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UNIFORM CONSUMER DEBT COUNSELING ACT

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

[March 21](#), 2005

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WITH PREFATORY NOTE AND PRELIMINARY COMMENTS

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By

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

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CONSUMER DEBT COUNSELING ACT

TABLE OF CONTENTS

<u>Prefatory Note</u>	1
<u>SECTION 1. SHORT TITLE</u>	2
<u>SECTION 2. DEFINITIONS</u>	2
<u>SECTION 3. APPLICABILITY OF ACT</u>	9
<u>SECTION 4. EXEMPT PERSONS</u>	10
<u>SECTION 5. REGISTRATION REQUIREMENT</u>	13
<u>SECTION 6. APPLICATION FOR REGISTRATION: FORM, FEE, AND ACCOMPANYING DOCUMENTS</u>	13
<u>SECTION 7. APPLICATION FOR REGISTRATION: REQUIRED INFORMATION</u>	15
<u>SECTION 8. APPLICATION FOR REGISTRATION: DISCLOSURE OF INFORMATION ABOUT AFFILIATES</u>	19
<u>SECTION 9. APPLICATION FOR REGISTRATION: PUBLIC INFORMATION</u>	20
<u>SECTION 10. CERTIFICATE OF REGISTRATION: ISSUANCE OR DENIAL</u>	21
<u>SECTION 11. CERTIFICATE OF REGISTRATION: TIMING</u>	23
<u>SECTION 12. RENEWAL OF REGISTRATION</u>	24
<u>SECTION 13. REGISTRATION IN ANOTHER STATE</u>	27
<u>SECTION 14. BOND REQUIREMENT</u>	28
<u>SECTION 15. BOND REQUIREMENT: SUBSTITUTE</u>	31
<u>SECTION 16. CUSTOMER SERVICE</u>	32
<u>SECTION 17. PREREQUISITES FOR PROVIDING DEBT-MANAGEMENT SERVICES</u>	33
<u>SECTION 18. COMMUNICATION BY ELECTRONIC MEANS</u>	39
<u>SECTION 19. FORM AND CONTENTS OