 provider and an individual to state the individual’s address. If the individual supplies an address
18 outside this state, the provider may have no reason to know that the individual is residing in this
19 state at the time of the agreement. If a provider operates through an agent or independent
20 contractor to solicit and enroll individuals in plans, the provider may have reason to know if the
21 agent or independent contractor has reason to know. This is true even if the agent or independent
22 contractor is itself within the definition of provider. In addition, the provider may be liable under
23 section 31 for the conduct of the agent or independent contractor.

24
25 2. The Act applies to an agreement with an individual who is residing in this state on a
26 non-permanent basis, such as a member of the armed services, an individual occupying a
27 vacation home in this state, a student, or an individual who has lost his or her home and
28 temporarily resides with a relative in this state.

29
30 3. The Act does not apply to an agreement with an individual who resides in another state
31 but comes to this state to meet with a provider. Nor does it apply to an agreement with an
32 individual who moves to this state after formation of an agreement. If an agreement is formed
33 with an individual who resides in another state, the continuation of services to that individual
34 after he or she moves into this state is not an agreement within the meaning of the phrase in
35 subsection (b)(1), “at the time the provider agrees to provide the services.” Rather, it is the
36 continuing performance of a commitment made by the provider at the outset of the relationship.
37

1 4. Under subsection (b)(1) if the provider does not have reason to know that an individual
2 to whom it agrees to provide services resides in this state, the provider is exempt from complying
3 with this Act. The paragraph speaks of “debt-management, education, or counseling services”
4 because section 23(d)~~(3)~~(5) regulates the fees of a provider that furnishes an individual with
5 education or counseling but not debt-management services.
6

7 5. The definition of “provider” encompasses persons that provide, agree to provide, or
8 offer to provide debt-management services. The exemption in this paragraph applies only to
9 providers that provide or agree to provide the specified services. Thus a person that offers to
10 provide debt-management services is not exempt under this paragraph, even if it does not enter
11 agreements with, or provide debt-management services to, individuals who reside in this state.
12 But a distinction exists between an offer and an advertisement. A provider whose ads reach, or
13 whose website is accessible to, individuals who reside in this state but who does not enter
14 agreements with or provide services to those individuals is not offering to provide debt-
15 management services to residents of this state.
16

17 6. Subsection (b)(2) exempts those persons, e.g., social workers, who may provide debt-
18 management services at no cost as part of their overall services to clients. It also exempts
19 individuals who assist family members or friends if they do not receive compensation for helping
20 their relatives or friends to manage their money. It does not, however, exempt a provider that
21 recovers its operating expenses from creditors, even if the provider does not impose any cost on
22 the individuals it serves.
23

24 7. The definition of “bank” in section 2(4) incorporates a requirement that the entity be
25 “regulated by a federal or state banking regulatory authority.” This section exempts not only
26 banks, but also subsidiaries of banks. As with banks, a subsidiary of a bank is exempt only if it is
27 subject to regulation by a federal or state banking regulatory authority. The exemption exists if
28 the subsidiary is subject to regulation, even if the banking authority has not exercised its power
29 with respect to debt-management services.
30

31 8. Subsection (c)(4) exempts entities that provide bill-paying services if negotiation of the
32 terms of payment is incidental to the services generally provided by the entity. Examples of
33 entities that may be exempt under this paragraph include mortgage loan servicers, athletes’
34 agents, artists’ agents, financial planners, executors of estates, and personal representatives of
35 decedents.
36

37 The exemption for bill-paying services applies only if debt-management services are
38 “incidental to” the regular course of the person’s business of providing bill-paying services. If
39 the person holds itself out as providing debt-management services, then debt-management
40 services are not incidental. Beyond that, the test is flexible, looking to such matters as the
41 amount and percentage of time devoted to providing debt-management services and the amount
42 and percentage of revenues derived from debt-management services. The more isolated the
43 provision of those services, the more likely it is that they are incidental. The more frequent the
44 provision of those services, the more likely it is that they are not incidental and the person is not
45 exempt.
46

1 **SECTION 4. REGISTRATION ~~[AND NOT FOR PROFIT STATUS]~~ REQUIRED.**

2 (a) Except as otherwise provided in subsection (b), a provider may not provide debt-
3 management services to an individual who it reasonably should know resides in this state at the
4 time it agrees to provide the services, unless the provider is registered under this [act].

5 (b) If a provider is registered under this [act], subsection (a) does not apply to an
6 employee or agent of the provider.

7 (c) The administrator shall maintain and publicize a list of the names of all registered
8 providers.

9 ~~[(d) A provider [whose agreements contemplate that creditors will reduce finance-~~
10 ~~charges or fees for late payment, default, or delinquency] [whose agreements contemplate that~~
11 ~~creditors will settle debts for less than the full principal amount of debt owed] may be registered~~
12 ~~only if it is:~~

13 ~~(1) organized and properly operating as a not for profit entity under the law of~~
14 ~~the state in which it was formed; and~~

15 ~~(2) exempt from taxation under the Internal Revenue Code, 26 U.S.C. Section~~
16 ~~501 [as amended]].~~

17 ***Legislative Note:*** ~~This section implements the state's decision concerning whether for profit~~
18 ~~entities are permitted to provide debt management services.~~

19
20 ~~If the state wishes to permit only not for profit entities to provide debt management~~
21 ~~services, use subsection (d) without the either of the two bracketed phrases, so that the~~
22 ~~introduction to subsection (d) states:~~

23 ~~(d) A provider may be registered only if it is:~~

24
25 ~~If the state wishes to permit for profit entities to provide all kinds of debt management~~
26 ~~services, omit subsection (d) and delete the bracketed material in the section caption.~~

27
28 ~~If the state wishes to permit for profit entities to provide debt settlement services but not~~
29 ~~credit counseling services, use the language in the first set of brackets, so that the introduction~~
30 ~~to subsection (d) states:~~

1 ~~(d) A provider whose agreements contemplate that creditors will reduce finance~~
2 ~~charges or fees for late payment, default, or delinquency may be registered only if it is:~~

3
4 ~~If the state wishes to permit for-profit entities to provide credit counseling services but~~
5 ~~not debt settlement services, use the language in the second set of brackets, so that the~~
6 ~~introduction to subsection (d) states:~~

7 ~~(d) A provider whose agreements contemplate that creditors will settle debts for~~
8 ~~less than the full principal amount of debt owed may be registered only if it is:~~

9
10 ~~In states in which the constitution does not permit the phrase, “as amended,” when~~
11 ~~federal statutes are incorporated into state law, the phrase should be deleted in subsection~~
12 ~~(d)(2).~~

13 14 **Comment**

15
16 1. The Act uses the term “individual” rather than “consumer.” The purpose of this usage
17 is to enlarge the usual meaning of “consumer” (viz., one who acquires goods or services for
18 personal, family, or household purposes) to encompass individuals who have incurred personal
19 debt for business purposes or in connection with farming operations.

20
21 2. Subsection (a) requires providers to register under this Act. This requirement applies to
22 providers with no physical presence in this state, if they serve individuals who reside in this state.
23 For elaboration on the “reasonably should know” standard, see the Official Comment to section
24 3.

25
26 3. Under subsection (b) employees and agents of a registered provider need not register.
27 The word “employees” encompasses the entity’s officers. Except as it may be changed by this
28 Act, the common law of master-servant or principal-agent continues to apply, and a provider is
29 responsible for the acts of its employees and agents.

30
31 Although employees and agents of a provider need not register, to the extent those
32 persons are themselves within the definition of “provider,” they must comply with all other
33 requirements and prohibitions that apply to providers throughout the Act. In addition, they may
34 be liable under sections 33(a)(2) and 35(c) if they have caused a provider to violate the Act.

35
36 4. The objective of subsection (c) is to enable individuals and creditors to ascertain
37 whether a given provider is registered. Posting on the Internet website of the administrator (or
38 other appropriate official site) is the preferred method, because the information is
39 instantaneously and continuously available. To “maintain” the list, the administrator must update
40 it regularly.

41
42 5. Subsection (d) requires ~~[certain]~~ providers to be organized and operating as a not-for-
43 profit and also be tax-exempt under federal law. The former is a prerequisite for the latter. The
44 purpose of stating it here as a separate requirement is to authorize a review of the ongoing, actual
45 operation of the entity, even though at its formation it may truly have been a not-for-profit. See
46 *Zimmerman v. Cambridge Credit Counseling*, 409 F.3d 473 (1st Cir. 2005). If an entity is not

1 ~~properly operating as a not for profit entity under the law of its organization, it is not properly~~
2 ~~registered under this Act.~~

3 **SECTION 5. APPLICATION FOR REGISTRATION: FORM, FEE, AND**
4 **ACCOMPANYING DOCUMENTS.**

5 (a) An application for registration as a provider must be in a form prescribed by the
6 administrator.

7 (b) Subject to adjustment of dollar amounts pursuant to Section 32(f), an application for
8 registration as a provider must be accompanied by:

9 (1) the fee established by the administrator;

10 (2) the bond required by Section 13;

11 (3) identification of all trust accounts required by Section 22 and an irrevocable
12 consent authorizing the administrator to review and examine the trust accounts;

13 (4) evidence of insurance in the amount of \$250,000:

14 (A) against the risks of dishonesty, fraud, theft, and other misconduct on
15 the part of the applicant or a director, employee, or agent of the applicant;

16 (B) issued by an insurance company authorized to do business in this state
17 and rated at least A or equivalent by a nationally recognized rating organization approved by the
18 administrator;

19 (C) with a deductible not exceeding \$5,000;

20 (D) payable for the benefit of the applicant, this state, and individuals
21 who are residents of this state, as their interests may appear; and

22 (E) not subject to cancellation by the applicant or the insurer until 60 days
23 after written notice has been given to the administrator;

24 (5) proof of compliance with [insert the citation to the statute specifying the

1 prerequisites for an entity to do business in this state]; and

2 {(6) if the applicant is organized as a not-for-profit entity or is exempt from
3 taxation under the Internal Revenue Code, 26 U.S.C. Section 501[, as amended], evidence of not-
4 for-profit status, tax-exempt status, or both, as applicable that status].

5 **Legislative Note:** *In states that do not empower administrative agencies to set fees, replace*
6 *subsection (b)(1) with the desired fee.*

7
8 *In subsection (b)(5) if the state has no statute specifying the prerequisites for an entity to*
9 *do business in this state, substitute the following for subsection (b)(5):*

10 (5) a record consenting to the jurisdiction of this state containing:

11 (A) the name, business address, and other contact information of its
12 registered agent in this state for purposes of service of process; or

13 (B) the appointment of the [administrator or other state official] as agent
14 of the provider for purposes of service of process.

15
16 ~~*If the state wishes to permit only tax-exempt entities to provide debt management*~~
17 ~~*services, the first bracketed language in paragraph (6) should be deleted so that paragraph (6)-*~~
18 ~~*states:*~~

19 ~~(6) evidence of tax-exempt status applicable to the applicant under Internal~~
20 ~~*Revenue Code, 26 U.S.C. Section 501 [, as amended].*~~

21
22 ~~*If the state wishes to permit only not for profit entities to provide debt management*~~
23 ~~*services, but does not wish to require that the entities also be exempt from taxation, substitute*~~
24 ~~*“organized as a not for profit entity” and omit the last part of paragraph (6), so that paragraph*~~
25 ~~*(6) would read, “if the applicant is organized as a not for profit entity, evidence of not for profit*~~
26 ~~*status.”*~~

27
28 ~~*If the state wishes to permit for profit entities to provide all kinds of debt management*~~
29 ~~*services, the brackets at the beginning of paragraph (6), should be deleted, so that paragraph (6)*~~
30 ~~*states:*~~

31 ~~(6) if the applicant is organized as a not for profit entity or is exempt from~~
32 ~~*taxation under the Internal Revenue Code, 26 U.S.C. Section 501[, as amended],*~~
33 ~~*evidence of not for profit status, tax-exempt status, or both, as applicable.*~~

34
35 ~~*If the state wishes to permit for profit entities to provide debt settlement services but not*~~
36 ~~*credit counseling services:*~~

37 ~~(1) select the appropriate bracketed language and omit the other, so that~~
38 ~~*paragraph (6) states: “(6) if the applicant’s agreements contemplate that creditors will*~~
39 ~~*reduce finance charges or fees for late payment, default, or delinquency, evidence of*~~
40 ~~*[not for profit] [and] [tax-exempt status applicable to the applicant under Internal*~~
41 ~~*Revenue Code, 26 U.S.C. Section 501 [, as amended]]”;*~~ and

42 ~~(2) add a new paragraph: “(7) if the applicant’s agreements contemplate that~~

1 ~~creditors will settle debts for less than the full principal amount of debt owed and the~~
2 ~~applicant is-~~

3 ~~(A) organized as a not for profit entity, evidence of not for profit status;~~

4 ~~(B) exempt from taxation, evidence of not for profit and tax exempt status~~
5 ~~applicable to the applicant under Internal Revenue Code, 26 U.S.C. Section 501[, as~~
6 ~~amended].”~~

7
8 ~~If the state wishes to permit for profit entities to provide credit counseling services but~~
9 ~~not debt settlement services:~~

10 ~~(1) select the appropriate bracketed language and omit the other, so that~~
11 ~~paragraph (6) states: “(6) if the applicant’s agreements contemplate that creditors will~~
12 ~~settle debts for less than the full principal amount of debt owed, evidence of [not for~~
13 ~~profit status] [and] [tax exempt status applicable to the applicant under Internal~~
14 ~~Revenue Code, 26 U.S.C. Section 501[, as amended]]”;~~ and

15 ~~(2) add a new paragraph: “(7) if the applicant’s agreements contemplate that~~
16 ~~creditors will reduce finance charges or fees for late payment, default, or delinquency~~
17 ~~and the applicant is-~~

18 ~~(A) organized as a not for profit entity, evidence of not for profit status;~~

19 ~~(B) exempt from taxation, evidence of not for profit and tax exempt status~~
20 ~~applicable to the applicant under Internal Revenue Code, 26 U.S.C. Section 501[, as amended],-~~
21 ~~as applicable.”~~

22
23 ~~In states in which the constitution does not permit the phrase, “as amended,” when~~
24 ~~federal statutes are incorporated into state law, the phrase should be deleted in subsection~~
25 ~~(b)(6).~~

26 27 **Comment**

28
29 1. In subsection (a) “form” encompasses format, and the administrator by rule may
30 permit all or part of the application to be submitted electronically.

31
32 2. Subsections (b)(2) and (3) refer to items “required by” other sections. If those other
33 sections do not require the item as to a particular applicant, then the application may omit them.

34
35 The bond requirement in paragraph (2) may be satisfied also in the manner provided in
36 section 14.

37
38 The consent required by paragraph (3) is for the purpose of satisfying the bank’s
39 requirements for disclosure of records to a person other than the account holder. The
40 administrator may adopt a rule prescribing the form and content of that consent. Section 19(d)(2)
41 requires a similar consent from the individuals whose money is in the trust account.

42
43 3. Subsection (b)(4) requires insurance in the amount of \$250,000 against the risk of
44 employee misconduct, including theft of funds from the trust account. Misconduct may consist
45 of conduct that is prohibited by this Act or by other law, or it may consist of a failure to act when
46 the provider has a duty to act. As used in this Act, “employee” encompasses officers of a

1 provider.

2
3 4. The insurance required by this section must be provided by an insurer whose reliability
4 is beyond question. Paragraph (B) speaks of an A rating, such as under the system of A.M. Best
5 Co., but a comparable rating by any other administrator-approved, nationally recognized rating
6 organization satisfies the requirement, even if the organization's system uses numbers or other
7 symbols instead of letters. The purpose of the requirement is to ensure that the insurance will be
8 issued by a very highly reliable insurer, and the requirements of paragraph (B) should be
9 interpreted accordingly.

10
11 5. Ordinarily, the beneficiary of insurance of the type required by this section would be
12 the provider, but this paragraph expands the beneficiaries to include the state and the customers
13 of the provider and requires that the insurance not be subject to cancellation without notice to the
14 administrator. The insurance required by this paragraph overlaps the bond required by section
15 13.

16
17 6. Subsection (b)(5) facilitates subjecting a non-resident business to the jurisdiction of
18 this state. If the applicant is a domestic entity, so that the statute referenced in this subsection
19 does not apply to it, the applicant complies with this subsection by indicating that fact. If existing
20 statutes leave doubt about the mechanism for serving process on the provider and the state has
21 chosen not to enact the language suggested in the Legislative Note, the administrator can
22 promulgate a rule requiring the applicant to appoint a state official as the provider's agent for
23 purposes of service of process.
24

25 **SECTION 6. APPLICATION FOR REGISTRATION: REQUIRED**

26 **INFORMATION.** An application for registration must be signed under [oath] [penalty of false
27 statement] and include:

28 (1) the applicant's name, principal business address and telephone number, and all other
29 business addresses in this state, electronic-mail addresses, and Internet website addresses;

30 (2) all names under which the applicant conducts business;

31 (3) the address of each location in this state at which the applicant will provide debt-
32 management services or a statement that the applicant will have no such location;

33 (4) the name and home address of each officer and director of the applicant and each
34 person that owns at least 10 percent of the applicant;

35 (5) identification of every jurisdiction in which, during the five years immediately

1 preceding the application:

2 (A) the applicant or any of its officers or directors has been licensed or registered
3 to provide debt-management services; or

4 (B) individuals have resided when they received debt-management services from
5 the applicant;

6 (6) a statement describing, to the extent it is known or should be known by the applicant,
7 any material civil or criminal judgment or litigation and any material administrative or
8 enforcement action by a governmental agency in any jurisdiction against the applicant, any of its
9 officers, directors, owners, or agents, or any person who is authorized to have access to the trust
10 account required by Section 22;

11 (7) the applicant's financial statements, audited by an accountant licensed to conduct
12 audits, for each of the two years immediately preceding the application or, if it has not been in
13 operation for the two years preceding the application, for the period of its existence;

14 (8) evidence of accreditation by an independent accrediting organization approved by the
15 administrator;

16 (9) evidence that, within 12 months after initial employment, each of the applicant's
17 counselors becomes certified as a certified counselor or certified debt specialist;

18 (10) a description of the three most commonly used educational programs that the
19 applicant provides or intends to provide to individuals who reside in this state and a copy of any
20 materials used or to be used in those programs;

21 (11) a description of the applicant's financial analysis and initial budget plan, including
22 any form or electronic model, used to evaluate the financial condition of individuals;

23 (12) a copy of each form of agreement that the applicant will use with individuals who

1 reside in this state;

2 (13) the schedule of fees and charges that the applicant will use with individuals who
3 reside in this state;

4 (14) at the applicant's expense, the results of a criminal-records check, including
5 fingerprints, conducted within the immediately preceding 12 months, covering every officer of
6 the applicant and every employee or agent of the applicant who is authorized to have access to
7 the trust account required by Section 22;

8 (15) the names and addresses of all employers of each director during the 10 years
9 immediately preceding the application;

10 (16) a description of any ownership interest of at least 10 percent by a director, owner, or
11 employee of the applicant in:

12 (A) any affiliate of the applicant; or

13 (B) any entity that provides products or services to the applicant or any individual
14 relating to the applicant's debt-management services;

15 (17) a statement of the amount of compensation of the applicant's five most highly
16 compensated employees for each of the three years immediately preceding the application or, if
17 it has not been in operation for the three years preceding the application, for the period of its
18 existence;

19 (18) the identity of each director who is an affiliate, as defined in Section 2(2)(A) or

20 (B)(i), (ii), (iv), (v), (vi), or (vii), of the applicant; and

21 (19) any other information that the administrator reasonably requires to perform the
22 administrator's duties under Section 9.

23 ***Legislative Note:*** *In the introductory language to this section, the state must determine whether*
24 *to require the application to be made "under oath" or "under penalty of false statement."*

1 *Similar choices are necessary in Sections 11 and 12.*

2
3 **Comment**

4
5 1. Paragraph (1) requires disclosure of the applicant’s principal business address, in
6 whatever jurisdiction it may be. It also requires disclosure of business addresses in this state, but
7 not business addresses outside this state.

8
9 2. Paragraph (3) contemplates disclosure of the address of all facilities, like call centers
10 and back-office operations, that are part of the provider’s operations. It does not, however,
11 require disclosure of the addresses of employees who work from home. If the applicant has no
12 physical presence in this state, that must be disclosed.

13
14 3. Paragraph (4) requires identification of any person that owns more than 10 percent of
15 an applicant. This applies to for-profit applicants, if the state permits them, and to nonprofit
16 applicants that are owned by others. Most nonprofit entities are not owned by anyone, and, if that
17 is true of an applicant, the applicant need only disclose that fact.

18
19 4. Paragraph (5) (identification of jurisdictions in which the applicant has done business
20 or has been registered or licensed to provide debt-management services) requires information to
21 enhance the administrator’s ability to investigate the applicant and to coordinate enforcement
22 efforts with administrators in other jurisdictions. Use of the word “jurisdiction” rather than
23 “state” means that the applicant must disclose with respect to its activities in other countries, too.
24 Unless required pursuant to paragraph (19), however, it does not mean that the applicant must
25 break down its disclosures by county or other subdivision of a state or country.

26
27 5. Paragraph (6) requires disclosure of material judicial and administrative proceedings in
28 any jurisdiction against the officers, directors, and owners (whether or not they are authorized to
29 access the trust account containing customers’ funds), as well as material judicial and
30 administrative proceedings against any other persons who may be authorized to access the trust
31 account. Proceedings dealing with matters of importance to the administrator in determining
32 whether to approve an application for registration, such as alleged deception or financial
33 irregularities, are material. See section 9(b)(4). The administrator by rule can elaborate on what
34 proceedings are material. This paragraph does not impose any disclosure requirement with
35 respect to proceedings of which the applicant reasonably is unaware, but the concept “should be
36 known” encompasses facts that a reasonable investigation would have revealed. “Authorized to
37 have access to the trust account” refers to persons who may initiate transactions in the account,
38 not persons who merely are empowered to view the account.

39
40 6. Paragraph (7) requires financial statements by an accountant licensed to conduct
41 audits. The accountant need not be licensed by this state.

42
43 7. Independent, nationally recognized accrediting organizations have been accrediting
44 credit-counseling agencies for many years, though not all agencies have sought to be accredited.
45 Paragraph (8) establishes accreditation as prerequisite to registration under this Act. The
46 accreditation requirement, which applies to both credit-counseling entities and debt-settlement

1 entities, reinforces regulation by the administrator and subjects providers to periodic review to
2 ensure that they continue to meet the standards of the accrediting agency. The administrator must
3 approve the organizations that accredit providers.
4

5 8. Paragraph (9) requires a provider to ensure that its counselors and debt specialists are
6 certified no later than 12 months after their initial employment. This requirement applies only
7 with respect to employees who act as counselors, debt specialists, and educators. It does not
8 apply to such other employees as customer service representatives. Section 17 prohibits an
9 agreement unless a certified counselor or certified debt specialist has done specified things. With
10 respect to the obligations imposed by section 17(b), this [Act] draws no distinctions between
11 credit-counseling entities and debt-settlement entities. Each must comply with the same
12 obligations through the services of either certified counselors or certified debt specialists.
13 Evidence that a provider has in place a system for certification of its counselors and debt
14 specialists provides some assurance to the administrator that the provider will be able to comply
15 with section 17.
16

17 9. As used in paragraph (10), “programs” encompasses both a course of instruction and
18 computer software. Unless the administrator adopts a rule to the contrary, a course of instruction
19 may be entirely oral.
20

21 10. An applicant, whether located in this state or elsewhere, need supply only those
22 documents specified in paragraph (12) that it will use with residents of this state. If it will use
23 more than one form, it must supply all of them. Section 32(b) empowers the administrator to
24 investigate the activities in another jurisdiction of a provider that is doing business in this state.
25 Under that section the administrator may obtain documents used in other jurisdictions.
26

27 11. As with the preceding paragraph, paragraph (13) only requires an applicant,
28 regardless of its location, to supply the schedules of fees and charges for residents of this state,
29 but if it uses more than one schedule, it must supply all of them. For purposes of this paragraph,
30 “fees and charges” includes all costs, however denominated (e.g., “charitable subsidy”), to be
31 paid by customers of the applicant. This information will enable the administrator to monitor the
32 industry’s practices in the state and may assist the administrator in determining whether an
33 individual provider is gouging individuals or whether the legislature should be encouraged to
34 raise the fee cap because the passage of time or changed circumstances make it too low. Section
35 23 imposes limitations on the amount of fees, and Section 24 prohibits the solicitation of
36 voluntary contributions.
37

38 12. Paragraphs (12) and (13) require information that is current as of the time of the
39 application. Unless the administrator adopts a rule to the contrary, an applicant is free to modify
40 its forms or fees without prior approval, but section 7 requires the provider to notify the
41 administrator promptly of any such modification.
42

43 13. Paragraph (14) requires the results of a criminal-records check on every officer of the
44 applicant. In addition, it requires the results of a criminal-records check covering every employee
45 or agent who is authorized to initiate transactions in the applicant’s trust account. If the applicant
46 is a natural person, the criminal-records check must cover the applicant, too.

1
2 This paragraph requires “the results of a criminal-records check, including fingerprints.”
3 In some jurisdictions the mechanics and procedures for obtaining fingerprints are quite
4 burdensome. This paragraph attempts to reduce that burden. It does not require that an applicant
5 obtain a criminal-records check specifically for the application for registration in this state. If an
6 applicant has obtained a criminal-records check in connection with obtaining permission to do
7 business in another state and that criminal-records check meets the standards of this paragraph,
8 the applicant may submit the results of it in its application to this state. The 12-month limitation
9 applies to the criminal-records check, not the time of submission to the other state. The criminal-
10 records check must include a check of fingerprints, but the fingerprints need not have been
11 obtained during the 12-month period.
12

13 14. Paragraphs (15)-(18) contain disclosures designed to enable the administrator to
14 enforce the requirement of an independent board of directors and the restrictions on self-dealing.
15 It requires these disclosures of all applicants, even for-profit entities, if they are permitted to
16 provide debt-management services, because the restrictions on self-dealing (section 28(e)) apply
17 to all providers. The disclosures also help the administrator monitor whether the fee limits are set
18 at an appropriate level. Paragraph (16) requires the disclosure with respect to officers, since
19 officers are included the category, “employees.” In paragraph (17) “compensation” includes cash
20 and all other items that ordinarily are considered part of compensation.
21

22 15. Paragraph (19) authorizes the administrator to require additional information either by
23 rulemaking procedure applicable to all applicants or by specific request in response to a specific
24 application. Section 9 specifies the grounds for denying registration (including a finding that the
25 general fitness of the applicant is not such as to warrant belief that the applicant will comply with
26 the Act). This paragraph authorizes the administrator to seek additional information relevant to
27 the application of that standard.
28

29 **SECTION 7. APPLICATION FOR REGISTRATION: OBLIGATION TO**

30 **UPDATE INFORMATION.** An applicant or registered provider shall notify the administrator
31 within 10 days after a change in the information specified in Section 5(b)(4) or (6) or Section
32 6(1), (3), (6), (12), or (13).

33 **Comment**

34
35 The cross-referenced sections require evidence of insurance against misconduct; evidence
36 of not-for-profit and tax-exempt status; and disclosure of the name of the applicant, the addresses
37 at which it operates, enforcement actions against the applicant in another state, and the
38 applicant’s standard forms and fee schedules. This section requires prompt notification of any
39 change in this information, and since it applies to the “applicant or registered provider,” the
40 requirement of notification applies both before and after the administrator has issued a certificate
41 of registration. Notification of change in other required information is governed by section

1 11(b)(4) (Renewal of Registration), which requires notification at the time of renewal of
2 registration. Notification of a change, of course, means that the applicant or registered provider
3 must communicate the new information, not merely that the original information is no longer
4 accurate.
5

6 **SECTION 8. APPLICATION FOR REGISTRATION: PUBLIC INFORMATION.**

7 Except for the information required by Section 6 (7), (14), and (17) and the addresses required by
8 Section 6(4), the administrator shall make the information in an application for registration as a
9 provider available to the public.

10 **Comment**

11 This section preserves the confidentiality of home addresses, financial statements,
12 salaries of the highest-paid employees, and the report on the criminal-records check. While this
13 section prohibits the administrator from disclosing the specified information, it has no effect on
14 the use of judicial process in connection with litigation to enforce the Act. Nor does it limit
15 access to information that is available to the public under other law, such as the law governing
16 tax-exempt entities.
17

18 **SECTION 9. CERTIFICATE OF REGISTRATION: ISSUANCE OR DENIAL.**

19 (a) Except as otherwise provided in subsections (c) and (d), the administrator shall issue
20 a certificate of registration as a provider to a person that complies with Sections 5 and 6.

21 (b) If an applicant has otherwise complied with Sections 5 and 6, including a timely effort
22 to obtain the information required by Section 6(14) but the information has not been received,
23 the administrator may issue a temporary certificate of registration. The temporary certificate
24 shall expire no later than 180 days after issuance.

25 (c) The administrator may deny registration if:

26 (1) the application contains information that is materially erroneous or
27 incomplete;

28 (2) an officer, director, or owner of the applicant has been convicted of a crime,

1 or suffered a civil judgment, involving dishonesty or the violation of state or federal securities
2 laws;

3 (3) the applicant or any of its officers, directors, or owners has defaulted in the
4 payment of money collected for others; or

5 (4) the administrator finds that the financial responsibility, experience, character,
6 or general fitness of the applicant or its owners, directors, employees, or agents does not warrant
7 belief that the business will be operated in compliance with this [act].

8 (d) The administrator shall deny registration if, with respect to an applicant that is
9 organized as a not-for-profit entity or has obtained tax-exempt status under the Internal Revenue
10 Code, 26 U.S.C. Section 501 [, as amended], the applicant’s board of directors is not
11 independent of the applicant’s employees and agents.

12 (e) Subject to adjustment of the dollar amount pursuant to Section 32(f), a board of
13 directors is not independent for purposes of subsection (d) if more than one-fourth of its
14 members:

15 (1) are affiliates of the applicant, as defined in Section 2(2)(A) or (B)(i), (ii), (iv),
16 (v), (vi), or (vii); or

17 (2) after the date 10 years before first becoming a director of the applicant, were
18 employed by or directors of a person that received from the applicant more than \$25,000 in
19 either the current year or the preceding year.

20 **Legislative Note:** ~~If the state wishes to permit only not for profit entities to provide debt~~
21 ~~management services, in subsection (e)(2) all the bracketed language should be deleted. If the~~
22 ~~state wishes to permit for-profit entities to provide credit counseling services, debt settlement~~
23 ~~services, or both, the first set of brackets should be deleted.~~

24
25 *In states in which the constitution does not permit the phrase, “as amended,” when*
26 *federal statutes are incorporated into state law, the phrase should be deleted in subsection*
27 *(e)(2)(d).*

1 **Comment**

2
3 1. Section 6(14) requires an applicant to provide the results of a criminal-records check,
4 including fingerprints. This information is provided by third parties, and the applicant has no
5 control over the timeliness of any response. Subsection (b) therefore gives the administrator
6 discretion to issue a temporary certificate of registration.
7

8 2. Some conduct may justify a lifetime ban from the debt-management-services industry.
9 Examples include some of the conduct described in subsection ~~(b)(c)~~(2) and (3). Other conduct
10 can be readily corrected, e.g., subsection ~~(b)(c)~~(1). The introductory language of the subsection
11 (“administrator *may deny*”) gives the administrator discretion to consider the importance of
12 various items of adverse information about an applicant, such as the precise nature and timing of
13 past criminal conduct. The language of limitation at the end of subsection ~~(b)(c)~~(2) (“involving
14 dishonesty or the violation of state or federal securities laws”) applies to both criminal
15 convictions and civil judgments. Subsection ~~(b)(c)~~(4) gives the administrator discretion to
16 consider other relevant information, such as the fact of and reasons for any suspension or
17 revocation of the applicant’s right to provide debt-management services in another state.
18

19 3. Paragraphs (2) and (3) do not express any temporal limits and therefore require
20 disclosure of the specified information regardless of when the conviction, judgment, or default
21 occurred.
22

23 4. Because providers may have hundreds of employees, most of whom are not in control
24 of the provider, subsection ~~(b)(c)~~ does not include employees in the list of persons in paragraphs
25 (2) and (3) whose conduct justifies the denial of registration. Conversely, paragraph (4) does
26 include employees. It does not explicitly name officers, because officers are included in the
27 category, “employee.” The past misconduct of employees is a basis for action under paragraph
28 (4), because the administrator has the discretion to deny registration if, e.g., a pattern of hiring
29 raises doubts about the likelihood that the applicant will operate the business in compliance with
30 the Act. Unless the administrator by rule requires otherwise, however, paragraph (4) does not
31 require an applicant to disclose the convictions or adverse judgments of its employees. These
32 disclosures are required by section 6(6), but only with respect to the applicant’s officers,
33 directors, owners, and those employees who are authorized to access the trust account.
34

35 5. Subsection ~~(e)(d)~~ states circumstances in which denial of registration is mandatory.
36 Paragraph (2) requires that the board of directors of a nonprofit entity be independent of the
37 management of the entity and independent of the creditors for whom the entity is, in a sense,
38 acting as debt collector. If the board of directors is not independent, the administrator must deny
39 registration. Similar to subsection ~~(b)(c)~~(4), this paragraph does not explicitly mention “officers”
40 because officers are included in the term, “employee.”
41

42 6. Since the definition of “affiliate” includes directors (section 2(2)(B)(iii)), subsection
43 ~~(d)(e)~~(1) omits this subparagraph of the definition of affiliates for purposes of determining the
44 independence of the board.
45

1 by the administrator, signed under [oath] [penalty of false statement], and:

2 (1) be filed no fewer than 30 and no more than 60 days before the registration
3 expires;

4 (2) be accompanied by the fee established by the administrator and the bond
5 required by Section 13;

6 (3) contain the matter required for initial registration as a provider by Section
7 6(8) and (9) and a financial statement, audited by an accountant licensed to conduct audits, for
8 the applicant's fiscal year immediately preceding the application;

9 (4) disclose any changes in the information contained in the applicant's
10 application for registration or its immediately previous application for renewal, as applicable. If
11 an application is otherwise complete and the applicant has made a timely effort to obtain the
12 information required by Section 6(14) but the information has not been received, the
13 administrator may issue a temporary renewal of registration. The temporary renewal shall expire
14 no later than 180 days after issuance;

15 (5) supply evidence of insurance in an amount equal to the larger of \$250,000 or
16 the highest daily balance in the trust account required by Section 22 during the six-month period
17 immediately preceding the application:

18 (A) against risks of dishonesty, fraud, theft, and other misconduct on the
19 part of the applicant or a director, employee, or agent of the applicant;

20 (B) issued by an insurance company authorized to do business in this state
21 and rated at least A or equivalent by a nationally recognized rating organization approved by the
22 administrator;

23 (C) with a deductible not exceeding \$5,000;

1 (D) payable for the benefit of the applicant, this state, and individuals who
2 are residents of this state, as their interests may appear; and

3 (E) not subject to cancellation by the applicant or the insurer until 60 days
4 after written notice has been given to the administrator;

5 (6) disclose the total amount of money received by the applicant pursuant to
6 plans during the preceding 12 months from or on behalf of individuals who reside in this state
7 and the total amount of money distributed to creditors of those individuals during that period;

8 (7) disclose, to the best of the applicant's knowledge, the gross amount of money
9 accumulated during the preceding 12 months pursuant to plans by or on behalf of individuals
10 who reside in this state and with whom the applicant has agreements; and

11 (8) provide any other information that the administrator reasonably requires to
12 perform the administrator's duties under this section.

13 (c) Except for the information required by Section 6(7), (14), and (17) and the addresses
14 required by Section 6(4), the administrator shall make the information in an application for
15 renewal of registration as a provider available to the public.

16 (d) If a registered provider files a timely and complete application for renewal of
17 registration, the registration remains effective until the administrator, in a record, notifies the
18 applicant of a denial and states the reasons for the denial.

19 (e) If the administrator denies an application for renewal of registration as a provider, the
20 applicant, within 30 days after receiving notice of the denial, may appeal and request a hearing
21 pursuant to [insert the citation to the appropriate section of the Administrative Procedure Act or
22 other statute governing administrative procedure]. Subject to Section 34, while the appeal is
23 pending the applicant shall continue to provide debt-management services to individuals with

1 whom it has agreements. If the denial is affirmed, subject to the administrator’s order and
2 Section 34, the applicant shall continue to provide debt-management services to individuals with
3 whom it has agreements until, with the approval of the administrator, it transfers the agreements
4 to another registered provider or returns to the individuals all unexpended money that is under
5 the applicant’s control.

6 **Legislative Note:** *In the introduction to subsection (b), the state must determine whether to*
7 *require the application to be made “under oath” or “under penalty of false statement.”*

8
9 *In states that do not empower administrative agencies to set fees, replace the first part of*
10 *paragraph (b)(2) with the desired fee.*

11 **Comment**

12
13
14 1. A registration must be renewed every year. The administrator may adopt a rule
15 specifying the timing of renewals, so that renewals of registration of all providers occur on the
16 same date, occur on a rolling basis, or otherwise.

17
18 2. Subsection (b) states the prerequisites for renewal of registration. The bond
19 requirement in paragraph (2) may be satisfied also in the manner provided in section 14.

20
21 3. Paragraph (4) requires a provider to update any required information that has changed.
22 This includes background checks on anyone who, since the last renewal, has become an officer
23 of the applicant or has been given power to initiate transactions in the trust account required by
24 Section 22. Since acquisition of this information is not entirely within the control of the provider,
25 this paragraph grants the administrator the discretion to issue a temporary renewal of registration.

26
27 4. Paragraph (5) contains the same requirements that section 5(b)(4) does for initial
28 registration, except that upon renewal the provider must obtain insurance in an amount equal to
29 the highest balance in the trust account during the six months preceding the application for
30 renewal.

31
32 5. Paragraph (6) requires disclosure of two items. The first is the total amount received
33 from its customers by a provider (or its designee). This requirement does not apply to a provider
34 that directs its customers to accumulate money on their own. This paragraph requires disclosure
35 of all funds received, including any fees received in violation of section 23. The second item is
36 the total amount distributed to creditors, and this requirement applies to all providers, whether or
37 not they (or their designees) take possession of their customers’ funds.

38
39 6. Paragraph (7) supplements paragraph (6) by requiring a provider that does not take
40 possession of its customers’ funds to disclose the gross amount its customers have accumulated.
41 “Gross amount” means the total amount accumulated without adjustment for any debits,

1 withdrawals, or payments for fees or for satisfaction of creditors' claims. A provider that does
2 not take possession of its customers' money may monitor the customers' accounts, either by
3 direct access to the accounts or by requiring the customers to provide periodic copies of bank
4 statements. If the provider does not do either of these, and therefore has no knowledge of the
5 amounts accumulated, it need make no disclosure under paragraph (7).
6

7 7. Paragraph (8) authorizes the administrator to require additional information from an
8 applicant. This refers both to information required by rule and information requested in response
9 to the information in an application. For example, the administrator may exercise the rulemaking
10 authority to require applicants to disclose indicia of success, such as the percentage of
11 individuals who complete plans or the amounts a provider has received from creditors (or
12 others).
13

14 8. The home addresses, financial statements, salaries of the highest-paid employees, and
15 results of the criminal-records check, as disclosed in an application for renewal, remain exempt
16 from public disclosure.
17

18 9. The grounds for denial of an application to renew registration appear in section 34. If a
19 provider files a timely and complete application, subsection (d) provides that the registration
20 remains effective until the administrator denies it. The denial of an application for renewal
21 triggers a right of appeal under subsection (e). Pending completion of the appeals process, a
22 provider is required to continue providing debt-management services, even though the
23 administrator has determined that it should not be permitted to continue its business in this state.
24 For this reason, subsection (e) limits to 30 days the time for initiating the appeals process. If the
25 appeals process concludes with a determination upholding the administrator's decision, section
26 4(a) prohibits the provider from providing debt-management services. An abrupt end to the
27 provider's activity, however, may adversely affect its customers who are in the middle of a plan.
28 Consequently, this subsection qualifies section 4(a) and compels the provider to continue
29 providing services to existing customers until the administrator authorizes it to cease.
30

31 **SECTION 12. REGISTRATION IN ANOTHER STATE.** If a provider holds a
32 license or certificate of registration in another state authorizing it to provide debt-management
33 services, the provider may submit a copy of that license or certificate and the application for it
34 instead of an application in the form prescribed by Section 5(a), 6, or 11(b). The administrator
35 shall accept the application and the license or certificate from the other state as an application for
36 registration as a provider or for renewal of registration as a provider, as appropriate, in this state
37 if:

38 (1) the application in the other state contains information substantially similar to or more

1 comprehensive than that required in an application submitted in this state;

2 (2) the applicant provides the information required by Section 6(1), (3), (10), (12), and
3 (13); and

4 (3) the applicant, under [oath] [penalty of false statement], certifies that the information
5 contained in the application is current or, to the extent it is not current, supplements the
6 application to make the information current.

7 *Legislative Note: In paragraph (3) the state must determine whether to require the certification*
8 *to be made “under oath” or “under penalty of false statement.”*

9

10

Comment

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21

This section provides for reciprocal use of applications in states that have adopted this Act. It simplifies registration in states that have substantially similar laws, thereby easing the burden placed on providers that operate in multiple states. This benefit is available, however, only if the law of the other state is substantially similar to this Act. It may be that, as a practical matter, a provider can comfortably rely on this section only if the other state has also adopted this Act. The administrator by rule may designate other states whose application requirements meet the standard “substantially similar to or more comprehensive than” the requirements of this Act. Some states may use a system of licensure rather than registration. This section permits use of a license and application for license.

22

SECTION 13. BOND REQUIRED.

23

24

25

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29

30

(a) Except as otherwise provided in Section 14, a provider that is required to be registered under this [act] shall file a surety bond with the administrator, which must:

(1) be in effect during the period of registration and for two years after the provider ceases providing debt-management services to individuals in this state; and

(2) run to this state for the benefit of this state and of individuals who reside in this state when they agree to receive debt-management services from the provider, as their interests may appear.

(b) Subject to adjustment of the dollar amount pursuant to Section 32(f), a surety bond

1 filed pursuant to subsection (a) must:

2 (1) be in the amount of \$50,000 or other larger or smaller amount that the
3 administrator determines is warranted by the financial condition and business experience of the
4 provider, the history of the provider in performing debt-management services, the risk to
5 individuals, and any other factor the administrator considers appropriate;

6 (2) be issued by a bonding, surety, or insurance company authorized to do
7 business in this state and rated at least A by a nationally recognized rating organization; and

8 (3) have payment conditioned upon noncompliance of the provider or its agent
9 with this [act].

10 (c) If the principal amount of a surety bond is reduced by payment of a claim or a
11 judgment, the provider shall immediately notify the administrator and, within 30 days after
12 notice by the administrator, file a new or additional surety bond in an amount set by the
13 administrator. The amount of the new or additional bond must be at least the amount of the bond
14 immediately before payment of the claim or judgment. If for any reason a surety terminates a
15 bond, the provider shall immediately file a new surety bond in the amount of \$50,000 or other
16 amount determined pursuant to subsection (b).

17 (d) The administrator or an individual may obtain satisfaction out of the surety bond
18 procured pursuant to this section if:

19 (1) the administrator assesses expenses under Section 32(b)(1), issues a final
20 order under Section 33(a)(2), or recovers a final judgment under Section 33(a)(4) or (5) or (d); or

21 (2) an individual recovers a final judgment pursuant to Section 35(a), (b), or
22 (c)(1), (2), or (4).

23 (e) If claims against a surety bond exceed or are reasonably expected to exceed the

1 amount of the bond, the administrator, on the initiative of the administrator or on petition of the
2 surety, shall, unless the proceeds are adequate to pay all costs, judgments, and claims, distribute
3 the proceeds in the following order:

4 (1) to satisfaction of a final order or judgment under Section 33(a)(2), (4), or (5)
5 or (d);

6 (2) to final judgments recovered by individuals pursuant to Section 35(a), (b), or
7 (c) (1), (2), or (4), pro rata;

8 (3) to claims of individuals established to the satisfaction of the administrator,
9 pro rata; and

10 (4) if a final order or judgment is issued under Section 33(a), to the expenses
11 charged pursuant to Section 32(b)(1).

12 **Comment**

13

14 1. Subsection (a) imposes the bond requirement on all providers that section 4 requires to
15 be registered, including those that are not required to establish trust accounts. A provider's
16 employee who serves as an intermediary between an individual and the individual's creditors,
17 and therefore is a "provider," need not provide a bond, however, because section 4(b) exempts
18 the employee from the registration requirement.

19

20 2. The bond is a source of payment of damages for a provider's failure to comply with
21 this Act. It is conceivable that the administrator or an individual would not commence litigation
22 until after a provider ceases providing services in this state. Therefore, paragraph (1) seeks to
23 preserve the availability of the bond for two years after the year in which the provider's
24 registration ends.

25

26 3. Paragraph (2) requires the bond to run in favor of the state for the benefit of the state
27 and for the benefit of the customers of the provider. Thus, it is available to compensate the
28 administrator for the administrator's enforcement costs. The bond also runs directly in favor of
29 customers who have a cause of action for a provider's noncompliance with the Act.

30

31 4. Subsection (b)(1) sets the amount of the bond at \$50,000, but gives the administrator
32 the power to adjust the amount, either higher or lower than \$50,000, for a particular provider. A
33 provider operating on a national basis must comply with the bond requirement of each state in
34 which it operates. This may be burdensome, but it does not by itself justify a reduction in the
35 amount of the bond required under this Act. Rather, the primary criterion should be the level of

1 risk of injury associated with the provider. If the provider’s history of operations leads the
2 administrator to conclude that the risk of injury is sufficiently low, a reduction from \$50,000
3 would be appropriate. By the same token, a provider’s history of operations may lead the
4 administrator to conclude that an increase is appropriate.
5

6 5. Subsection (b)(3) requires that payment of the bond be conditioned upon
7 noncompliance with the Act. Bonds often are written in the form of penal bonds: the surety
8 agrees to pay unless the principal obligor performs its obligations, performs a contract, enters a
9 contract, etc. A bond in this form satisfies the requirement of this section because, although the
10 formal condition may be compliance with the Act, in fact the sum is paid only if the provider
11 fails to comply.
12

13 Nothing is payable until the administrator or an individual obtains a judicial
14 determination that the provider has failed to comply (or the administrator assesses costs under
15 section 32(b)(1). In a typical case the surety would be joined as a party defendant.
16

17 6. Section 32(b)(1) empowers the administrator to charge a provider for the costs of an
18 investigation of the provider. Section 33 empowers the administrator to seek restitution for
19 injured individuals and recover its costs of an enforcement action. Under subsection (d) the bond
20 or other security required by this section is a source for payment of this restitution. Section 35
21 authorizes private rights of action. The bond or other security is a source of payment of actual
22 damages, damages for overcharges, the \$5,000 minimum damages, and costs and attorney’s fees.
23 It is not available to satisfy civil penalties under section 33 or punitive damages under section 35.
24

25 7. Section 35(g) requires the administrator to assist an individual in enforcing a judgment
26 against the bond. Subsection (e) of this section sets out the priority of claims against the bond,
27 but it does not necessarily set out a temporal order of payment. Hence, if it is clear that the bond
28 is sufficient in amount to satisfy the claims in paragraphs (1) and (2), the administrator should
29 distribute bond proceeds to individuals with final judgments even though the claim of the
30 administrator under paragraph (1) is not yet final. To facilitate administration of this claims
31 process, the administrator may set a deadline for individuals to submit the claims described in
32 paragraph (3).
33

34 8. Subsection (e) creates an administrative procedure for the payment of claims, but it
35 does not require use of that procedure. A surety may file an interpleader action for distribution of
36 the proceeds. This subsection suggests the order in which a court should distribute the proceeds
37 of the bond or other security.
38

39 **SECTION 14. BOND REQUIRED: SUBSTITUTE.**

40 (a) Instead of the surety bond required by Section 13, a provider may deliver to the
41 administrator, in the amount required by Section 13(b), and, except as otherwise provided in
42 paragraph (2)(A), payable or available to this state and to individuals who reside in this state

1 when they agree to receive debt-management services from the provider, as their interests may
2 appear, if the provider or its agent does not comply with this [act]:

3 (1) a certificate of insurance;

4 (A) issued by an insurance company authorized to do business in this state
5 and rated at least A or equivalent by a nationally recognized rating organization approved by the
6 administrator; and

7 (B) with no deductible, or if the provider supplies a bond in the amount of
8 \$5,000, a deductible not exceeding \$5,000; or

9 (2) with the approval of the administrator:

10 (A) an irrevocable letter of credit, issued or confirmed by a bank
11 approved by the administrator, payable upon presentation of a certificate by the administrator
12 stating that the provider or its agent has not complied with this [act]; or

13 (B) bonds or other obligations of the United States or guaranteed by the
14 United States or bonds or other obligations of this state or a political subdivision of this state, to
15 be deposited and maintained with a bank approved by the administrator for this purpose.

16 (b) If a provider furnishes a substitute pursuant to subsection (a), the provisions of
17 Section 13(a), (c), (d), and (e) apply to the substitute.

18 **Comment**

19

20 1. This section provides three alternatives to posting a bond. It authorizes the provider to
21 procure insurance against the risk that the provider will fail to comply with the Act. As
22 additional alternatives, the provider may ~~or~~, with the administrator's approval, supply a letter of
23 credit or debt instruments. With respect to debt instruments, the requirement of approval by the
24 administrator extends to both the instruments deposited and the terms of the account into which
25 they are deposited, to ensure that they are available to pay claims of injured individuals. The
26 administrator by rule can develop the mechanics for liquidating the instruments and paying the
27 proceeds to injured individuals.

28

29 2. With respect to letters of credit, the requirement of approval by the administrator

1 extends to the identity of the bank and to the form of the letter of credit. If a letter of credit
2 requires personal presentation of a certificate, presentation to a distant bank may entail
3 inconvenience or expense. When this is the case, the administrator may confine approval to
4 banks located in a specified geographic area.

5
6 3. Subsection (a)(2)(A) requires that a letter of credit be payable upon presentation of a
7 certificate by the administrator, and the administrator may determine the nature of that
8 certificate. For example, the administrator may require that a letter of credit provide that the
9 issuer will pay the amount stipulated in the certificate as costs assessed under section 32(b)(1) or
10 the amount stipulated in the certificate as the amount of a judgment obtained by an individual.
11 Similarly, the administrator may require that a letter of credit provide for presentation of the
12 certificate by mail or other specified means.

13
14 4. Subsection (b) refers to several provisions of section 13, which applies to surety bonds.
15 In stating that those provisions apply to the substitute security furnished under this section,
16 subsection (b) requires the substitute security to be available for two years after a provider ceases
17 providing services, available for the benefit of the state and residents of the state at the time of an
18 agreement, replenished if depleted, available for payment of the claims specified in section
19 13(d), and distributed in the order specified in section 13(e).

20
21 5. Section 35(g) requires the administrator to assist an individual enforce a judgment
22 against the security posted by the provider.
23

24 **SECTION 15. REQUIREMENT OF GOOD FAITH.** A provider shall act in good
25 faith in all matters under this [act].

26 **Comment**

27 The obligation to act in good faith relates to “all matters under this Act.” If a person fails
28 to act in good faith, this means that the person has failed to act as required in connection with
29 some matter under this Act. Consequently, the person has violated the section dealing with that
30 matter, and, depending on the sections on remedies (sections 33, 35), may be liable for violation
31 of the section dealing with the underlying matter. But there is no independent cause of action for
32 failure to act in good faith. The failure to act in good faith also may make unavailable a right or
33 power that otherwise would have been available to the provider. See Commentary No. 10,
34 section 1-203, Permanent Editorial Board for the Uniform Commercial Code (Feb. 10, 1994).
35 Good faith is defined in section 2(11).
36

37 **SECTION 16. CUSTOMER SERVICE.** A provider that is required to be registered
38 under this [act] shall maintain a toll-free communication system, staffed at a level that
39 reasonably permits an individual to speak to a certified counselor, certified debt specialist, or

1 customer-service representative, as appropriate, during ordinary business hours.

2 **Comment**

3
4 1. The purpose of this section is to ensure adequate service to individual who have
5 entered agreements with a provider. The staffing required by this section therefore is in addition
6 to whatever staffing the provider might have for soliciting or responding to potential customers.

7
8 2. Some inquiries require counseling services or assistance in dealing with creditors;
9 others concern administrative matters such as confirmation of receipt of a payment,
10 communication that a payment for a particular month will be late or in a different amount than
11 scheduled, etc. The provider must provide sufficient staffing to meet the reasonably expectable
12 demand for both kinds of requests.

13
14 3. Section 18 permits a provider to comply with sections 17, 19, and 27 by means of
15 electronic communication. This section makes no exception for this provider. Even if a provider
16 desires to operate exclusively via electronic communication, it must comply with this section. If
17 a provider forms plans by electronic means, it must, consistent with the obligation of good faith
18 under section 15, respond to electronically communicated requests for assistance within a
19 reasonable time during ordinary business hours. This assistance must be individualized, not
20 merely “frequently asked questions” or other standardized presentation of information. This
21 section requires the provider also to maintain a system that enables individuals to *speak* with an
22 appropriate representative of the provider.

23
24 **SECTION 17. PREREQUISITES FOR PROVIDING DEBT-MANAGEMENT**
25 **SERVICES.**

26 (a) Before providing debt-management services, a ~~registered~~ provider shall give the
27 individual an itemized list of goods and services and the charges for each. The list must be clear
28 and conspicuous, be in a record the individual may keep whether or not the individual assents to
29 an agreement, and describe the goods and services the provider offers:

- 30 (1) free of additional charge if the individual enters into an agreement;
- 31 (2) for a charge if the individual does not enter into an agreement; and
- 32 (3) for a charge if the individual enters into an agreement, using the following
- 33 terminology, as applicable, and format:

1	Set-up fee	_____
2		<i>dollar amount of fee</i>
3	Monthly service fee	_____
4		<i>dollar amount of fee or method of determining amount</i>
5	Settlement fee	_____
6		<i>dollar amount of fee or method of determining amount</i>
7	Goods and services in addition to those provided in connection with a plan:	
8	_____	_____
9	<i>(item)</i>	<i>dollar amount or method of determining amount</i>
10	_____	_____
11	<i>(item)</i>	<i>dollar amount or method of determining amount.</i>

12 (b) A provider may not furnish debt-management services unless the provider, through
13 the services of a certified counselor or certified debt specialist:

14 (1) provides the individual with reasonable education about the management of
15 personal finance;

16 (2) has prepared a financial analysis encompassing at least the following matters
17 affecting the individual's financial condition:

18 (A) assets;

19 (B) income;

20 (C) debt, including secured debt; and

21 (D) other liabilities; and

22 (3) if the individual is to make regular, periodic payments:

23 (A) has prepared a plan for the individual;

24 (B) has made a determination, based on the provider's analysis of the

25 information provided by the individual and otherwise available to it, that the plan is suitable for

26 the individual and the individual will be able to meet the payment obligations under the plan; and

1 (C) believes that each creditor of the individual listed as a participating
2 creditor in the plan will accept payment of the individual's debts as provided in the plan.

3 (c) Before an individual assents to an agreement to engage in a plan, a provider shall:

4 (1) provide the individual with a copy of the analysis and plan required by
5 subsection (b) in a record that identifies the provider and that the individual may keep whether or
6 not the individual assents to the agreement;

7 (2) inform the individual of the availability, at the individual's option, of
8 assistance by a toll-free communication system or in person to discuss the financial analysis and
9 plan required by subsection (b); and

10 (3) with respect to all creditors identified by the individual or otherwise known
11 by the provider to be creditors of the individual, provide the individual with a list of:

12 (A) creditors that the provider expects to participate in the plan and grant
13 concessions;

14 (B) creditors that the provider expects to participate in the plan but not
15 grant concessions;

16 (C) creditors that the provider expects not to participate in the plan; and

17 (D) all other creditors.

18 (d) Before an individual assents to an agreement, the provider shall inform the
19 individual, in a separate record ~~that contains nothing else, that is given separately, and~~ that the
20 individual may keep whether or not the individual assents to the agreement:

21 (1) of the name and business address of the provider;

22 (2) that plans are not suitable for all individuals and the individual may ask the
23 provider about other ways, including bankruptcy, to deal with indebtedness;

1 (3) that establishment of a plan may adversely affect the individual's credit rating
2 or credit scores;

3 (4) that nonpayment of debt may lead creditors to increase finance and other
4 charges or undertake collection activity, including litigation;

5 (5) unless it is not true, that the provider may receive compensation from the
6 creditors of the individual; and

7 (6) that, unless the individual is insolvent, if a creditor settles for less than the full
8 amount of the debt, the plan may result in the creation of taxable income to the individual, even
9 though the individual does not receive any money.

10 (e) If a provider may receive payments from an individual's creditors and the plan
11 contemplates that the individual's creditors will reduce finance charges or fees for late payment,
12 default, or delinquency, the provider may comply with subsection (d) by providing the following
13 disclosure, surrounded by black lines:

14 **IMPORTANT INFORMATION FOR YOU TO CONSIDER**

15 (1) Debt-management plans are not right for all individuals, and you may ask us to
16 provide information about other ways, including bankruptcy, to deal with your debts.

17 (2) Using a debt-management plan may make it harder for you to obtain credit.

18 (3) We may receive compensation for our services from your creditors.

19 _____
20 *Name and business address of provider*

21 (f) If a provider will not receive payments from an individual's creditors and the plan
22 contemplates that the individual's creditors will reduce finance charges or fees for late payment,
23 default, or delinquency, a provider may comply with subsection (d) by providing the following
24 disclosure, surrounded by black lines:

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IMPORTANT INFORMATION FOR YOU TO CONSIDER

(1) Debt-management plans are not right for all individuals, and you may ask us to provide information about other ways, including bankruptcy, to deal with your debts.

(2) Using a debt-management plan may make it harder for you to obtain credit.

Name and business address of provider

(g) If an agreement contemplates that creditors will settle debts for less than the full principal amount of debt owed, a provider may comply with subsection (d) by providing the following disclosure, surrounded by black lines:

IMPORTANT INFORMATION FOR YOU TO CONSIDER

(1) Our program is not right for all individuals, and you may ask us to provide information about bankruptcy and other ways to deal with your debts.

(2) Nonpayment of your debts under our program may

- hurt your credit rating or credit scores;
- lead your creditors to increase finance and other charges; and
- lead your creditors to undertake activity, including lawsuits, to collect the debts.

(3) Reduction of debt under our program may result in taxable income to you, even though you will not actually receive any money.

Name and business address of provider

Comment

1. Subsection (a) requires a standardized disclosure and specifies the terminology and format to be used. The disclosure of charges must contain the dollar amounts or the method of determining the dollar amounts, e.g., “\$5 per month for each creditor in the plan at the time the monthly charge is assessed, but not more than \$25 in any month,” or “five percent of the amount

1 of debt that a creditor writes off.” The subsection requires disclosure “as applicable.” Therefore,
2 if a provider does not impose one or more of the specified fees, it need not make any disclosure
3 with respect to the omitted fee(s). Section 23 limits a provider’s ability to impose fees and
4 governs the timing of receipt of those fees. Nothing in this section should be interpreted to
5 override or conflict with the limitations in that section.
6

7 Paragraph (3) requires disclosure of “goods and services in addition to those provided in
8 connection with a plan.” This must be read in conjunction with section 23(c), which sharply
9 circumscribes the extent to which a provider is permitted to impose charges for education or
10 counseling. Paragraph (3) requires disclosure of charges permitted by that section, but it does not
11 enlarge the amount or kind of services for which a provider may charge.
12

13 2. Subsection (b) mandates that all providers, including debt-settlement companies,
14 provide reasonable education through the services of a certified counselor. Section 6(9)-(10)
15 requires the provider to supply the administrator with evidence that its counselors are certified,
16 along with a description of its educational program and a copy of any materials used in that
17 program. The education may consist of an individual session with a counselor (which may also
18 include the analysis required by paragraph (2)), a group class, or an electronic educational
19 program. The education must be substantially more than an explanation of the benefits of a plan.
20 It must begin but need not be completed before commencement of a plan, since a course of
21 education may take months to complete. Paragraph (1) of subsection (b) states a general standard
22 for the quality of the education, viz., reasonableness. Education for financial literacy is receiving
23 increased attention, and several entities are attempting to define standards for effectiveness. As
24 these attempts come to fruition, the administrator may exercise rulemaking power under section
25 32(c) to establish more precise minimum standards for the education.
26

27 3. Paragraph (2) requires preparation of a financial analysis. Although the education
28 required by paragraph (1) may be standardized or provided on a group basis, the financial
29 analysis required by paragraph (2) must be prepared specifically for the individual and based on
30 the specific circumstances of the individual. It must encompass the individual’s assets, income,
31 and expenses for the purpose of enabling the provider to make the suitability and feasibility
32 determinations required by paragraph (3)(B).
33

34 4. Paragraph (3) requires preparation of a plan, but only if the individual is to make
35 regular, periodic payments. Thus the requirement does not apply when an individual has
36 accumulated money and seeks the assistance of a debt-settlement entity in negotiating a
37 settlement with one or more of his or her creditors. Subparagraph (B) requires that the provider
38 believe that the plan is suitable for the individual. For providers that assist an individual to repay
39 in full, this requires a determination that the individual has sufficient income to permit payment
40 to creditors after payment of living expenses, but not enough income to repay them in full
41 without some concessions. For providers that assist an individual to settle debts for less than full
42 payment, the suitability requirement means at a minimum that the individual does not have the
43 ability to satisfy creditors out of current income within a reasonable time even if the creditors
44 were to reduce finance charges and fees for late payment, default, and delinquency. Section 15,
45 which requires providers to act in good faith, is especially important in connection with this
46 paragraph. The administrator may adopt rules articulating specific standards for suitability.

1
2 5. Subparagraph (C) permits a provider to secure an individual's assent to a plan only if
3 the provider believes that each creditor listed in the plan actually will participate in it. This
4 limitation, too, must be read in conjunction with section 15, which requires the provider to act in
5 good faith, defined as honesty and the observance of reasonable standards of fair dealing. If a
6 provider knows or suspects that a particular creditor will not participate, the provider cannot in
7 good faith believe that the creditor will participate, and therefore cannot satisfy this paragraph if
8 that creditor is included as a participating creditor in the plan.
9

10 The requirement that the provider believe that the creditors will accept the plan does not
11 mandate communication with the creditors before an agreement is formed. The provider's past
12 experiences with the creditors may be a sufficient basis for the provider's good faith belief.
13

14 6. In counseling the individual and preparing the analysis required by subsection (b)(2)
15 and the suitable plan required by subsection (b)(3), the provider must take account of the
16 individual's overall financial situation, including the presence of such things as overdue utilities
17 obligations, child support, debt secured by the real or personal property of the individual or other
18 person, etc. Although the provider must take account of secured debt, it may not include that
19 debt in the plan. See Section 28(a)(1). Although not part of the plan, existence of secured debt
20 bears on the feasibility of a plan and whether the provider has properly made the determination
21 required by subsection (b)(3)(B).
22

23 ~~6~~7. Subsection (c)(2) requires a provider to inform the individual of the availability of
24 assistance by telephone (or in person). It applies to all providers, but has special significance for
25 providers that use electronic means to communicate with their customers. See section 16 and
26 Official Comment 3. This requirement does not mean that the provider must maintain an office
27 in this state. It does, however, require that the provider maintain an office somewhere with
28 counselors available for in-person consultation, presumably at its principal business address. The
29 obligation of good faith is relevant here, and locating the counselors in a state whose residents
30 the provider does not serve would violate this subsection.
31

32 ~~7~~8. Since secured creditors are creditors, subsection (c)(3) requires the provider to
33 include secured creditors in the various lists, as appropriate. Subparagraph (D) requires a listing
34 of creditors as to whom the provider is ignorant with respect to their participation in the plan.
35 Taken together, the lists must include all the creditors whose existence the provider knows.
36

37 ~~8~~9. Subsection (d) requires providers to give a warning to individuals before they
38 commit to an agreement, and it requires the warning to be given separately. This prohibits a
39 provider from handing the warning over along with other documents or materials. The intention
40 of the subsection is to require delivery in a form and context in which the individual will actually
41 notice and read the warning.
42

43 ~~9~~10. Subsections (e) through (g) provide safe-harbor language for the provider to use.
44 Subsection (e) is designed for credit-counseling entities that receive payments from the creditors
45 of its customers. Subsection (f) is designed for credit-counseling entities that do not receive
46 payments from their customers' creditors. Subsection (g) is designed for debt-settlement entities.

1 Use of the exact language in these subsections, contained in a box consisting of black lines,
2 constitutes compliance with subsection (d). This is true even though the language in subsections
3 (e)(2) and (f)(2) differs significantly from the language in subsection (d)(3). If the provider uses
4 language other than that prescribed in subsections (e)-(g), the disclosure is subject to review to
5 determine if it adequately discloses the information required by subsection (d). If the provider
6 furnishes both credit-counseling and debt-settlement services, it may combine the disclosures
7 into one form, but this section does not provide any safe harbor.
8

9 **SECTION 18. COMMUNICATION BY ELECTRONIC OR OTHER MEANS.**

10 (a) In this section:

11 (1) “Federal act” means the Electronic Signatures in Global and National
12 Commerce Act, 15 U.S.C. Section 7001 et seq.[, as amended].

13 (2) “Consumer” means an individual who seeks or obtains goods or services that
14 are used primarily for personal, family, or household purposes.

15 (b) A provider may satisfy the requirements of Section 17, 19, or 27 by means of the
16 Internet or other electronic means if the provider obtains a consumer’s consent in the manner
17 provided by Section 101(c)(1) of the federal act.

18 (c) The disclosures and materials required by Sections 17, 19, and 27 shall be presented
19 in a form that is capable of being accurately reproduced for later reference.

20 (d) With respect to disclosure by means of an Internet website, the disclosure of the
21 information required by Section 17(d) must appear on one or more screens that:

22 (1) contain no other information; and

23 (2) the individual must see before proceeding to assent to formation of an
24 agreement.

25 (e) At the time of providing the materials and agreement required by Sections 17(c) and
26 (d), 19, and 27, a provider shall inform the individual that upon electronic, telephonic, or written
27 request, it will send the individual a written copy of the materials, and shall comply with a

1 request as provided in subsection (f).

2 (f) If a provider is requested, before the expiration of 90 days after an agreement is
3 completed or terminated, to send a written copy of the materials required by Section 17(c) and
4 (d), 19, or 27, the provider shall send them at no charge within three business days after the
5 request is received, but the provider need not comply with a request more than once per calendar
6 month or if it reasonably believes the request is made for purposes of harassment. If a request is
7 made more than 90 days after an agreement is completed or terminated, the provider shall send
8 within a reasonable time a written copy of the materials requested.

9 (g) A provider that maintains an Internet website shall disclose on the home page of its
10 website or on a page that is clearly and conspicuously connected to the home page by a link that
11 clearly reveals its contents:

12 (1) its name and all names under which it does business;

13 (2) its principal business address, telephone number, and electronic-mail address,
14 if any; and

15 (3) the names of its principal officers.

16 (h) Subject to subsection (i), if a consumer who has consented to electronic
17 communication in the manner provided by Section 101 of the federal act withdraws consent as
18 provided in the federal act, a provider may terminate its agreement with the consumer.

19 (i) If a provider wishes to terminate an agreement with a consumer pursuant to
20 subsection (h), it shall notify the consumer that it will terminate the agreement unless the
21 consumer, within 30 days after receiving the notification, consents to electronic communication
22 in the manner provided in Section 101(c) of the federal act. If the consumer consents, the
23 provider may terminate the agreement only as permitted by Section 19(a)(6)(G).

1 **Legislative Note:** *In states in which the constitution does not permit the phrase “as amended,”*
2 *the phrase should be deleted in subsection (a).*

3
4 **Comment**

5
6 1. Subsection (b) permits electronic delivery of the information required by sections 17
7 and 27, and it permits electronic formation of agreements. It is designed to coordinate with the
8 federal E-Sign Act, which establishes certain prerequisites before written documents or
9 disclosures required by state law may be delivered via electronic media. These prerequisites
10 exist, however, only for transactions with consumers. States may not extend those prerequisites
11 to non-consumers, so unlike the rest of this Act, some of this section applies only to interactions
12 with consumers, a class that does not include all individuals.

13
14 If a merchant wants to provide required information by means of electronic
15 communication, the federal statute requires it to obtain the consumer’s affirmative consent to the
16 use of electronic media and inform the consumer of any right to have the information or
17 documents provided in written form and the right to withdraw at any time his or her consent to
18 disclosure by electronic medium. Subsection (b) makes compliance with the federal statute a
19 prerequisite also to complying with this Act through the use of electronic communication. If a
20 provider fails to comply with this subsection, then the permission granted by this section does
21 not apply, and the provider must deliver the required documents and disclosures in writing.

22
23 2. The language of subsection (c) is drawn from E-Sign § 7001(d)(1)(B), and in the
24 context of this Act, the obligation of good faith requires that the provider present the material in
25 a printable format. The requirement of the subsection, however, is not limited to consumers. It
26 applies with respect to all individuals.

27
28 3. To meet the objectives of the separate delivery contemplated by section 17, electronic
29 delivery must satisfy certain requirements of form, such as appearing on a screen that contains no
30 other information. The subsection uses the term “screen,” which is synonymous with “window,”
31 “web page,” “tab within a browser display,” and perhaps other terms. The critical factor is that
32 the record may not contain other information; but it does not violate subsection (d) if the record
33 is an electronic page on a website and the record reveals how the individual may exit the page.

34
35 4. Subsections (e) and (f) are not limited to providers that communicate electronically and
36 are not limited to consumers. They confer on all individuals the right, throughout the course of a
37 plan and for 90 days thereafter, to receive a written version of all materials required by this Act
38 within three days of requesting them. As to all individuals, this right must be disclosed in order
39 for a provider to comply with this section, and if a provider wishes to comply with this section
40 electronically, it must be disclosed to a consumer in order for the provider to comply with E-Sign
41 (section 101(c)(1)(B)(iv), 15 U.S.C. § 7001(c)(1)(B)(iv)). See Official Comment 1.

42
43 5. A provider may not limit the medium by which the individual requests a copy.
44 Subsection (f) protects the provider against harassment. An example of harassment might be a
45 request for a copy of a periodic report three years after the period covered by the report. The
46 subsection does not establish a bright-line rule, however, and in a particular case the individual

1 might indeed have a legitimate need for an old report.
2

3 Since the periodic reports must be made monthly and this section gives the individual a
4 right to receive a written copy of the report, a request every month for a written version of that
5 month's report cannot, within the meaning of this section, be made for purposes of harassment. If
6 requested each month, the provider must comply each month. Similarly, if requested in advance
7 to send written versions of the monthly reports, subsections (e) and (f) require the provider to
8 comply with the request because the request is made before the expiration of 90 days after a plan
9 is completed or terminated. If the request relates to historical materials, the provider may send a
10 consolidated statement, rather than a copy of each periodic statement, so long as it clearly reveals
11 the information required to be on each periodic report.
12

13 Section ~~27(e)~~26 requires a provider to retain records on an individual for five years after
14 the individual's final payment. That sets the outer limit on the time within which an individual
15 may make a request under this section.
16

17 6. A provider might do business under numerous names. Subsection (g) applies to all
18 providers, even if they make disclosures and form agreements using a paper medium. It requires
19 disclosure of all the provider's business names, along with the provider's principal location and
20 officers, but it permits the provider to disclose this information via a link to another page of the
21 website. The link must reveal its contents, e.g., "For the address and other information about
22 [name of provider], click here."
23

24 7. Subsections (h) and (i) are designed to implement E-Sign section 101(c)(1)(B), which
25 authorizes a consumer to withdraw consent to electronic communication, in which event the
26 merchant may terminate the relationship. Subsection (h) gives a provider the right to terminate
27 an agreement with a consumer, and subsection (i) gives the consumer a right to reinstate the
28 agreement.
29

30 **SECTION 19. FORM AND CONTENTS OF AGREEMENT.**

31 (a) An agreement must:

32 (1) be in a record;

33 (2) be dated and signed by the provider and the individual;

34 (3) include the name of the individual and the address where the individual
35 resides;

36 (4) include the name, business address, and telephone number of the provider;

37 (5) be delivered to the individual immediately upon formation of the agreement;

1 and

2 (6) disclose:

3 (A) the services to be provided;

4 (B) the amount, or method of determining the amount, of all fees,
5 individually itemized, to be paid by the individual;

6 (C) the schedule of payments to be made by or on behalf of the
7 individual, including the amount of each payment, the date on which each payment is due, and
8 an estimate of the date of the final payment;

9 (D) if a plan provides for regular periodic payments to creditors:

10 (i) each creditor of the individual to which payment will be made,
11 the amount owed to each creditor, and any concessions the provider reasonably believes each
12 creditor will offer; ~~and~~

13 (ii) the schedule of expected payments to each creditor, including
14 the amount of each payment and the date on which it will be made; and

15 ~~(E)(iii)~~ each creditor that the provider believes will not
16 participate in the plan and to which the provider will not direct payment;

17 ~~(F)(E)~~ if a plan contemplates the settlement of the individual's debt for
18 less than the principal amount of the debt, an estimate of:

19 (i) the duration of the plan based on all enrolled debts;

20 (ii) the length of time before the individual may reasonably expect
21 a settlement offer and;

22 (iii) the amount of savings needed to accrue before the individual
23 may reasonably expect a settlement offer, expressed as both a dollar amount and percentage, for

1 each enrolled debt:

2 (F) how the provider will comply with its obligations under Section 27(a);

3 (G) that the provider may terminate the agreement for good cause, upon
4 return of unexpended money of the individual;

5 (H) that the individual may ~~cancel the agreement as provided in Section~~

6 ~~20 terminate the agreement at any time by giving written or electronic notice, and that if notice~~

7 ~~of termination is given, the individual will receive all unexpended money that the provider or its~~

8 ~~designee has received from or on behalf of the individual for payment of a creditor and, except to~~

9 ~~the extent they have been earned, the provider's fees;~~

10 (I) that the individual may contact the administrator with any questions or
11 complaints regarding the provider; and

12 (J) the address, telephone number, and Internet address or website of the
13 administrator.

14 (b) For purposes of subsection (a)(5), delivery of an electronic record occurs when it is
15 made available in a format in which the individual may retrieve, save, and print it and the
16 individual is notified that it is available.

17 (c) If the administrator supplies the provider with any information required under
18 subsection (a)(6)(J), the provider may comply with that requirement only by disclosing the
19 information supplied by the administrator.

20 (d) An agreement must provide that:

21 ~~(1) the individual has a right to terminate the agreement at any time, without~~
22 ~~penalty or obligation, by giving the provider written or electronic notice, in which event:~~

23 ~~(A) the provider will refund all unexpended money that the provider or its~~

1 agent has received from or on behalf of the individual for the reduction or satisfaction of the
2 individual's debt;

3 ~~(B) with respect to an agreement that contemplates that creditors will~~
4 ~~settle debts for less than the principal amount of debt, the provider will refund 65 percent of any~~
5 ~~portion of the set up fee that has not been credited against the settlement fee; and~~

6 ~~(C) all powers of attorney granted by the individual to the provider are~~
7 ~~revoked and ineffective;~~

8 ~~(2)(1)~~ the individual authorizes any bank in which the provider or its agent has
9 established a trust account to disclose to the administrator any financial records relating to the
10 trust account; and

11 ~~(3)(2)~~ the provider will notify the individual within five days after learning of a
12 creditor's final decision to reject or withdraw from a plan and that this notice will include:

13 (A) the identity of the creditor; and

14 (B) the right of the individual to modify or terminate the agreement.

15 ~~(e) An agreement may confer on a provider a power of attorney to settle the individual's~~
16 ~~debt for no more than 50 percent of the principal amount of the debt. An agreement may not~~
17 ~~confer a power of attorney to settle a debt for more than 50 percent of that amount, but may~~
18 ~~confer a power of attorney to negotiate with creditors of the individual on behalf of the~~
19 ~~individual. An agreement must provide that the provider will obtain the assent of the individual~~
20 ~~after a creditor has assented to a settlement for more than 50 percent of the principal amount of~~
21 ~~the debt.~~

22 (f) An agreement may not:

23 (1) provide for application of the law of any jurisdiction other than the United

1 States and this state;

2 (2) except as permitted by Section 2 of the Federal Arbitration Act, 9 U.S.C.
3 Section 2, [as amended,] [or [insert citation to the Uniform Arbitration Act or other statute
4 authorizing predispute arbitration agreements]] contain a provision that modifies or limits
5 otherwise available forums or procedural rights, including the right to trial by jury, that are
6 generally available to the individual under law other than this [act];

7 (3) contain a provision that restricts the individual’s remedies under this [act] or
8 law other than this [act]; or

9 (4) contain a provision that:

10 (A) limits or releases the liability of any person for not performing the
11 agreement or for violating this [act]; or

12 (B) indemnifies any person for liability arising under the agreement or
13 this [act].

14 ~~(g) All rights and obligations specified in subsection (d) and Section 20 exist even if not~~
15 ~~provided in the agreement.~~ A provision in an agreement which violates subsection ~~(d)~~, (e), or (f)
16 is void.

17 **Legislative Note:** *In states in which the constitution does not permit use of the phrase, “as*
18 *amended,” when federal statutes are incorporated into state law, delete that phrase in*
19 *subsection (f)(2)*

20
21 *If the state has no statute authorizing predispute arbitration agreements, delete the*
22 *second bracketed language, “or [insert . . . agreements,” in subsection (f)(2).*

23
24
25

Comment

26 1. In this section “provider” refers to the provider that is a party to the agreement. It does
27 not contemplate an employee or other agent that forms an agreement on behalf of the provider,
28 even if the employee or agent serves as an intermediary between an individual and the
29 individual’s creditors.

30

1 2. Subsection (a)(5) requires immediate delivery of the record to the individual.
2 Subsection (b) clarifies that if the record is electronic, delivery occurs when the provider makes
3 it available in retrievable and printable form and notifies the individual that it is available.
4

5 3. In subsection (a), subparagraphs (6)(A) and (B) carry into the agreement the matter
6 that section 17(a) requires to be disclosed before an agreement is formed. See Official Comment
7 1 to that section.
8

9 4. In subsection (a)(6)(C), as in section ~~2(13)~~2(15) (defining “plan”), the word
10 “payments” includes deposits, that is, transfers to a bank account of the individual, as well as
11 payments to a designee that is an independent administrator of an account containing money of
12 the individual. The date of the last payment depends on the creditors’ concessions and the
13 amount of the monthly payment by the individual, each of which may change during the course
14 of the plan. It also depends on the timeliness of payment by the individual. None of this can be
15 known in advance. Therefore, paragraph (6)(C) requires a good faith estimate of the date of the
16 final payment.
17

18 5. Paragraph (6)(D) applies primarily to credit-counseling entities. At the very outset of
19 the agreement, the provider may not have communicated with an individual’s creditors to
20 ascertain their willingness to participate and the concessions that they will make. This paragraph
21 requires the provider to use its best judgment, based on its past experience with each creditor, to
22 disclose the likely payment amounts and concessions.
23

24 6. As with section 17(c)(3) (pre-agreement disclosure of creditor participation),
25 identification in paragraph (6)(E) of nonparticipating creditors includes secured creditors but
26 refers only to creditors that the individual has disclosed to the provider or that the provider
27 otherwise actually knows to be a creditor of the individual. Subparagraph (E) does not require
28 the provider to make any disclosures with respect to creditors of which it is unaware.
29

30 7. Section 27 requires a provider to make periodic reports to an individual, accounting for
31 payments, charges, and disbursements. Paragraph (6)(F) of this section requires disclosure of the
32 timing of those reports (monthly or more frequently) and the individual’s right to receive an
33 accounting upon request and upon termination of the agreement.
34

35 8. The good cause for termination by a provider pursuant to this paragraph (6)(G) does
36 not encompass a desire to escape the fee structure to which the provider may have committed.
37 For example, when a plan nears completion, the monthly revenue, which is capped by reference
38 to the number of creditors still in the plan, may not generate the revenue desired or needed by the
39 provider. This does not amount to good cause for terminating an agreement. Rather, “good
40 cause” contemplates such things as the individual’s failure to make monthly payments or to
41 cooperate with the provider. The standard of good cause may vary depending on whether the
42 provider is a credit-counseling entity or a debt-settlement entity, because the adverse
43 consequences to the individual in the event of termination may be different.
44

45 9. Section 20 gives an individual a ~~three-day right of cancellation and the return of all~~
46 ~~money paid to or at the direction of the provider. It extends the three-day period to 30 days if the~~

1 ~~provider fails to comply with this section or section 20(b) or 28. right to terminate an agreement~~
2 ~~at any time and receive a return of certain amounts paid. Paragraph (6)(H) requires disclosure of~~
3 ~~this right, in addition to the separate notice required by section 20.~~
4

5 10. The administrator may have multiple phone numbers, e-mail addresses, etc. If the
6 administrator informs the provider of the details by which individuals may make complaints or
7 inquiries relating to this Act, subsection (c) requires the provider to disclose those details in the
8 agreement. Compliance with this requirement will mean that a provider that serves individuals in
9 multiple states may have to have a different form for each state. Computerization of the standard
10 document may minimize the difficulty of complying with this disclosure requirement.
11

12 ~~11. The historic practice by many credit counseling agencies has been to permit~~
13 ~~termination at any time; they do not even purport to bind the individual to a contract. Subsection~~
14 ~~(d) mandates this right of termination as against all providers. If the individual has an unlimited~~
15 ~~right of termination, it is questionable whether there is a contract at all. The requirement of~~
16 ~~notice may supply sufficient obligation to support a contract, but even if it does not, there is no~~
17 ~~reason why the industry, and regulation of the industry, cannot operate on the basis of~~
18 ~~agreements that are not enforceable under the common law of contracts. This Act provides the~~
19 ~~authorization for the industry, as well as the regulation of it.~~
20

21 ~~For all providers, if an individual terminates an agreement, paragraph (1)(A) requires~~
22 ~~return of any unexpended money intended for payment to creditors. For credit counseling~~
23 ~~entities, no refund of set up or monthly fees is required. For debt settlement entities, however,~~
24 ~~paragraph (1)(B) requires the agreement to provide for refund of a portion of the set up fee.~~
25 ~~Section 23(f) requires the provider to credit any set up fee against a settlement fee. It also~~
26 ~~requires the provider to credit the monthly service fees against the settlement fee. To maximize~~
27 ~~the refund under this section, as contemplated here, the monthly service fees should be credited~~
28 ~~first. To determine the refund due under paragraph (1)(B), the provider must deduct from the~~
29 ~~total amount of any settlement fees the total amount of monthly fees paid up to the time of~~
30 ~~termination. If the result is less than 0 (or if there have been no settlement fees), then no part of~~
31 ~~the set up fee has yet been credited against the settlement fee, and the refund is 65% of the set up~~
32 ~~fee. If the result is greater than 0, subtract that result from the set up fee. The refund is 65% of~~
33 ~~the difference.~~
34

35 ~~12. Paragraph (1)(C) requires the agreement to provide that in the event of termination,~~
36 ~~all powers of attorney terminate. Section 28(a)(4) complements this provision by making it~~
37 ~~unlawful for a provider to attempt to exercise a power of attorney after the individual has~~
38 ~~terminated the agreement.~~
39

40 ~~13-11. Paragraph (2)(1), in conjunction with section 5(b)(3), is designed to satisfy privacy~~
41 ~~laws in such a way that the administrator has access to information about a provider's trust~~
42 ~~account.~~
43

44 ~~14-12. Subsection (e) permits an agreement to confer on the provider a power of attorney~~
45 ~~to settle debts for 50 cents on the dollar. Because "principal amount of the debt" is a defined~~
46 ~~term (see section 2(14)), the percentage is calculated with respect to the amount of debt at the~~

1 inception of the plan, not the amount of debt at the time of settlement. For settlements less-
2 favorable than that, the provider must secure the assent of the individual and must do so after the
3 creditor has assented to a settlement. negotiate a settlement on behalf of an individual, but not to
4 settle the debt. The individual must assent to the terms of the settlement after the creditor has
5 agreed to the terms. This affords the individual an opportunity to review the terms of a settlement
6 before it becomes final.

7
8 15-13. Subsection (f) seeks to preserve the individual's common law and statutory rights
9 against the unilateral decision of a provider to remove or restrict them. Thus a provider may not
10 evade this Act by adopting the law of another jurisdiction. Nor may a provider contract for a
11 distant forum or the surrender of rights or remedies under other law, including the right to
12 proceed by way of a class action when appropriate.

13
14 16-14. The failure of a provider to include in an agreement the provisions required by this
15 section is a violation of the Act and justifies administrative enforcement under sections 32-33
16 and private enforcement under section 35. ~~Even if omitted, however, subsection (g) makes the~~
17 ~~required provisions part of the agreement. Conversely, a~~ A provision that violates subsections
18 ~~(d)-(e)~~ or (f) is void, but this does not render the entire agreement void.

19
20 **SECTION 20. CANCELLATION OF AGREEMENT; WAIVER TERMINATION**
21 **OF AGREEMENT.**

22 (a) An individual may terminate an agreement at any time, without penalty or obligation,
23 by giving the provider notice in a record.

24 (b) A provider may terminate an agreement if an individual fails for 60 days to make a
25 payment or deposit required by the agreement or if other good cause exists.

26 (c) If an agreement is terminated:

27 (1) the provider shall, not later than seven business days after the termination,
28 pay the individual all money that the provider or its designee has received from or on behalf of
29 the individual, other than:

30 (A) an amount properly disbursed to a creditor; and

31 (B) fees earned pursuant to Section 23; and

32 (2) any power of attorney granted by the individual to the provider is revoked.

33 ~~(a) An individual may cancel an agreement before midnight of the third business day~~

1 after the individual assents to it, unless the agreement does not comply with subsection (b) or
2 Section 19 or 28, in which event the individual may cancel the agreement within 30 days after
3 the individual assents to it. To exercise the right to cancel, the individual must give notice in a
4 record to the provider. Notice by mail is given when mailed.

5 (b) An agreement must be accompanied by a form that contains in bold face type,
6 surrounded by bold black lines:

7 **Notice of Right to Cancel**

8 **You may cancel this agreement, without any penalty or obligation, at any**
9 **time before midnight of the third business day that begins the day after you agree to**
10 **it by electronic communication or by signing it.**

11 **To cancel this agreement during this period, send an e-mail to**
12 **_____ or mail or deliver a signed, dated copy of this**
13 ***E-mail address of provider***

14 **notice, or any other written notice to _____**
15 ***Name of provider***

16 **at _____ before midnight on _____.**
17 ***Address of provider* *Date***

18 **If you cancel this agreement within the 3-day period, we will refund all money you**
19 **already have paid us.**

20 **You also may terminate this agreement at any later time, but we may not be**
21 **required to refund fees you have paid us.**

22 **I cancel this agreement,**
23 _____
24 ***Print your name***

25

1 _____
2 *Signature*

3 _____
4 *Date*

5 (c) ~~If a personal financial emergency necessitates the disbursement of an individual's~~
6 ~~money to one or more of the individual's creditors before the expiration of three days after an~~
7 ~~agreement is signed, an individual may waive the right to cancel. To waive the right, the~~
8 ~~individual must send or deliver a signed, dated statement in the individual's own words~~
9 ~~describing the circumstances that necessitate a waiver. The waiver must explicitly waive the~~
10 ~~right to cancel. A waiver by means of a standard form record is void.~~

11 **Comment**

12
13 1. The historic practice by many credit-counseling agencies has been to permit
14 termination at any time; they do not even purport to bind the individual to a contract. This
15 section mandates a right of termination as against all providers. If the individual has an unlimited
16 right of termination, it is questionable whether there is a contract at all. The requirement of
17 notice may supply sufficient obligation to support a contract, but even if it does not, there is no
18 reason why the industry, and regulation of the industry, cannot operate on the basis of
19 agreements that are not enforceable under the common law of contracts. This Act provides the
20 authorization for the industry, as well as the regulation of it.

21
22 2. Subsection (c) applies both to termination by an individual and termination by a
23 provider. In either event, this section imposes a refund obligation on the provider. Section
24 22(b)(5) imposes on the provider and the person administering the account an obligation to pay
25 the money in the account other than fees properly earned pursuant to Section 23. Both are
26 obligated to pay the individual, but the individual is entitled only to a single recovery of money
27 paid by or on behalf of the individual. It is the responsibility of the provider to coordinate with
28 the person administering the account to ensure that the individual receives the money within
29 seven days after termination of the agreement.

30
31 3. Subsection (b) provides that in the event of termination of the agreement all powers of
32 attorney terminate. Section 28(a)(5) complements this provision by making it unlawful for a
33 provider to attempt to exercise a power of attorney after the individual has terminated the
34 agreement.

35
36 ~~1. This section derives from section 125 of the Truth in Lending Act, 15 U.S.C. § 1635.~~
37 ~~Subsection (a) confers a right of cancellation for three days after an agreement that complies~~
38 ~~with sections 19 and 28. Section 19 specifies the form and contents of the agreement, and section~~

1 ~~28 lists prohibited conduct. If the agreement calls for the performance of conduct prohibited by~~
2 ~~section 28, or if the agreement does not comply with subsection (b) or section 19, the individual~~
3 ~~has 30 days in which to cancel. Failure to comply with subsection (b) includes putting the~~
4 ~~incorrect date in the notice required by that subsection. If the individual cancels within the three~~
5 ~~day period, subsection (b) calls for a return of all amounts paid, even those amounts already paid~~
6 ~~over to creditors. If the agreement does not comply with section 19 or 28 and the provider fails to~~
7 ~~honor the individual's attempt to cancel during the 30-day period, the remedy is found in section~~
8 ~~35(e) (recovery of all amounts paid or deposited by the individual (including all set-up and~~
9 ~~service fees), less amounts transmitted to creditors, plus damages under section 35(e)). If the~~
10 ~~right to cancel has expired, the individual still has the right to terminate under section 19(d)(1).~~

11
12 ~~2. The individual may waive the right to cancel in the event of an emergency. The~~
13 ~~individual must honestly believe that it is necessary for the provider to disburse his or her money~~
14 ~~before expiration of the three days. The waiver must disclose the reasons for such haste, and the~~
15 ~~use of a standard form record—be it written or electronic—is ineffective.~~

16
17 **SECTION 21. REQUIRED LANGUAGE.** Unless the administrator, by rule, provides
18 otherwise, the disclosures and documents required by this [act] must be in English. If a provider
19 communicates with an individual primarily in a language other than English, the provider must
20 furnish a translation into the other language of the disclosures and documents required by this
21 [act].

22 **Comment**

23
24 1. Disclosures and documents required by this Act must be in English. The administrator
25 may by rule permit providers to satisfy their obligations under the Act by giving disclosures and
26 using documents in specified languages other than English if the provider communicates with an
27 individual primarily in the other language. The promulgation of such a rule is discretionary with
28 the administrator, since it may be unduly burdensome for the administrator to enforce the Act
29 with respect to documents in the other language.

30
31 2. If a provider communicates primarily in a foreign language, it must provide a
32 translation of documents and disclosures in that language. If the provider is not willing to do this,
33 then it must communicate primarily in English. This places the burden on the individual to bring
34 a translator along or assume the risk of not understanding any disclosures or documents that are
35 beyond the individual's English-language reading skills.

36 **SECTION 22. TRUST ACCOUNT.**

37
38 (a) All money paid to a provider by or on behalf of an individual for distribution to

1 creditors pursuant to a plan is held in trust. Within two business days after receipt, the provider
2 shall deposit the money in a trust account established for the benefit of individuals to whom the
3 provider is furnishing debt-management services.

4 (b) A provider whose agreement contemplates the settlement of an individual's debt for
5 less than the principal amount of the debt may request or require the individual to place funds in
6 an account to be used to pay a creditor or the provider's fees, or both, if:

7 (1) the funds are held in an insured account at a bank;

8 (2) the individual owns the funds held in the account and is paid accrued interest
9 on the account, if any;

10 (3) the entity administering the account is not the provider or an affiliate of the
11 provider, unless the affiliate is one described in Section 2(2)(B)(iv);

12 (4) the entity administering the account does not give or accept any money or
13 other compensation in exchange for a referral of business involving debt-management services;
14 and

15 (5) the individual may withdraw from the agreement at any time without penalty
16 and must receive all funds in the account, other than funds earned by the provider in compliance
17 with this section;

18 (c) A provider whose agreement contemplates the reduction of finance charges or fees
19 for late payment, default, or delinquency may request or require an individual to make payments
20 to be used for both distribution to creditors and payment of the provider's fees, if the provider
21 complies with subsection (a).

22 ~~(b)~~(d) Money held in trust by a provider is not property of the provider or its designee.
23 The money is not available to creditors of the provider or designee, except an individual from

1 whom or on whose behalf the provider received money, to the extent that the money has not been
2 disbursed to creditors of the individual.

3 ~~(e)~~(e) A provider shall:

4 (1) maintain separate records of account for each individual to whom the
5 provider is furnishing debt-management services;

6 (2) disburse money paid by or on behalf of the individual to creditors of the
7 individual as disclosed in the agreement, except that:

8 (A) the provider may delay payment to the extent that a payment by the
9 individual is not final; and

10 (B) if a plan provides for regular periodic payments to creditors, the
11 disbursement must comply with the due dates established by each creditor; and

12 (3) promptly correct any payments that are not made or that are misdirected as a
13 result of an error by the provider or other person in control of the trust account and reimburse the
14 individual for any costs or fees imposed by a creditor as a result of the failure to pay or
15 misdirection.

16 ~~(d)~~(f) A provider may not commingle money in a trust account established for the benefit
17 of individuals to whom the provider is furnishing debt-management services with money of other
18 persons.

19 ~~(e)~~(g) A trust account must at all times have a cash balance equal to the sum of the
20 balances of each individual's account.

21 ~~(f)~~(h) If a provider has established a trust account pursuant to subsection (a), the provider
22 shall reconcile the trust account at least once a month. The reconciliation must compare the cash
23 balance in the trust account with the sum of the balances in each individual's account. If the

1 provider or its designee has more than one trust account, each trust account must be individually
2 reconciled.

3 ~~(g)~~(i) If a provider discovers, or has a reasonable suspicion of, embezzlement or other
4 unlawful appropriation of money held in trust, the provider immediately shall notify the
5 administrator by a method approved by the administrator. Unless the administrator by rule
6 provides otherwise, within five days thereafter, the provider shall give notice to the administrator
7 describing the remedial action taken or to be taken.

8 ~~(h)~~(j) If an individual terminates an agreement or it becomes reasonably apparent to a
9 provider that a plan has failed, the provider shall promptly refund to the individual all money
10 paid by or on behalf of the individual which has not been paid to creditors, less fees that are
11 payable to the provider under Section 23.

12 ~~(i)~~(k) Before relocating a trust account from one bank to another, a provider shall inform
13 the administrator of the name, business address, and telephone number of the new bank. As soon
14 as practicable, the provider shall inform the administrator of the account number of the trust
15 account at the new bank.

16 **Comment**

17
18 1. This section requires that persons that receive money for disbursement to creditors
19 establish trust accounts. Providers may operate under any of several business models. Some
20 providers receive the individual's money directly. Others use third parties for the purpose of
21 receiving the funds and managing the accounts. Under any such model, the provider is a
22 fiduciary and must establish a trust account. This is true even if the third party is an independent
23 contractor. A provider may delegate its duties under this section, but it remains responsible for
24 complying with the section. For purposes of this Act, money transmitted to, or received by, a
25 designee of a provider is to be treated as money transmitted to, or received by, the provider itself.

26
27 If the provider (or its designee) does not receive money for distribution to creditors, but
28 instead leaves the individual in control of that money, this section does not require a trust
29 account. If the individual's account is accessible to the provider, for example, by means of the
30 power to initiate an electronic transfer, section 28(a)~~(5)~~(6) limits the purposes for which a
31 provider may initiate a transfer.

1
2 2. Subsection (b) is intended to coordinate with the federal Telemarketing Sales Rule.
3 Although Section 23(d)(1) prohibits the receipt of fees before they are earned, subsection (b)
4 permits a provider to require an individual to make periodic payments to an account that is to be
5 used to pay creditors and to pay the provider's settlement fee. It thus is designed to accommodate
6 the provider's need for assurance that when a debt is settled, the provider will be paid. The
7 provider is permitted to request or require the individual to make these deposits, however, only if
8 the provider may not access the funds before the fee is earned. Hence, the administrator of the
9 account must be independent, as specified in paragraph (3). The requirement of an independent
10 administrator applies if the provider directs the individual to pay into an account money that is to
11 be accumulated until the time at which Section 23(d) permits the provider to receive
12 compensation, if the account is administered by a person other than the individual.
13

14 3. Subsection (c) addresses accounts maintained by credit-counseling entities. Because of
15 a limitation on the jurisdiction of the Federal Trade Commission, the Telemarketing Sales Rule
16 does not restrict the activities of not-for-profit providers of debt-management services. This Act,
17 on the other hand, applies to both for-profit and not-for-profit providers and does not distinguish
18 between them. Subsection (c) permits credit-counseling entities—for-profit or not-for-profit—to
19 continue their historic practice of receiving periodic payments, deducting the monthly fee, and
20 distributing the balance among the creditors that are participating in an individual's plan.
21 Whether or not for-profit credit-counseling entities, to comply with the Telemarketing Sales
22 Rule, must place funds received from individuals in an account with an independent
23 administrator, this Act does not require them to do so. With respect to both for-profit and not-for-
24 profit providers, however, the Act permits them to administer the account only if they comply
25 with the rules in subsection (a).
26

27 2-4. For providers at brick and mortar locations in this state, it would be feasible to
28 require the trust account to be located in this state. For providers that operate (via the Internet or
29 telephone) out of an office not located in this state, it may be unduly burdensome to require a
30 trust account in this state and, by extension, each state in which the provider operates. By not
31 prohibiting it, subsection (a) implicitly permits a provider, wherever located, to deposit money of
32 residents of this state into a trust account located in another state and containing the money of
33 individuals who reside in other states.
34

35 3-5. Money in the trust account must not be subject to the claims of the provider's
36 creditors. As a person with a claim against a provider, the individual is a creditor of the provider.
37 Nevertheless, subsection ~~(b)~~(d) permits that individual to have access to the trust account, but
38 only to the extent the provider has received money from or on behalf of the individual and has
39 not distributed it to creditors. Without this limitation, the individual's compensation out of the
40 trust account would come at the expense of other individuals whose money comprises the trust
41 account. Compensation of the individual for other loss or damage must come from assets of the
42 provider or the bond required by section 13. Since money in the trust account is not the property
43 of the provider, any interest on the money of the individuals in the account must be credited to
44 those individuals.
45

46 4-6. Subsection ~~(b)~~(d) does not address the question of the process by which an individual

1 may access the trust account or the assets of a provider. This Act leaves that question to other
2 law, but as a creditor of the provider, the individual has whatever rights creditors generally have.
3 In addition, the individual may be the beneficiary of action by the administrator under sections
4 32-33.

5
6 ~~5~~7. Subsection ~~(e)~~(e) imposes obligations on the provider. If the provider uses a third
7 party to administer the trust account, the provider may delegate these obligations to the third
8 party. The provider, however, is responsible for performance of the obligations and is liable if
9 they are not performed. See section 31.

10
11 ~~6~~8. The subsection contemplates that the agreement may establish a date by which the
12 individual must remit to the provider and a date by which the provider must remit to the
13 creditors. Paragraph (2)(A) accommodates the use of payment systems other than checks.
14 Paragraph (2)(B) applies primarily to credit-counseling entities and requires that the agreement –
15 and the provider’s performance – must conform to the due dates established by the creditors. The
16 obligation to act in good faith (section 15) means that, if necessary or desirable, the provider
17 must attempt to secure the creditors’ assent to modify the original due dates to maximize the
18 feasibility of the plan.

19
20 ~~7~~9. Subsection ~~(d)~~(f) prohibits a person in control of a trust account from commingling
21 money held in the trust with money of the provider or any other person other than the individuals
22 with whom the provider has agreements. In speaking of a “provider,” the prohibition
23 encompasses a person to whom the provider has delegated any of its obligations under this
24 section. See section 31. The delegee also may be liable. Section 35(c).

25
26 ~~8~~10. Section 34(c), which provides that failure to maintain the proper balance is cause
27 for summary suspension of registration, supplements subsections ~~(e)~~(g) and ~~(f)~~(h).

28
29 ~~9~~11. Subsection ~~(g)~~(i) specifies the circumstances under which a provider must notify the
30 administrator that something may be amiss with respect to money held in trust. As used here,
31 “appropriation” includes all kinds of taking, including theft of cash, electronic debiting of an
32 account, etc. The administrator may authorize notice by courier, facsimile, electronic mail,
33 telephone, etc.

34
35 ~~10~~12. Subsection ~~(h)~~(j) requires a provider to refund an individual’s money if the
36 individual terminates the agreement or if it becomes clear that a plan will not work. Examples of
37 the latter might include a total cessation of payments or sporadic payments by the individual with
38 no indication that the payments will become regular. The test under this subsection is the vague
39 standard, “reasonably apparent,” which must be applied in conjunction with the good faith
40 requirement of section 15. The subsection supplements the individual’s right under section
41 ~~19(d)(1)~~20 to terminate the agreement, in which event this subsection and section ~~19(d)(1)(A)~~20
42 require the provider to refund all unexpended funds. Presumably, the money is in a trust account,
43 but the obligation applies regardless of where the money is, unless it already is under the
44 individual’s control.

1 **SECTION 23. FEES AND OTHER CHARGES.**

2 (a) A provider may not impose directly or indirectly a fee or other charge on an
3 individual or receive money from or on behalf of an individual for debt-management services
4 except as permitted by this section.

5 (b) A provider may not impose charges or receive payment for debt-management
6 services until the provider and the individual have signed an agreement that complies with
7 Sections 19 and 28.

8 (c) If an individual assents to an agreement, a provider may not impose a fee or other
9 charge for educational, ~~or counseling, or similar~~ services, ~~or the like~~, except as otherwise
10 provided in this ~~subsection~~ section and Section 28(d). The administrator may authorize a
11 provider to charge a fee based on the nature and extent of the ~~educational or counseling~~ services
12 furnished by the provider.

13 (d) Subject to adjustment of dollar amounts pursuant to Section 32(f), the following rules
14 apply:

15 (1) Except to the extent permitted by Section 22, a provider may not request or
16 receive any compensation from or on behalf of an individual unless:

17 (A) the provider has secured the assent of the individual and at least one
18 creditor of the individual to a concession; and

19 (B) the individual has made a payment toward satisfying the debt as part
20 of a plan.

21 (2) If an individual assents to a plan that contemplates that creditors will reduce
22 finance charges or fees for late payment, default, or delinquency, the provider may charge:

23 (A) a fee not exceeding \$50 for consultation, obtaining a credit report,

1 setting up an account, and ~~the like~~ similar services; and

2 (B) a monthly service fee, not to exceed \$10 times the number of
3 ~~creditors accounts~~ remaining in a plan at the time the fee is assessed, but not more than \$50 in
4 any month.

5 ~~(2) If an individual assents to an agreement that contemplates that creditors will~~
6 ~~settle debts for less than the principal amount of the debt, a provider may charge:~~

7 ~~(A) subject to Section 19(d), a fee for consultation, obtaining a credit~~
8 ~~report, setting up an account, and the like, in an amount not exceeding the lesser of \$400 and~~
9 ~~four percent of the debt in the plan at the inception of the plan; and~~

10 ~~(B) a monthly service fee, not to exceed \$10 times the number of~~
11 ~~creditors remaining in a plan at the time the fee is assessed, but not more than \$50 in any month.~~

12 (3) Except as otherwise provided in subsection (c), if an agreement contemplates
13 that creditors will settle an individual's debts for less than the principal amount of the debts:

14 (A) compensation for services in connection with settling each debt may
15 not exceed, with respect to each debt, 30 percent of the excess of the principal amount of the debt
16 over the amount paid the creditor pursuant to the agreement; and

17 (B) if a debt is to be settled by installment payments:

18 (i) the provider may receive compensation in installments, made
19 simultaneously with the individual's installment payments to the creditor; and

20 (ii) any installment of the compensation may not be a greater
21 percentage of the provider's total compensation for settlement of the debt than the simultaneous
22 payment to the creditor is of the entire settlement amount for the debt.

23 ~~(3)(4)~~ A provider may not impose or receive fees under both paragraphs ~~(1)(2)~~
24 and ~~(2)(3)~~.

1 such matters as preparing a financial analysis, preparing a budget, or terminating an agreement,
2 the prohibition in this subsection means that providers may not impose a charge for them. This
3 would be indirectly charging for debt-management services.
4

5 Courts and the administrator should be vigilant to attempts to evade this limitation. A
6 provider might attempt to divide the cost to an individual into separate components and argue
7 that only some are properly viewed as charges for debt-management services. Or a provider
8 might require the individual to pay some components of the cost to the provider and some to
9 others, arguing that only the amounts that the provider itself receives are subject to this section.
10 For example, a provider might use the services of a lead generator or other third person to solicit
11 individuals, determine whether they are qualified for debt-management services, and refer them
12 to the provider. This person might be paid by the provider or by the individual. If paid by the
13 individual, this tactic shifts some of the provider's costs of doing business to the individual and
14 amounts to an attempt to evade the limits of this section. Amounts paid to a third person for
15 determining that an individual qualifies for debt-management services or for referring an
16 individual to a provider, even if paid by the individual, should be viewed as part of the charge by
17 the provider that this section limits. Hence, subsection (a) prohibits imposition of fees directly or
18 indirectly except as permitted by this section.
19

20 2. In addition to specifying some of the contents of an agreement, section 19(a)(5)
21 requires immediate delivery of a record containing the agreement. If the record is a writing,
22 subsection (b) of this section prohibits a provider from collecting any money before the
23 individual receives it. If the record is electronic, the provider may impose a fee if otherwise
24 permitted by this section, as soon as it delivers the record, which occurs (as provided in section
25 19(b)) when it makes the record available in retrievable and printable form and notifies the
26 individual that it is available. Subsection (a) is subject to subsection (d), which addresses the
27 timing of compensation to a provider whose agreement contemplates that a creditor will settle
28 debts for less than the full principal amount of the debt.
29

30 3. Section 17(b)(1) requires a provider to provide reasonable education about the
31 management of personal finance as a prerequisite to performing debt-management services.
32 Subsection (c) of this section requires that the basic education and counseling be provided at no
33 charge. This prohibition against charges encompasses charges for tangible materials, e.g., books,
34 used in connection with the education. The education must meet the minimum standard of
35 "reasonable," as determined by the administrator or the courts. To avoid creating a disincentive
36 to exceed the minimum requirement, subsection (c) authorizes the administrator to approve a fee
37 for education if the administrator determines that a provider's education or counseling services
38 exceed the minimum standards for the basic service. The approval must specify the fee and must
39 relate to the specific course of instruction or counseling performed by the provider.
40

41 4. The administrator should be vigilant to attempts by a provider to evade the prohibition
42 against charges for the basic education and counseling. Two factors are especially important: the
43 voluntariness of the purchase by the individual and the substance of the education. Since the
44 basic education must be provided at no charge, the individual must be permitted to form an
45 agreement without having to purchase additional education. Voluntariness may be negated by the
46 sales practices of the provider, including such things as the sales pitch and the manner in which

1 the decision to acquire additional education is presented. If the provider routinely includes the
2 cost of additional education in the proposed agreement that it presents to the individuals it
3 solicits, the purchase of additional education is not truly voluntary. This may be true even if the
4 provider obtains a separate manifestation of the individual's assent to the additional charge. E.g.,
5 see *In re USLIFE Credit Corp.*, 91 F.T.C. 1017, modified 92 F.T.C. 353, rev'd sub nom. *USLIFE*
6 *Credit Corp. v. FTC*, 599 F.2d 1387 (5th Cir. 1979). For purposes of this Act, the opinion of the
7 Federal Trade Commission, not the Fifth Circuit, takes the correct approach. Tactics such as
8 these violate section 28(a)(~~16~~)(17) (prohibiting unfair, unconscionable, or deceptive acts or
9 practices).

10
11 The other factor is the substance of the education. To justify a charge, the education must
12 go beyond the education that the provider must supply at no charge as a prerequisite to providing
13 debt-management services and being compensated for providing those services. The education
14 must consist of more than providing a book or other materials for the individual to read on his or
15 her own. To prevent evasion of the prohibition of this subsection, the administrator must evaluate
16 the program of instruction, including any materials to be used, in order to determine that it goes
17 beyond the education that must be provided at no charge and to determine the amount of any
18 additional charge that is appropriate.

19
20 5. Section 28(d) permits a provider to charge amounts permitted by government-
21 sponsored programs that require persons such as first-time home buyers to receive education or
22 counseling services as a condition of eligibility for the program. Subsection (c) does not limit the
23 charges authorized by those programs.

24
25 6. Subsection (d) addresses both the timing and the amount of compensation to a
26 provider. Section 22(b) and (c) permit the provider to require payment of funds into an account,
27 but this subsection limits the provider's use or application of those funds. Paragraph (1), modeled
28 after the federal Telemarketing Sales Rule, prohibits receipt of any compensation before at least
29 one creditor has assented to a concession. It is not enough that the individual has assented to a
30 plan.

31
32 Paragraph (2) permits a credit-counseling entity to impose a set-up fee of no more than
33 \$50. But the prohibition in paragraph (1) bars receipt of this compensation until at least one
34 creditor has agreed to the plan and the individual has made at least one payment pursuant to the
35 plan. The paragraph also permits a monthly fee of \$10 times the number of accounts in the plan,
36 but not exceeding \$50. The fee is put in terms of the number of accounts rather than number of
37 creditors because an individual may have several accounts, e.g., open-end-credit-card accounts,
38 with a single creditor. Since some accounts may be paid off before others, the per-account limit
39 is to be determined with respect to the number of accounts remaining in the plan at the time the
40 fee is assessed. Therefore, if there are only two accounts remaining in a plan, the maximum
41 monthly charge is \$20.

42
43 Under no circumstances may the monthly fee exceed \$50. Courts and the administrator
44 should be vigilant to attempts to evade the per-creditor limitation of these paragraphs. For
45 example, if a provider includes in a plan a creditor who the provider knows will make no
46 concessions and imposes a \$10 per month fee for that creditor, the provider may violate this

1 subsection or section 28(a)(17) (prohibiting unfair, unconscionable, or deceptive acts or
2 practices).

3
4 Paragraph (3) limits the amount of compensation that debt-settlement entities may
5 receive, and receipt of that compensation is subject to the timing limitation of paragraph (1).
6 Debt-settlement entities are not allowed a set-up fee, and compensation for their services is
7 limited to 30% of the savings produced by the provider's efforts, measured by the excess of the
8 principal amount of the debt (defined in section 2(16)) less the amount of the settlement.
9 Paragraph (3) also further limits the timing of this compensation. Under paragraph (3)(B) the
10 provider may receive compensation at the same rate that the creditor receives payment pursuant
11 to a settlement agreement. For example, if a settlement agreement calls for the individual to pay
12 a creditor \$4,000 in four installments of \$1,000, the provider may receive one-fourth, but no
13 more than one-fourth, of its total settlement fee for that debt at the time each of the \$1,000
14 payments is made to the creditor in settlement of the debt. If the settlement agreement calls for
15 the individual to pay three installments of \$1,000, \$1,000, and \$2,000, the provider may receive
16 no more than one-fourth of its compensation when the first payment is made, one-fourth when
17 the second payment is made, and the remaining half of its compensation when the third payment
18 is made.

19
20 ~~6. Paragraphs (1) and (2) of subsection (d) permit a provider to charge a set-up fee and a~~
21 ~~monthly service fee. For all providers, paragraph (2) permits a monthly fee of \$10 per creditor,~~
22 ~~except that the monthly fee may not exceed \$50. Since some creditors may be paid off before~~
23 ~~others, the per creditor branch of the limit is to be determined with respect to the number of~~
24 ~~creditors remaining in the plan at the time the fee is assessed. Therefore, if there are only two~~
25 ~~creditors remaining in a plan, the maximum monthly charge is \$20.~~

26
27 ~~Under no circumstances may the monthly fee exceed \$50. Courts and the administrator~~
28 ~~should be vigilant to attempts to evade the per creditor limitation of these paragraphs. For~~
29 ~~example, if a provider includes in a plan a creditor who the provider knows will make no~~
30 ~~concessions and imposes a \$10 per month fee for that creditor, the provider may violate this~~
31 ~~subsection or section 28(a)(16) (prohibiting unfair, unconscionable, or deceptive acts or~~
32 ~~practices).~~

33
34 ~~7. If the provider is a credit counseling entity, paragraph (1) permits a set-up fee not~~
35 ~~exceeding \$50. If the provider is a debt settlement company, paragraph (2) permits a set-up fee~~
36 ~~not to exceed four percent of the principal amount of the debt in the plan, but in no event more~~
37 ~~than \$400. Anytime the aggregate debt in a plan exceeds \$10,000, the maximum set-up fee is~~
38 ~~\$400. The cross reference in paragraph (2)(A) is to the section that requires refund of 65 percent~~
39 ~~of the set-up fee if the individual terminates the agreement.~~

40
41 7. A provider may engage in both credit counseling and debt settlement. If so, it must
42 comply with the provisions in the Act applicable to each. Subsection (d)(4), however, prohibits
43 the provider from being compensated separately for each role.

44
45 8. A provider may engage in both credit counseling and debt settlement. If so, it must
46 comply with the provisions in the Act applicable to each. Paragraph (3), however, prohibits the

1 provider from being compensated separately for each role. To determine the monthly service fee,
2 the provider must aggregate the number creditors in the plan — whether they are to receive
3 regular payments or a one-time payment in settlement of the debt — and impose any per creditor
4 charge on that aggregate number (not to exceed a total of \$50 in any month). Similarly, a
5 provider may not receive both a \$50 set-up fee under paragraph (1)(A) and a 4%/\$400 set-up fee
6 under paragraph (2)(A). The applicable limit on the set-up fee should be determined by
7 examining whether the plan is predominantly for full payment of the individual’s debts (with
8 reduction in finance charges or other fees) or predominantly for the settlement of those debts for
9 an amount less than the full principal amount of debt owed.

10
11 ~~9-8. Paragraph (4)~~Subsection (d)(5) permits a provider to impose a charge for education
12 or counseling if an individual does not enter an agreement. The maximum fee for this education
13 or counseling is specified in the statute, but this paragraph permits the administrator to authorize
14 a larger fee. The approval may, but need not, refer to a specific provider or a specified program
15 of study, such as a course of instruction developed by a third party for use by others. The nature
16 and extent of the educational services may warrant approval of a larger fee if they exceed the
17 minimum standard contemplated by section 17(b)(1).

18
19 ~~10.~~For an elaboration on the cross reference to section 28(d), see ~~Official Comment 5~~
20 above.

21
22 ~~11. All dollar amounts in subsection (d) are subject to the adjustment by the administrator~~
23 ~~required by section 32(f).~~

24
25 ~~12-9.~~ Subsection (c) prohibits a provider from charging for education or counseling if an
26 individual enters an agreement. To evade this limitation, a provider might attempt to divide the
27 enrollment process into two stages: a period of education or counseling, for which it imposes a
28 fee, as permitted by subsection (d)(4)(5), followed by a plan or an agreement, in connection with
29 which it would obey the prohibition in subsection (c) against a fee for education or counseling.
30 Subsection (e) addresses subterfuges like this by requiring a refund of the fee for education or
31 counseling if the individual assents to an agreement before the expiration of 90 days after the
32 completion or termination of the education or counseling. This bright-line test is the minimum
33 restriction on evasion of the limit on charges. Courts and the administrator can and should deal
34 with attempts to evade the prohibition of subsection (c). Moreover, the obligation to act in good
35 faith and the prohibition against unfair, unconscionable, or deceptive acts or practices also
36 constrain attempts to evade the restrictions of this section.

37
38 10. The dollar amounts in this section are subject to the adjustment by the administrator
39 required by section 32(f).

40
41 ~~13. Subsection (f) authorizes a debt settlement entity to charge a settlement fee, but~~
42 ~~requires it to credit against the settlement fee all set-up and monthly fees. The underlying idea is~~
43 ~~that the settlement fee represents the real compensation of the provider, and the other fees~~
44 ~~provide cash flow pending receipt of the settlement fee. Hence, they are advances against~~
45 ~~settlement fees and are to be credited against the settlement fee. This approach accommodates~~
46 ~~the provider’s need for cash flow pending the first settlement and provides a simple way to~~

1 a claim against the individual for breach of contract or for restitution.

2 **Comment**

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1. If a provider overcharges, subsection (a) gives the individual the option of voiding the agreement. The individual’s right to void the agreement is subject to the provider’s defense under section 35(f) for an overcharge that results from a good-faith error notwithstanding the maintenance of procedures reasonably adapted to avoid the error.

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2. If a provider is not properly registered under section 4, subsection (b) empowers the individual to void the agreement. If a provider uses an independent contractor that itself is within the definition of “provider” to secure the individual’s assent, the agreement is voidable if either the provider or the independent contractor is not registered. The remedy appears in section 35(a) (in part, the provider must return to the individual all money paid or deposited by the individual which it has not already distributed to creditors).

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3. If an individual voids an agreement, the provider has no claim whatsoever against the individual. The individual’s right to terminate the agreement would foreclose a claim for future loss, and subsection (c) is intended to make it clear that the provider has no claims with respect to any benefits conferred on the individual in the past.

21 **SECTION 26. RETENTION OF RECORDS ~~TERMINATION OF~~**

22 **~~AGREEMENTS.~~** A provider shall maintain records for each individual for whom it provides
23 debt-management services for five years after the final payment made by the individual and
24 produce a copy of them to the individual within a reasonable time after a request for them. The
25 provider may use electronic or other means of storage of the records.

26 ~~(a) If an individual who has entered into an agreement fails for 60 days to make~~
27 ~~payments required by the agreement, a provider may terminate the agreement.~~

28 ~~(b) If a provider or an individual terminates an agreement, the provider shall~~
29 ~~immediately return to the individual:~~

30 ~~(1) any money of the individual held in trust for the benefit of the individual; and~~

31 ~~(2) 65 percent of any portion of the set up fee received pursuant to Section~~
32 ~~23(d)(2) which has not been credited against settlement fees.~~

1 **Comment**

2
3 1. The period of retention is tied to the statute of limitations in section 37. For private
4 actions, the statute of limitations is two years. For public enforcement, it is four years. To afford
5 a reasonable time for the discovery process to unfold, this section requires retention of records
6 for five years.

7
8 2. The Electronic Signatures in Global and national Commerce Act, 15 U.S.C. §
9 7001(d)(1), provides that a provider may comply with record-retention requirements under other
10 law by “retaining an electronic record . . . that (A) accurately reflects the information . . . and (B)
11 remains accessible to all persons who are entitled to access by statute, regulation, or rule of law,
12 for the period required by such statute, regulation, or rule of law, in a form that is capable of
13 being accurately reproduced for later reference, whether by transmission, printing, or otherwise.”
14 Accordingly, this section permits retention in electronic form and, along with Section 18(f),
15 requires the provider to produce a copy of the record, whether or not it is stored electronically.

16
17 ~~1. Section 19(a)(6)(G) requires a provider to include in an agreement a provision~~
18 ~~disclosing that the provider may terminate the agreement for good cause. Subsection (a) gives an~~
19 ~~example of what constitutes good cause. There may be others.~~

20
21 ~~2. Upon termination, whether by the provider or the individual, the provider must~~
22 ~~immediately return the individual’s money. In the context of credit counseling entities, if the~~
23 ~~provider is acting in conformity with the Act, there will be no money in the trust account.~~
24 ~~Subsection (b)(1) addresses the provider that has not yet distributed the money to creditors as~~
25 ~~required by section 22(c)(2). It also requires a debt settlement entity in possession of an~~
26 ~~individual’s money to return it to the individual. Paragraph (1) does not require refund of money~~
27 ~~properly held as payment of fees. Paragraph (2), on the other hand, requires a debt settlement~~
28 ~~entity to refund 65 percent of any portion of the set-up fee that has not already, in effect, been~~
29 ~~refunded as a credit against settlement fees for debts already settled. To determine the amount of~~
30 ~~the refund, the provider must calculate how much of the set-up fee has been credited against the~~
31 ~~settlement fee. The provider must pay the individual 65% of the remainder. For commentary on~~
32 ~~how to make this calculation, see Comment 11 to section 19.~~

33
34 **SECTION 27. PERIODIC REPORTS ~~AND RETENTION OF RECORDS.~~**

35 (a) A provider shall provide the accounting required by subsection (b):

36 (1) upon cancellation or termination of an agreement; and

37 (2) before cancellation or termination of any agreement:

38 (A) at least once each month; and

39 (B) within five business days after a request by an individual, but the

1 provider need not comply with more than one request in any calendar month.

2 (b) A provider, in a record, shall provide each individual for whom it has established a
3 plan an accounting of the following information:

4 (1) the amount of money in an account containing money paid by or on behalf of
5 the individual for fees, distribution to a creditor, or both, as of the date one month before the date
6 of the accounting;

7 (2) the amount of money received from the individual paid into the account since
8 the last report;

9 ~~(2)~~(3) the amounts and dates of disbursement made on the individual's behalf, or
10 by the individual upon the direction of the provider, since the last report, to each creditor listed in
11 the plan;

12 ~~(3)~~(4) the amounts deducted, as fees or otherwise, from the amount ~~received from~~
13 ~~the individual~~ paid into the account since the last report;

14 ~~(4) the amount held in reserve; and~~

15 (5) if, since the last report, a creditor has agreed to accept as payment in full an
16 amount less than the principal amount of the debt owed by the individual:

17 (A) the total amount and terms of the settlement;

18 (B) the amount of the debt when the individual assented to the plan;

19 (C) the amount of the debt when the creditor agreed to the settlement; and

20 (D) the calculation of a settlement fee; and

21 (6) the amount of money in the account as of the date of the current accounting.

22 (c) If a provider whose agreement contemplates that a creditor will settle a debt for less

23 than the principal amount of the debt has delegated performance of its duties under this section to

1 another person, the provider may provide the information required by subsection (b)(5) in a
2 record separate from the record containing the other required information.

3 ~~(e) A provider shall maintain records for each individual for whom it provides debt-~~
4 ~~management services for five years after the final payment made by the individual and produce a~~
5 ~~copy of them to the individual within a reasonable time after a request for them. The provider~~
6 ~~may use electronic or other means of storage of the records.~~

7 **Comment**

8
9 1. An individual must receive regular communication of the status of his or her account.
10 Subsection (a) requires providers to give accountings monthly or upon request. A provider is free
11 to provide the accounting more frequently than monthly. A purpose of the requirement is to
12 enable the individual to monitor and track the progress of the plan.

13
14 2. If any of the amounts required by a paragraph in subsection (b) is zero, the provider
15 need not include any disclosure with respect to that paragraph. If a provider requires the
16 individual to establish an account with a bank or other third party from which the individual is to
17 disburse money to creditors and the provider does not know the date on which the individual
18 made a payment, the provider complies by stating the date on which it directed the individual to
19 make payment.

20
21 3. If a plan contemplates concessions consisting of reduction in finance charges or late
22 payment, default, or delinquency fees, section ~~22(e)(2)~~22(e)(2) requires distribution of all the
23 money each month. With respect to individuals in these plans, ~~notwithstanding paragraph (4),~~
24 ~~accumulating reserves is not permitted. For plans that contemplate settlement for less than the~~
25 ~~principal amount of a debt owed a creditor, the provider may accumulate money from month to~~
26 ~~month~~the amount of money accumulated in an account at the end of each month must be
27 disclosed.

28
29 4. Paragraph (5) applies primarily to debt-settlement entities. If no creditor has agreed to
30 settlement terms during a reporting period, the ~~subsection does not require the provider to make~~
31 ~~any disclosure~~provider must make the disclosures required by subsection (b)(1), (2), and (6).
32 ~~Hence, the subsection ordinarily would not apply to plans operated by credit counseling entities,~~
33 ~~because creditors receive the full principal amount of the debt owed them and do not “agree” to~~
34 ~~accept any particular amount as payment in full. As to debt settlement entities, the paragraph~~If a
35 creditor has agreed to a settlement, subsection (b)(5) requires disclosure of the terms of a the
36 settlement, including the dollar amount paid and the percentage of the principal amount of the
37 debt (see section ~~2(14)~~2(16)) that that represents. Subparagraph (D) requires disclosure of the
38 calculation of a settlement fee. The provider must disclose the amount and the method of arriving
39 at the amount of the fee, e.g., “\$100, which represents 20% of the difference between the amount
40 of the debt when you entered the plan and the amount paid pursuant to the settlement.”

1
2 5. Under section 22(b), debt-settlement providers are subject to the independent-
3 administrator requirement if their customers make periodic payments for accumulation until the
4 time a debt is settled. The person administering the account may not know the details of a
5 settlement, which paragraph (b)(5) of this section requires to be disclosed. Hence, if the person
6 administering the account sends the periodic report required by this section, subsection(c)
7 permits the provider to supply this information separately from the other disclosures required by
8 this section.
9

10 ~~5. The period of retention required by subsection (c) is tied to the statute of limitations in~~
11 ~~section 37. For private actions, the statute of limitations is two years. For public enforcement, it~~
12 ~~is four years. To afford a reasonable time for the discovery process to unfold, subsection (c)~~
13 ~~requires retention of records for five years.~~
14

15 ~~6. The Electronic Signatures in Global and national Commerce Act, 15 U.S.C. §~~
16 ~~7001(d)(1) provides that a provider may comply with record retention requirements under other~~
17 ~~law by “retaining an electronic record . . . that (A) accurately reflects the information . . . and (B)~~
18 ~~remains accessible to all persons who are entitled to access by statute, regulation, or rule of law,~~
19 ~~for the period required by such statute, regulation, or rule of law, in a form that is capable of~~
20 ~~being accurately reproduced for later reference, whether by transmission, printing, or otherwise.”~~
21 ~~Subsection (c) requires the provider to produce a copy of the electronic record.~~
22

23 **SECTION 28. PROHIBITED ACTS AND PRACTICES.**

24 (a) A provider may not, directly or indirectly:

25 (1) include a secured debt in a plan, except as authorized by law other than this

26 [act];

27 ~~(1)(2)~~ (2) misappropriate or misapply money held in trust;

28 ~~(2)(3)~~ (3) settle a debt on behalf of an individual ~~for more than 50 percent of the~~
29 ~~principal amount of the debt owed a creditor, unless the individual assents to the settlement after~~
30 ~~the creditor has assented;~~

31 ~~(3)(4)~~ (4) take a power of attorney that authorizes it to settle a debt, ~~unless the power~~
32 ~~of attorney expressly limits the provider’s authority to settle debts for not more than 50 percent~~
33 ~~of the principal amount of the debt owed a creditor;~~

34 ~~(4)(5)~~ (5) exercise or attempt to exercise a power of attorney after an individual has

1 terminated an agreement;

2 ~~(5)~~(6) initiate a transfer from an individual's account at a bank or with another
3 person unless the transfer is:

4 (A) a return of money to the individual; or

5 (B) before termination of an agreement, properly authorized by the
6 agreement and this [act], and for:

7 (i) payment to one or more creditors pursuant to an agreement; or

8 (ii) payment of a fee;

9 ~~(6)~~(7) offer a gift or bonus, premium, reward, or other compensation to an
10 individual for executing an agreement;

11 ~~(7)~~(8) offer, pay, or give a gift or bonus, premium, reward, or other compensation
12 to a lead generator or other person for referring a prospective customer, if the person making the
13 referral:

14 (A) has a financial interest in the outcome of debt-management services
15 provided to the customer, unless neither the provider nor the person making the referral
16 communicates to the prospective customer the identity of the source of the referral; or

17 (B) compensates its employees on the basis of a formula that incorporates
18 the number of individuals the employee refers to the provider;

19 ~~(8)~~(9) receive a bonus, commission, or other benefit for referring an individual to
20 a person;

21 ~~(9)~~(10) structure a plan in a manner that would result in a negative amortization
22 of any of an individual's debts, unless a creditor that is owed a negatively amortizing debt agrees
23 to refund or waive the finance charge upon payment of the principal amount of the debt;

1 ~~(10)~~(11) compensate its employees on the basis of a formula that incorporates the
2 number of individuals the employee induces to enter into agreements;

3 ~~(11)~~(12) settle a debt or lead an individual to believe that a payment to a creditor
4 is in settlement of a debt to the creditor unless, at the time of settlement, the individual receives a
5 certification by the creditor that the payment is in full settlement of the debt or is part of a
6 settlement plan, the terms of which are included in the certification, which, if completed
7 according to its terms, will satisfy the debt;

8 ~~(12)~~(13) make a representation that:

9 (A) the provider will furnish money to pay bills or prevent attachments;

10 (B) payment of a certain amount will permit satisfaction of a certain
11 amount or range of indebtedness; or

12 (C) participation in a plan will or may prevent litigation, garnishment,
13 attachment, repossession, foreclosure, eviction, or loss of employment;

14 ~~(13)~~(14) misrepresent that it is authorized or competent to furnish legal advice or
15 perform legal services;

16 ~~(14)~~(15) represent in its agreements, disclosures required by this [act],
17 advertisements, or Internet web site that it is:

18 (A) a not-for-profit entity unless it is organized and properly operating as a
19 not-for-profit entity under the law of the state in which it was formed; or

20 (B) a tax-exempt entity unless it has received certification of tax-exempt
21 status from the Internal Revenue Service and is properly operating as a not-for-profit entity under
22 the law of the state in which it was formed;

23 ~~(15)~~(16) take a confession of judgment or power of attorney to confess judgment

1 against an individual; or
2 ~~(16)~~(17) employ an unfair, unconscionable, or deceptive act or practice, including
3 the knowing omission of any material information.

4 (b) If a provider furnishes debt-management services to an individual, the provider may
5 not, directly or indirectly:

6 (1) purchase a debt or obligation of the individual;

7 (2) receive from or on behalf of the individual:

8 (A) a promissory note or other negotiable instrument other than a check
9 or a demand draft; or

10 (B) a post-dated check or demand draft;

11 (3) lend money or provide credit to the individual, except as a deferral of a
12 settlement fee at no additional expense to the individual;

13 (4) obtain a mortgage or other security interest from any person in connection
14 with the services provided to the individual;

15 (5) except as permitted by federal law, disclose the identity or identifying
16 information of the individual or the identity of the individual's creditors, except to:

17 (A) the administrator, upon proper demand;

18 (B) a creditor of the individual, to the extent necessary to secure the
19 cooperation of the creditor in a plan; or

20 (C) the extent necessary to administer the plan;

21 (6) except as otherwise provided in Section ~~23(f)~~23(d)(3), provide the individual
22 less than the full benefit of a compromise of a debt arranged by the provider;

23 (7) charge the individual for or provide credit or other insurance, coupons for

1 goods or services, membership in a club, access to computers or the Internet, or any other matter
2 not directly related to debt-management services or educational services concerning personal
3 finance; or

4 (8) furnish legal advice or perform legal services, unless the person furnishing
5 that advice to or performing those services for the individual is licensed to practice law.

6 (c) This [act] does not authorize any person to engage in the practice of law.

7 (d) A provider may not receive a gift or bonus, premium, reward, or other compensation,
8 directly or indirectly, for advising, arranging, or assisting an individual in connection with
9 obtaining, an extension of credit or other service from a lender or service provider, except for
10 educational or counseling services required in connection with a government-sponsored program
11 or authorized under Section 23(d)(5).

12 (e) Unless a person supplies goods, services, or facilities generally and supplies them to
13 the provider at a cost no greater than the cost the person generally charges to others, a provider
14 may not purchase goods, services, or facilities from the person if an employee or a person that
15 the provider should reasonably know is an affiliate of the provider:

16 (1) owns more than 10 percent of the person; or

17 (2) is an employee or affiliate of the person.

18 **Comment**

19
20 1. Debt-management services traditionally have dealt with unsecured debt, and
21 subsection (a)(1) requires this to continue to be so. Nevertheless, in counseling an individual and
22 structuring a plan, a provider must consider the impact of secured debt obligation on the
23 individual’s ability to pay unsecured creditors. A provider that fails to do this has failed to
24 discharge its obligation under Section 17(b)(3) to make “a determination . . . that the plan is
25 suitable for the individual and the individual will be able to meet the payment obligations under
26 the plan.” A provider may not, however, intervene in the relationship between an individual and
27 a secured creditor of the individual. The prohibition, however, is subject to other state or federal
28 law that authorizes an entity providing debt-management services to assist an individual in
29 resolving his or her secured-debt obligations.

1
2 ~~1-2.~~ Paragraphs ~~(2)(3)~~ and ~~(3)(4)~~ of subsection (a) limit the extent to which a debt-
3 settlement entity may settle a debt ~~without the individual's contemporaneous assent.~~ Paragraph
4 ~~(2)(3)~~ prohibits a provider from settling a debt without the individual's contemporaneous assent,
5 ~~through the use of a power of attorney or otherwise, to authorize the provider to settle debts on~~
6 ~~whatever terms the provider deems desirable, or on any terms other than those specified here.~~
7 ~~Under paragraph (3) a power of attorney may authorize the provider to settle debts for 50 percent~~
8 ~~or less of the amount of the debt at the time the individual assented to the plan. See section 2(14)~~
9 ~~for the definition of "principal amount of the debt." For settlements less favorable to the~~
10 ~~individual than that, a power of attorney is prohibited and ineffectual. Paragraph (4) prohibits a~~
11 ~~provider from taking a power of attorney that authorizes it to settle debts.~~ These paragraphs
12 supplement section 19(e), which imposes similar limits on the terms that a provider may include
13 in an agreement, and they negate the permissibility of using a separate document to obtain
14 greater authorization than section 19 permits.

15
16 ~~2-3.~~ Paragraph ~~(4)(5)~~ makes it a violation of the Act for a provider to attempt to exercise
17 a power of attorney after an individual has terminated an agreement. It supplements section 20,
18 ~~19(d)(1)(C), which requires the agreement to provide which provides~~ that a power of attorney is
19 automatically revoked if the individual terminates the agreement.

20
21 ~~3-4.~~ A credit-counseling entity may have access to its customers' checking accounts, for
22 the purpose of withdrawing money to pay the customers' creditors and to pay the entity its
23 monthly fee. Similarly, a debt-settlement entity may have its customers establish accounts with
24 banks or other persons for the purpose of accumulating money until it is paid to creditors, and the
25 entity may request the administrator of the account to initiate transfers out of these accounts ~~to~~
26 ~~pay monthly service fees and settlement fees, as well as perhaps to pay creditors to pay creditors~~
27 and to pay its settlement fee. Paragraph ~~(5)(6)~~ prohibits a provider from initiating transfers to
28 itself or to creditors after the individual has terminated an agreement. It also prohibits a provider
29 from initiating transfers that are not properly authorized by the agreement and the Act. Section
30 23 limits the amount and timing of the fees.

31
32 ~~4-5.~~ Paragraph ~~(6)(7)~~ prohibits compensation to an individual, but it does not prohibit a
33 provider from reducing its normal fees for individuals who cannot afford them, so long as the
34 reduction is in good faith and pursuant to the provider's established practices. It does prohibit
35 such come-ons as "reduced price good for today only."

36
37 The Bankruptcy Code, 11 U.S.C. §111(c)(2)(B), requires credit-counseling entities within
38 its purview to "provide services without regard to ability to pay the fee." The Internal Revenue
39 Code extends this requirement to all entities exempt from taxation under section 501(c)(3). This
40 Act does not require providers to reduce or waive fees for those who cannot afford them, but
41 neither does it interfere with a provider's compliance with any federal or other state law that
42 requires a reduction or waiver of fees.

43
44 ~~5-6.~~ Paragraph ~~(7)(8)~~ prohibits certain referral fees. Payment of referral fees may be an
45 efficient way to attract business and achieve economies of scale, but it creates a risk of
46 deception. If a creditor, for example, suggests that an individual consult a particular provider, the

1 individual is likely to perceive this as an endorsement by a creditor that is seeking to help the
2 individual. The same is true if the creditor supplies the individual's name to a provider and the
3 provider contacts the individual, telling the individual that the creditor suggested the
4 communication. In fact, the referral may be driven by identification of which provider is willing
5 to pay the highest price for the referrals.
6

7 The prohibition against paying referral fees does not preclude payment for sales leads or
8 lists of prospective customers, if the person making the referral has no stake in the outcome of a
9 plan or if the provider does not reveal the identity of the person that supplied the list. A creditor
10 is one example of a person that has a financial interest in the outcome of debt-management
11 services. Another is a person whose compensation varies depending on whether the individual it
12 refers completes a plan or reaches some other milestone.
13

14 The vice here is misleading the individual into believing that an entity with which the
15 individual has a relationship (e.g., one of the individual's creditors) is disinterestedly
16 recommending that the individual seek the services of the provider. Hence, neither the provider
17 nor the creditor (or other person supplying the individual's name to the provider) may reveal to
18 the individual that the person making the referral is in any way connected to the reason the
19 provider is communicating with the individual. If the source of the list is identified to the
20 individual by either the provider or the source, paragraph ~~(7)~~(8) prohibits the provider from
21 paying for it.
22

23 If a lead generator compensates an employee based on the number of individuals referred
24 to a provider, the employee has an incentive to use deception or coercion to gain the individual's
25 assent to a referral. To address this potential, paragraph (8)(B) prohibits a provider from
26 compensating a lead generator that compensates its employees on the basis of the number
27 individuals the employee refers. A provider's compensation of a lead generator on the basis of
28 the number of referrals supplied by the lead generator—as distinguished from the number
29 referrals generated by an employee—does not violate this prohibition.
30

31 ~~6-7.~~ Paragraph ~~(8)~~(9) is the converse of paragraph ~~(7)~~(8). Its purpose is to eliminate the
32 economic incentive for a provider to refer individuals to persons who provide loans, goods,
33 services, facilities, or other products of any kind. The protection of financially stressed,
34 vulnerable individuals justifies discouraging a provider, motivated by self-interest, from
35 recommending products provided by others. The prohibition in paragraph (8) precludes a
36 provider from including on its website a link to the website of an entity providing other services
37 or products and receiving payment from that entity, whether a flat fee or a fee based on the
38 number of times individuals hit that link. Although this appears to be a form of advertising, for
39 the purposes of this Act it is indistinguishable from payment for referrals. Placing a link on the
40 provider's website amounts to an endorsement of or referral to the owner of the linked website. It
41 should not matter whether the referral is by electronic link or verbal recommendation. The
42 provider is free, of course, to place the link on its website, just as it is free to make an oral
43 referral, so long as it does not directly or indirectly receive compensation or other benefit from
44 the person to whom the individual is referred. This distinguishes disinterested advice from
45 referrals motivated by the provider's self-interest.
46

1 For restrictions on the manner in which a provider may make a permissible referral, see
2 subsection (b)(5) and ~~Official-Comment 16-17~~.

3
4 ~~7-8~~. The practice of many providers has been to compensate their employees on the basis
5 of how many individuals they can enroll in plans. This provides an incentive to the employees to
6 engage in deceptive and coercive sales pitches. Paragraph ~~(10)~~(11) seeks to curb the deception
7 and coercion by barring this method of compensating employees. The Bankruptcy Code, 11
8 U.S.C. § 111(c)(2)(F), contains a similar prohibition for the credit-counseling entities within its
9 purview. Courts and the administrator should be vigilant to attempts to evade the prohibition of
10 this paragraph. Nevertheless, it is permissible for providers to create incentives for their
11 employees to identify individuals who will be able to perform an agreement completely. Thus it
12 is not a violation of this subsection for a provider to use the number of successfully completed
13 agreements as a criterion for compensation of its employees.

14
15 ~~8-9~~. If an agreement contemplates settlement of a debt for less than the full principal
16 amount of the debt, paragraph ~~(11)~~(12) prohibits a provider from paying, or directing an
17 individual to pay, a creditor unless the individual receives formal acknowledgment from the
18 creditor that the debt is satisfied. This acknowledgment may come in at least two forms. The
19 creditor may assent to a settlement in a communication offering to settle the debt in exchange for
20 specified performance by the individual, typically payment of a specified amount by a specified
21 date. This communication often is called a settlement offer and may be sent to the individual or
22 the provider. After the individual renders the specified performance, the creditor may send a
23 communication stating that the debt is satisfied. This communication often is called a satisfaction
24 letter. This paragraph requires transmission of the settlement offer to the individual in all cases.
25 If the creditor sends a satisfaction letter to the provider, the obligation of good faith requires the
26 provider to forward that to the individual as well. In the case of either a settlement offer or a
27 satisfaction letter, the creditor's certification may be passed on by the provider or come directly
28 from the creditor.

29
30 ~~9-10~~. Paragraph ~~(11)~~(12) also prohibits a provider from misleading an individual into
31 believing that a payment will settle a debt. To violate the paragraph, a misrepresentation does not
32 have to be express. If a settlement contemplates that a creditor will be accepting installment
33 payments, the provider must make it clear to the individual that the initial installment does not
34 settle the debt.

35
36 ~~10-11~~. Paragraph ~~(12)~~(13) applies not only to statements made specifically to an
37 individual; it also applies to advertising. Subparagraphs (B) and (C) prohibit certain
38 representations that sometimes are used to entice individuals to sign up for plans. They are
39 prohibited here even when they are true because they too often are untrue.

40
41 ~~11-12~~. Paragraph ~~(14)~~(15) applies to advertisements and other communications that a
42 provider intends to reach potential customers. Not-for-profit status is a status under state law. An
43 entity may qualify for that status without also being tax-exempt under federal law. For a provider
44 to represent that it is a nonprofit or not-for-profit entity, it is not enough that the provider was
45 organized under a statute authorizing not-for-profits. Paragraph ~~(14)~~(15) requires that the
46 provider also must be properly operating as a not-for-profit. Nor does it suffice that the provider

1 has been granted tax-exempt status under the Internal Revenue Code. If it is not operating in a
2 manner consistent with the law under which it was formed, a representation that it is a nonprofit
3 or tax-exempt entity violates this section. A provider that is unsure whether it is properly
4 operating as a not-for-profit entity may avoid liability under this paragraph by not representing
5 that it has tax-exempt or not-for-profit status in any of its communications that are designed to
6 reach the individuals it seeks to serve.

7
8 ~~12-13~~. Paragraph ~~(15)~~(16) prohibits the use of cognovit clauses or other procedural
9 devices by which a provider is authorized to confess judgment against an individual.

10
11 ~~13-14~~. Paragraph ~~(16)~~(17) prohibits false or misleading representations whether or not the
12 provider knows of the deception. In accord with existing statutes prohibiting unfair or deceptive
13 acts or practices, the risk of falsity or deception is on the person that makes an express statement.
14 On the other hand, the paragraph prohibits omissions only if the omitted facts are known to the
15 provider and are material. The prohibition applies to all stages of a transaction between a
16 provider and an individual, including, at the back end, a provider's attempt to collect a debt owed
17 to it or to another person. At the front end, it applies to a provider's attempt to divert the
18 individual's attention away from, or minimize the importance of, the disclosures required by
19 sections 17 and 19 or to secure the individual's assent to the purchase of the education services
20 permitted by section 23(c) and (d)~~(5)~~. The standards of unfairness, unconscionability, and
21 deception should be the same under this Act as they are under the state's other statutes protecting
22 consumers.

23
24 ~~14-15~~. Paragraph (3) of subsection (b) prohibits a provider from extending credit to an
25 individual to whom it provides debt-management services. Often, however, an individual has
26 enough money to effect a settlement with a creditor but not enough to pay the fee associated with
27 that settlement. This paragraph does not prohibit a provider from deferring collection of that fee,
28 so long as there is no charge for the deferral in addition to the agreed-upon ~~set-up, monthly-~~
29 ~~service, and settlement~~ fees authorized by section 23.

30
31 ~~15-16~~. Paragraph (4) bans security interests altogether, in the property of any person. A
32 provider may not take a security interest in property of an individual to whom it furnishes debt-
33 management services or in the property of a family member or other person. The prohibition
34 must be read in the context of the language introducing the subsection ("if a provider furnishes
35 debt-management services to an individual") so that the phrase, "in connection with the services
36 provided to the individual" means "in connection with the debt-management services provided to
37 the individual." Hence this paragraph does not prohibit an entity from taking a security interest in
38 connection with extending credit or providing other kinds of services to persons to whom it does
39 not provide debt-management services.

40
41 ~~16-17~~. Paragraph (5) preserves the privacy of information about an individual with whom
42 a provider has an agreement. It is intended to complement federal and other state law restrictions
43 on the dissemination of personal information. So long as the provider strips out the individual's
44 identifying information, however, it is free under this Act to disclose information for purposes of
45 academic research or construction of a scoring system. If the identifying information is present,
46 this paragraph prohibits disclosure of any of the information, except as permitted by the three

1 specified exceptions. To the extent that other law restricts the disclosure of information about an
2 individual, the provider may be able to comply with that law by obtaining the individual's
3 consent to the disclosure. But this paragraph makes no provision for authorizing the provider to
4 release information with the individual's consent.
5

6 The only permissible purpose for a disclosure to a creditor of the individual is to secure
7 its cooperation. Disclosure to other persons (other than the administrator) is permitted only if
8 disclosure is necessary for the administration of a plan. For example, a provider may delegate to
9 a third party its duty to administer a trust account or its duty to provide periodic reports. To the
10 extent necessary to enable the third party to perform the tasks that have been delegated to it, the
11 provider may disclose information concerning its customers.
12

13 On the other hand, if a provider wants to refer an individual to another person for other
14 goods or services (which subsection (a)~~(8)~~(9) permits, so long as the provider receives no
15 compensation for the referral), it must do so by providing the individual with the identity of the
16 third person. This paragraph prohibits the provider from disclosing the identity of the individual
17 to the third person for the third person to contact.
18

19 ~~17-18~~. The cross-referenced section in paragraph (6) permits debt-settlement companies
20 to receive a portion of the forgiven debt. Other entities are not permitted to receive any portion of
21 any forgiven debt, but this paragraph should not be interpreted to prohibit the receipt of any fees
22 permitted by this Act.
23

24 ~~18-19~~. Paragraph (7) is intended to prohibit the sale to individuals of insurance and other
25 products that in other contexts have been a means of evading statutory regulation. The catch-all
26 at the end of the paragraph is intended to thwart the exercise of ingenuity in generating new ideas
27 to evade the limits imposed by the Act. It should be interpreted accordingly. The administrator
28 may adopt rules specifying items that fall into the catch-all.
29

30 ~~19-20~~. Subsection (a)~~(13)~~(14) prohibits misrepresentations that a provider is authorized or
31 competent to provide legal services. Paragraph (8) of subsection (b) prohibits the performance of
32 those services, unless the person is a licensed attorney. A provider does not violate this
33 subsection if the person providing legal services is licensed in a state, even if not this state. It
34 may, however, violate other law that prohibits the unauthorized practice of law in this state.
35

36 ~~20-21~~. Section 17(d) requires providers to answer questions about how to deal with
37 indebtedness, and the Act generally contemplates that providers act as intermediaries between
38 individuals and their creditors. Subsection (c) of this section makes it clear that the Act does not
39 authorize providers or their employees to practice law. The Act does not, however, attempt to
40 draw the line between the practice of law and the services required or permitted by the Act.
41 Rather, it contemplates that the courts will continue to develop and apply the rules concerning
42 the unauthorized practice of law.
43

44 ~~21-22~~. Subsection (d) prohibits a provider from receiving compensation for performing
45 specified services for a third party, a technique used in other contexts to evade regulation. The
46 prohibition supplements subsection (a)~~(8)~~(9) (prohibiting referral fees). It is broader, in that it

1 attempts to prevent evasions of subsection (a)(~~8~~)(9) through the ruse of performing services for
2 the lender or service provider.

3
4 The purpose of the exception is to accommodate programs of governmental agencies that
5 require counseling in connection with reverse mortgages, first-time homebuyers programs, or
6 other financial services products.

7
8 ~~22-23~~. Subsection (e) prohibits insider transactions unless the transactions are bona fide
9 market transactions. The purpose of the subsection is to prohibit the use of a provider to channel
10 money to related entities. Not-for-profit or tax-exempt providers may do this in an attempt to
11 evade restrictions on entities with that status. For-profit providers may do this in an attempt to
12 establish a high cost of doing business, which they then might use to persuade the legislature to
13 increase the permissible fees and charges. Ordinarily a provider will know whether a person with
14 whom it deals is its affiliate. The “should reasonably know” language is to protect a provider
15 when its ignorance of that relationship is reasonable.

16
17 The subsection sets a minimum standard, but it does not displace other law governing
18 not-for-profit entities. That other law may impose more stringent standards on engaging in
19 transactions that benefit persons related to the not-for-profit entity.

20
21 **SECTION 29. NOTICE OF LITIGATION.** No later than 30 days after a provider has
22 been served with notice of a civil action for violation of this [act] by or on behalf of an individual
23 who resides in this state at either the time of an agreement or the time the notice is served, the
24 provider shall notify the administrator in a record that it has been sued.

25 **Comment**

26
27 The purpose of this section is to alert the administrator to the possibility of the need for
28 action.

29
30 **SECTION 30. ADVERTISING.**

31 (a) If the agreements of a provider contemplate that creditors will reduce finance charges
32 or fees for late payment, default, or delinquency and the provider advertises debt-management
33 services, it shall disclose, in an easily comprehensible manner, that using a debt-management
34 plan may make it harder for the individual to obtain credit.

35 (b) If the agreements of a provider contemplate that creditors will settle for less than the

1 full principal amount of debt and the provider advertises debt-management services, it shall
2 disclose, in an easily comprehensible manner, the information specified in Section 17(d)(3) and
3 (4).

4 **Comment**

5
6 1. This section applies to advertising in any medium, be it print, broadcast, telecast,
7 electronic, or other. But a mere listing in a directory, such as the Yellow Pages, is not an
8 advertisement if the entry consists solely of the name, address, and phone number of a provider.
9 If it goes beyond this, however, the entry is an advertisement and must comply with this section.
10

11 2. To counteract the deception and pressure often exercised by providers that engage in
12 extensive advertising, this section requires disclosure of the likely impact on credit rating and the
13 likelihood of collection efforts. To prevent the disclosures from becoming incomprehensible on
14 TV and radio, it requires that the information be disclosed “in an easily comprehensible manner.”
15 To be easily comprehensible, the type in a print ad must be large enough to be legible to an
16 individual of average eyesight; and the type in a video ad must be large enough and must appear
17 on the screen long enough to be legible to an individual of average eyesight. The audio portion of
18 an ad must be spoken slowly enough to be understood by an individual of average hearing and
19 comprehension.
20

21 3. If a provider advertises its debt-management services, it must comply with this section.
22 If a third party advertises the debt-management services of a provider, the third party should be
23 viewed as an agent of the provider, and the provider is liable under the law of agency if the
24 advertisement fails to comply with this section. See also section 31.
25

26 **SECTION 31. LIABILITY OF PROVIDER FOR ~~THE~~ CONDUCT OF ~~OTHER~~**
27 **PERSONS ~~ANOTHER PERSON~~; UNLAWFUL CONDUCT BY ANOTHER PERSON.**

28 (a) If a provider delegates any of its duties or obligations under an agreement or this [act]
29 to another person, including an independent contractor, the provider is liable for conduct of the
30 person which, if done by the provider, would violate the agreement or this [act].

31 (b) A lead generator or other person that provides services to or for a provider may not
32 engage in an unfair, unconscionable, or deceptive act or practice, including the knowing
33 omission of any material information, in its interaction with an individual who it has reason to
34 believe is or may become a customer of the provider.

1 **Comment**

2
3 1. The agreement between a provider and an individual imposes duties and obligations on
4 the provider. The provisions of this Act also impose duties and obligations, some affirmative
5 (e.g., requirement that provider supply education) and some negative (e.g., prohibition against
6 deception). A provider may not escape its obligations and duties under the agreement and this
7 Act by contracting with others for the others to perform them. The delegee whose conduct fails
8 to conform to the agreement or the Act may be liable as a provider if the delegee meets the
9 definition of “provider” in section ~~2(15)~~2(17) or may be liable under section 35 as a person that
10 caused a provider to violate the Act. Regardless, the provider that delegated the fulfillment of its
11 duties or the performance of its obligations also is liable. This section imposes liability on the
12 provider for the failure of the delegee to conform its conduct to both the affirmative and the
13 negative duties and obligations.

14
15 To illustrate, if a provider uses the services of another person to solicit individuals and
16 secure their assent to agreements, which agreements then are to be performed by the provider,
17 the provider necessarily has delegated its obligations under sections 17 (requiring pre-agreement
18 analyses and disclosures) and 19 (prescribing the terms of an agreement). If the person fails to
19 perform the duties imposed on providers by those sections, this section imposes liability on the
20 provider. If the person’s role stops short of securing the assent of the individual, so that section
21 19 is not implicated, the provider must comply with section 17. If the other person has not
22 performed the obligations of section 17, the provider must.

23
24 Similarly, if a provider uses the services of an independent contractor to receive and
25 disburse the individuals’ money to their creditors, or to provide the periodic reports required by
26 section 27, the provider necessarily has delegated some of its obligations under this Act. If the
27 conduct of the independent contractor fails to conform to the obligations placed on providers, the
28 provider is liable under this section.

29
30 2. Subsection (b) imposes on persons who provide services to or for a provider an
31 obligation not to engage in unfair, unconscionable, or deceptive conduct. See Section 28(a)(17)
32 for the liability of providers for their use of this conduct.
33

34 **SECTION 32. POWERS OF ADMINISTRATOR.**

35 (a) The administrator may act on its own initiative or in response to complaints and may
36 receive complaints, take action to obtain voluntary compliance with this [act],
37 [refer cases to the [attorney general]], and seek or provide remedies as provided in this [act].

38 (b) The administrator may investigate and examine, in this state or elsewhere, by
39 subpoena or otherwise, the activities, books, accounts, and records of a person that provides or

1 offers to provide debt-management services, or a person to which a provider has delegated its
2 obligations under an agreement or this [act], to determine compliance with this [act]. Information
3 that identifies individuals who have agreements with the provider shall not be disclosed to the
4 public. In connection with the investigation, the administrator may:

5 (1) charge the person the reasonable expenses necessarily incurred to conduct the
6 examination;

7 (2) require or permit a person to file a statement under oath as to all the facts and
8 circumstances of a matter to be investigated; and

9 (3) seek a court order authorizing seizure from a bank at which the person
10 maintains a trust account ~~required by Section 22~~, any or all money, books, records, accounts, and
11 other property of the provider that is in the control of the bank and relates to individuals who
12 reside in this state.

13 (c) The administrator may adopt rules to implement the provisions of this [act] in
14 accordance with [insert the appropriate section of the Administrative Procedure Act or other
15 statute governing administrative procedure].

16 (d) The administrator may enter into cooperative arrangements with any other federal or
17 state agency having authority over providers and may exchange with any of those agencies
18 information about a provider, including information obtained during an examination of the
19 provider.

20 (e) The administrator, by rule, shall establish reasonable fees to be paid by providers for
21 the expense of administering this [act].

22 (f) The administrator, by rule, shall adopt dollar amounts instead of those specified in
23 Sections 2, 5, 9, 13, 23, 33, and 35 to reflect inflation, as measured by the United States Bureau

1 of Labor Statistics Consumer Price Index for All Urban Consumers or, if that index is not
2 available, another index adopted by rule by the administrator. The administrator shall adopt a
3 base year and adjust the dollar amounts, effective on July 1 of each year, if the change in the
4 index from the base year, as of December 31 of the preceding year, is at least 10 percent. The
5 dollar amount must be rounded to the nearest \$100, except that the amounts in Section 23 must
6 be rounded to the nearest dollar.

7 (g) The administrator shall notify registered providers of any change in dollar amounts
8 made pursuant to subsection (f) and make that information available to the public.

9 **Legislative Note:** *If the administrator is the attorney general, the bracketed language in*
10 *subsection (a) (“refer cases to the [attorney general]”) should be deleted. If the administrator is*
11 *not the attorney general, those brackets and the brackets around “attorney general” should be*
12 *deleted. If the state wishes the prosecution to be handled by some other official, the name of that*
13 *official should be substituted for “attorney general.”*

14
15 *In states that do not empower administrative agencies to set fees, replace subsection (e)*
16 *with the desired fees or fee structure.*

17
18 *The dollar amounts that appear in this Act were selected in August 2005. The state may*
19 *wish to adjust those amounts to reflect changes in the index specified in subsection (f) between*
20 *that date and the date of enactment. Subsection (f) specifies the sections in which dollar amounts*
21 *appear.*

22
23
24

Comment

25 1. Subsection (b) authorizes the administrator to investigate the activities of a provider
26 and its delegees. If permitted by the law generally applicable to administrative agencies, the
27 administrator may publicize the results of an investigation. The administrator may not, however,
28 publicize or otherwise disclose information that identifies individual customers of a provider.
29 This restriction applies both to general publicity and to freedom-of-information requests.

30
31 2. Paragraph (3) permits the administrator to obtain a court order to recover money and
32 other property from the bank holding the trust account. The procedure for any such proceeding is
33 determined by law other than this Act and, if authorized by that other law, may occur ex parte.

34
35 3. Subsection (c) gives the administrator broad powers to adopt rules to implement and,
36 to the extent permitted by the law governing administrative procedure, further the purposes of
37 this Act. In exercising this power, however, the administrator should be mindful of section 38,
38 which exhorts those enforcing the Act to promote uniformity among the enacting states.

1
2 4. Under subsection (e) the administrator may establish a uniform fee to be paid by all
3 providers. Alternatively, the administrator may adopt a fee structure in which the amount of the
4 fee depends on some characteristic of the provider, such as the amount of money received from
5 residents of this state, the total amount of debt owed by residents of this state, the number of
6 customers who reside in this state, etc. The standard for establishing the fee is reasonableness,
7 and a fee structure is reasonable if it is based on, inter alia, a provider's presumptive ability to
8 pay or on the administrative burden a provider places on the enforcement of the Act.
9

10 5. Subsection (f) requires the administrator to adjust annually all dollar amounts that
11 appear in the Act. Those amounts are found in the following sections:
12

- 13 Section 2(2)(B)(iv): threshold for becoming an affiliate (\$25,000)
- 14 Section 5(b)(4): employee theft insurance (\$250,000)
- 15 Section 9(d)(2): independence of board of directors (\$25,000)
- 16 Section 13(b): bond (\$50,000)
- 17 Section 23(d)~~(1)~~, (2), ~~(3)~~(5): fee caps
- 18 Section 23~~(g)~~(f): NSF fee (\$25)
- 19 Section 33(a), (b): civil penalty (\$10,000, \$20,000)
- 20 Section 35(c)(2): minimum damages (\$5,000)
- 21 Section 35(d)(2): punitive damages (\$10,000)
22

23 6. Since the adjustment will occur by promulgation of a rule, it will be a matter of public
24 record, as is any other formally adopted rule. Nevertheless, subsection (g) requires the
25 administrator to notify registered providers of the change, and the administrator may wish also to
26 post the current amounts on a website dealing with this Act.
27

28 **SECTION 33. ADMINISTRATIVE REMEDIES.**

29 (a) The administrator may enforce this [act] and rules adopted under this [act] by taking
30 one or more of the following actions:

31 (1) ordering a provider, a lead generator, a person administering an account
32 pursuant to Section 22(b), or a director, employee, or other agent of a provider to cease and
33 desist from any violations;

34 (2) ordering a provider, a lead generator, a person administering an account
35 pursuant to Section 22(b), or a person that has caused a violation to correct the violation,
36 including making restitution of money or property to a person aggrieved by a violation;

1 (3) subject to adjustment of the dollar amount pursuant to Section 32(f), imposing
2 on a provider or ~~a~~other person that has violated or caused a violation a civil penalty not
3 exceeding \$10,000 for each violation;

4 (4) prosecuting a civil action to:

5 (A) enforce an order;

6 (B) obtain restitution or an injunction or other equitable relief, or both; or

7 (5) intervening in an action brought under Section 35.

8 (b) Subject to adjustment of the dollar amount pursuant to Section 32(f), if a person
9 violates or knowingly authorizes, directs, or aids in the violation of a final order issued under
10 subsection (a)(1) or (2), the administrator may impose a civil penalty not exceeding \$20,000 for
11 each violation.

12 (c) The administrator may maintain an action to enforce this [act] in any [county].

13 (d) The administrator may recover the reasonable costs of enforcing the [act] under
14 subsections (a) through (c), including attorney's fees based on the hours reasonably expended
15 and the hourly rates for attorneys of comparable experience in the community.

16 (e) In determining the amount of a civil penalty to impose under subsection (a) or (b), the
17 administrator shall consider the seriousness of the violation, the good faith of the violator, any
18 previous violations by the violator, the deleterious effect of the violation on the public, the net
19 worth of the violator, and any other factor the administrator considers relevant to the
20 determination of the civil penalty.

21 **Comment**

22
23 1. Paragraphs (1) and (2) of subsection (a) authorize the administrator to take action
24 against providers, lead generators, persons administering an account contemplated by Section
25 22(b), their directors or employees (including officers) of providers, and any other person that has
26 caused the provider to violate the Act. Paragraph (3) authorizes imposition of civil penalties

1 against any of these persons. The law governing administrative agencies governs the procedure
2 to be used.

3
4 2. Paragraph (4) authorizes the administrator to commence civil actions. Hence, the
5 administrator may proceed either by administrative proceeding under paragraphs (1)-(3) or by
6 civil action under paragraph (4). Furthermore, section 32(a) authorizes the administrator and, if
7 different from the administrator, the attorney general to refer cases to the attorney general for
8 prosecution. Enforcement of the Act therefore is the responsibility of both the administrator and,
9 if different from the administrator, the attorney general.

10
11 3. Subsection (b) speaks of “a person,” which is defined in section ~~2(12)~~2(14). If a
12 provider violates a final order, it is subject to the civil penalty of this subsection. If a director,
13 employee (including officers), agent, etc., commits or directs commission of the act that
14 constitutes the provider’s violation, that person also is subject to the civil penalty of this
15 subsection.

16
17 4. Subsection (d) places on the person violating this Act the costs of enforcing the Act
18 against that person. To the extent those costs are attorney’s fees, they are to be determined by
19 looking to rates in the private-practice sector. This subsection complements section 32(b)(1),
20 which authorizes the administrator to assess a provider or its delegee with the costs of
21 investigation, but permits the recovery of costs against other persons who are found to violated
22 the Act. See subsection (a)(3) (liability of a person that has caused a violation).

23
24 **SECTION 34. SUSPENSION, REVOCATION, OR NONRENEWAL OF**
25 **REGISTRATION.**

26 (a) In this section, “insolvent” means:

27 (1) having generally ceased to pay debts in the ordinary course of business other
28 than as a result of good-faith dispute;

29 (2) being unable to pay debts as they become due; or

30 (3) being insolvent within the meaning of the federal bankruptcy law, 11 U.S.C.

31 Section 101 et seq.[, as amended].

32 (b) The administrator may suspend, revoke, or deny renewal of a provider’s registration
33 if:

34 (1) a fact or condition exists that, if it had existed when the registrant applied for

1 registration as a provider, would have been a reason for denying registration;

2 (2) the provider has committed a material violation of this [act] or a rule or order
3 of the administrator under this [act];

4 (3) the provider is insolvent;

5 (4) the provider, ~~or an employee or affiliate of the provider, a lead generator for~~
6 the provider, a person administering an account for the provider pursuant to Section 22(b), or a
7 person to which the provider has delegated its obligations under an agreement or this [act] has
8 refused to permit the administrator to make an examination authorized by this [act], failed to
9 comply with Section 32(b)(2) within 15 days after request, or made a material misrepresentation
10 or omission in complying with Section 32(b)(2); or

11 (5) the provider has not responded within a reasonable time and in an appropriate
12 manner to communications from the administrator.

13 (c) If a provider does not comply with Section ~~22(f)~~22(h) or if the administrator
14 otherwise finds that the public health or safety or general welfare requires emergency action, the
15 administrator may order a summary suspension of the provider's registration, effective on the
16 date specified in the order.

17 (d) If the administrator suspends, revokes, or denies renewal of the registration of a
18 provider, the administrator may seek a court order authorizing seizure of any or all of the money
19 in a trust account required by Section 22, books, records, accounts, and other property of the
20 provider which are located in this state.

21 (e) If the administrator suspends or revokes a provider's registration, the provider may
22 appeal and request a hearing pursuant to [insert the citation to the appropriate section of the
23 administrative procedure act or other statute governing administrative procedure].

1 **Legislative Note:** *In states in which the constitution does not permit the phrase, “as amended,”*
2 *when federal statutes are incorporated into state law, the phrase should be deleted in subsection*
3 *(a)(3).*

4
5 **Comment**
6

7 1. Subsection (b) gives the power to suspend or revoke a registration. Subsection (e)
8 gives recourse under the administrative law of the state to a provider whose registration has been
9 suspended or revoked.

10
11 2. Section ~~22(e)~~22(g) requires a trust account at all times to have a balance in an amount
12 equal to the sum of the balances in each individual’s account, and section ~~22(f)~~22(h) requires a
13 monthly reconciliation of the trust account. If money is missing, or in other proper
14 circumstances, subsection (c) authorizes the administrator to take summary action. Subsection
15 (e) contemplates prompt judicial review.

16 3. As with section 32(b)(3) (authorizing seizure of money and records from the bank
17 holding a provider’s trust account), subsection (d) does not specify the procedure to be used. If
18 other law authorizes ex parte relief, the administrator may seek that relief under this subsection.
19

20 **SECTION 35. PRIVATE ENFORCEMENT.**

21 (a) If an individual voids an agreement pursuant to Section 25(b), the individual may
22 recover in a civil action all money paid or deposited by or on behalf of the individual pursuant to
23 the agreement, except amounts paid to creditors, in addition to the recovery under subsection
24 (c)(3) and (4).

25 (b) If an individual voids an agreement pursuant to Section 25(a), the individual may
26 recover in a civil action three times the total amount of the fees, charges, money, and payments
27 made by the individual to the provider, in addition to the recovery under subsection (c)(4).

28 (c) Subject to subsection (d), an individual with respect to whom a provider or other
29 person violates this [act] may recover in a civil action from the provider, the person, and any
30 person that caused the violation:

31 (1) compensatory damages for injury, including noneconomic injury, caused by
32 the violation;

1 (2) except as otherwise provided in subsection (d) and subject to adjustment of
2 the dollar amount pursuant to Section 32(f), with respect to a violation of Section 17, 19, 20, 21,
3 22, 23, 24, 27, or 28(a), (b), or (d), the greater of the amount recoverable under paragraph (1) or
4 \$5,000;

5 (3) punitive damages; and

6 (4) reasonable attorney's fees and costs.

7 (d) In a class action, except for a violation of Section 28(a)(5), the minimum damages
8 provided in subsection (c)(2) do not apply.

9 ~~(e) In addition to the remedy available under subsection (c), if a provider violates an~~
10 ~~individual's rights under Section 20, the individual may recover in a civil action all money paid~~
11 ~~or deposited by or on behalf of the individual pursuant to the agreement, except for amounts paid~~
12 ~~to creditors.~~

13 ~~(f)~~(e) A provider is not liable under this section for a violation of this [act] if the provider
14 proves that the violation was not intentional and resulted from a good-faith error notwithstanding
15 the maintenance of procedures reasonably adapted to avoid the error. An error of legal judgment
16 with respect to a provider's obligations under this [act] is not a good-faith error. If, in connection
17 with a violation, the provider has received more money than authorized by an agreement or this
18 [act], the defense provided by this subsection is not available unless the provider refunds the
19 excess within two business days of learning of the violation.

20 ~~(g)~~(f) The administrator shall assist an individual in enforcing a judgment against the
21 surety bond or other security provided under Section 13 or 14.

22 **Comment**

23
24 1. This section specifies the private remedies for an individual with respect to whom a
25 provider or other person has violated the Act. More than one subsection may apply to a particular

1 violation, and the individual may recover under any of them. If there are multiple acts that each
2 violate a different provision of the Act, the individual may recover for the loss caused by each of
3 them.
4

5 2. Section 25(b) makes an agreement voidable if the provider is not properly registered
6 under this Act. Under subsection (a) the individual may recover all money paid by the individual,
7 except for amounts passed on to creditors. This sanction is to disgorge all money that the
8 provider otherwise would have earned for its services. If the minimum damages under subsection
9 (c)(2) are larger than the amount specified in subsection (a), the individual is entitled to the
10 minimum damages of subsection (c)(2) rather than recovery under subsection (a).
11

12 3. Section 25(a) permits an individual to void an agreement if a provider exceeds the fee
13 caps. Subsection (b) permits the individual to recover treble damages, as well as recovering
14 under subsection (c)(3) and (4). The amount to be trebled includes all payments made to the
15 provider ~~(or its designee)~~, its designee, or a person administering an account contemplated by
16 Section 22(b), including amounts that thereafter are forwarded to the individual's creditors. If the
17 individual opts for recovery under this subsection, he or she may not also recover under
18 subsection (c)(1) or (2). On the other hand, if recovery is larger under subsection (c)(2) than
19 under this subsection, the individual recovers the larger amount under subsection (c)(2). The
20 individual may choose which subsection to assert.
21

22 The treble damages remedy is available only if the individual voids the agreement. If the
23 individual does not void the agreement, recovery is under subsection (c) (actual damages but not
24 less than \$5,000).
25

26 4. Subsection (c) provides the basic private remedy for an individual. The language in
27 paragraph (1), "damages for injury . . . caused by the violation" means that there must be some
28 causal connection between the violation and the individual's injury. Thus there is little likelihood
29 of a private remedy for a provider's violation of some provisions of the Act, e.g., section 29
30 (failure to notify the administrator that it has been sued).
31

32 On the other hand, for violation of the sections specified in paragraph (2), there is no
33 requirement of causation. This means, for example, that an individual may recover the minimum
34 damages under paragraph (2) for a provider's failure to make the disclosures required by section
35 17 or to conform its agreement to the requirements of section 19. This remedy recognizes that
36 the administrator is not likely to have the resources to redress every violation of the Act and
37 enlists the customers of a provider as private attorneys general to enforce the Act. The individual
38 is entitled to recovery under paragraph (2) even if the individual has not suffered any monetary
39 loss. Alternatively, the individual may recover any loss that he or she can prove to have been
40 caused by the violation.
41

42 5. "Compensatory damage" in paragraph (1), which includes recovery for noneconomic
43 injury, encompasses emotional distress, humiliation, aggravation, etc.
44

45 6. The minimum damages provision in paragraph (2) applies only to the specified
46 violations (prerequisites for a plan, form and contents of an agreement, cancellation of

1 agreement, translation of documents, trust account, fee caps, voluntary contributions, periodic
2 reports, and certain prohibited acts and practices). For violation of other sections of the Act,
3 including failure to register and failure to provide customer service, the aggrieved individual may
4 recover actual damages (if any are caused by the violation), punitive damages, or both. The
5 administrator, of course, may enforce all sections of the Act.
6

7 7. Paragraph (3) authorizes punitive damages. The courts should use the usual standards
8 for determining the appropriateness and amount of punitive damages. Factors commonly
9 considered are the seriousness of the violation, previous violations of the violator, the deleterious
10 effect of the violation on the public, the net worth of the violator, the violator's intent to harm,
11 etc.
12

13 Statutes in some states specify that a portion of an award of punitive damages is to be
14 paid to someone other than the successful plaintiff. Paragraph (3) is intended to displace those
15 statutes, so that the entire award is paid to the plaintiff.
16

17 8. "Costs" in paragraph (4) encompasses filing fees, jury fees, expert witness fees, and
18 everything else that may be taxed as costs against the losing party. In determining the reasonable
19 amount of attorney's fees, the court should use the lodestar approach. It should pay particular
20 attention to the purpose of this section, which is to ensure that counsel is available for individuals
21 to enforce their rights under this Act. The award of fees must be sufficient to encourage attorneys
22 to take on representation of individuals whose rights under this Act have been violated. Often
23 this representation will be on the basis of a contingency fee. Consequently, the criteria in section
24 33(d) for determining a fee award to the administrator should serve as a floor for fee awards in
25 private actions, and the amount of the recovery should play little or no role in determining the
26 amount of the fees. See, e.g., *Jordan v. Transnational Motors, Inc.*, 537 N.W.2d 471 (Mich. App.
27 1993); *Bittner v. Tri-County Toyota, Inc.*, 569 N.E.2d 464 (Ohio 1991). The contingent nature of
28 the attorney's compensation or the risk of the litigation may justify enhancement of the award.
29 See *Bowers v. Transamerica Title Ins. Co.*, 675 P.2d 193, 203-06 (Wash. 1983).
30

31 9. The prerequisite to recovery under this section is a violation by a provider. But
32 subsection (c) does not limit liability to just the provider. Under section 33(a)(2), the
33 administrator may obtain relief not only against a provider but also against one who causes a
34 provider to violate the Act. Similarly, subsection (c) of this section also authorizes relief against
35 a person who is responsible for a provider's violation.
36

37 10. An aggrieved individual may proceed by class action if the prerequisites for class
38 actions under the rules of civil procedure are satisfied. The minimum damages provision does
39 not apply in a class action unless the provider violates section 28(a)(~~5~~)(6), which prohibits a
40 provider from initiating a transfer of an individual's money unless the transfer is authorized by
41 the Act and the agreement.
42

43 ~~11. Subsection (e) implements the remedy implicit in section 20 when an individual~~
44 ~~exercises the right to cancel: if the agreement complies with sections 19, 20, and 28, the~~
45 ~~individual has only three days to cancel. Upon cancellation, the provider must refund all money~~
46 ~~paid by the individual, as stated in section 20(b). The provider can protect itself against any out-~~

1 of pocket loss by keeping any such money until the three day period has expired, in which event
2 this subsection imposes no loss on the provider. If, however, the provider fails to comply with
3 section 19, 20, or 28, the cancellation period is 30 days, in which event cancellation may very
4 well occur after the provider has provided services to the individual. This subsection requires
5 refund of all money not already paid to creditors, which means that the provider must return any
6 money it has booked for set up or monthly service fees. It thus provides an additional modest
7 incentive for the provider to conform to the requirements of sections 19, 20, and 28. In addition
8 to refund of fees and money held in trust, the individual is entitled to recovery under subsection
9 (e) for minimum (or other actual) damages, punitive damages (if otherwise appropriate), and
10 costs.

11
12 ~~12~~11. A provider has a defense to civil liability under subsection (f) if its violation is a
13 result of a bona fide error notwithstanding the maintenance of procedures reasonably adapted to
14 prevent the error. This defense is adapted from section 130(c) of the federal Truth-in-Lending
15 Act, 15 U.S.C. § 1640(c). It should be interpreted in a manner similar to the federal statute, as
16 exemplified in *Teel v. Thorp Credit Inc.*, 609 F.2d 1268 (7th Cir. 1979). The defense extends to
17 clerical errors and mechanical malfunctions, but not to matters of legal judgment concerning the
18 obligations imposed by this Act. E.g., *Haynes v. Logan Furniture Mart, Inc.*, 503 F.2d 1161
19 (7th Cir. 1974).

20
21 For the defense under this subsection to be available to a provider with respect to a
22 violation by a person to whom the provider has delegated its duties, the provider must prove that
23 the person committed the violation unintentionally, as a result of good-faith error, and
24 notwithstanding the maintenance of procedures reasonably designed to prevent the error. It is not
25 enough that the provider's violation was unintentional. The provider is liable under section 31
26 for the violations of its delegee, and the provider is exonerated by this subsection only if the
27 delegee's conduct meets the standard of this subsection.

28
29 ~~13~~12. If a violation relates to section 23 or 24, regulating permissible charges, the
30 provider is not liable if both (a) the violation meets the good-faith error test of subsection (f), and
31 (b) the provider refunds the excess portion of the charge within two business days of learning of
32 its error. If either of these conditions is not met, the provider has no defense under this section; in
33 addition, if the first condition is not met, the individual has a right to void the agreement under
34 section 25 and recover treble damages under subsection (b) of this section.

35
36 If a provider's violation of section 23 or 24 results from an act or a policy that affects
37 more than one individual, the defense is available only if the provider makes refunds to all of
38 them within two days of learning of the violation as to one individual. Once informed of the
39 violation by a single individual, the provider has learned of the violation as to all individuals who
40 were overcharged in the same way.

1 (c) The period prescribed in subsection (b)(5) is tolled during any period during which
2 the provider or, if different, the defendant has materially and willfully misrepresented
3 information required by this [act] to be disclosed to the individual, if the information so
4 misrepresented is material to the establishment of the liability of the defendant under this [act].

5 **Comment**
6

7 The four-year limit of subsection (a) applies to administrative and judicial proceedings
8 under section 33(a). It also applies to actions under section 33(b), as to which the actionable
9 conduct is the violation of the final order, not the conduct that gave rise to the final order.
10

11 **SECTION 38. UNIFORMITY OF APPLICATION AND CONSTRUCTION.** In
12 applying and construing this ~~Uniform Act~~ uniform act, consideration must be given to the need
13 to promote uniformity of the law with respect to its subject matter among states that enact it.

14 **SECTION 39. RELATION TO ELECTRONIC SIGNATURES IN GLOBAL AND**
15 **NATIONAL COMMERCE ACT.** This [act] modifies, limits, and supersedes the federal
16 Electronic Signatures in Global and National Commerce Act, ¹{15 U.S.C. Section 7001 et seq.}²
17 but does not modify, limit, or supersede Section 101(c) of that act, ¹{15 U.S.C. Section 7001(c)}²,
18 or authorize electronic delivery of any of the notices described in Section 103(b) of that act, ¹{15
19 U.S.C. Section 7003(b)}².

20 **SECTION 40. TRANSITIONAL PROVISIONS; APPLICATION TO EXISTING**
21 **TRANSACTIONS.** Transactions entered into before this [act] takes effect and the rights,
22 duties, and interests resulting from them may be completed, terminated, or enforced as required
23 or permitted by a law amended, repealed, or modified by this [act] as though the amendment,
24 repeal, or modification had not occurred.

25 **Comment**
26

27 1. “Law” includes statutes, administrative rules, and judicial decisions. A provider may

1 continue operating under prior law as to transactions in process when the Act becomes effective.
2 It may be burdensome for a provider to comply with prior law for some of its customers and with
3 this Act for others of its customers. Hence, the language of this subsection, “may be,” permits a
4 provider to comply with this Act even with respect to transactions entered before this Act takes
5 effect.

6
7 2. For this section to save a transaction in progress when the Act takes effect, the
8 transaction must have been permitted by prior law. If prior law prohibits a transaction, nothing in
9 this section validates it.

10
11 **[SECTION 41. SEVERABILITY.** If any provision of this [act] or its application to
12 any person or circumstance is held invalid, the invalidity does not affect other provisions or
13 applications of this [act] that can be given effect without the invalid provision or application, and
14 to this end the provisions of this [act] are severable.]

15 **SECTION 42. REPEAL.** The following laws are repealed:

16 *Legislative Note: Insert the citation to any existing legislation regulating consumer credit*
17 *counseling, debt settlement, debt adjustment, debt prorating, or the like.*
18

19 **SECTION 43. EFFECTIVE DATE.** This [act] takes effect 12 months after enactment.

20 *Legislative Note: The effective date should be set in such a way that the administrator has an*
21 *adequate opportunity to prepare to enforce the Act. It may be desirable to have the Act become*
22 *effective in a staggered manner, delaying the effective date for registration. To implement this*
23 *alternative, substitute the following language: “Sections 1 through 3 and 15 through 43 of this*
24 *[act] take effect [six months after enactment]. Sections 4 through 14 of this [act] take effect on*
25 *[insert date].”*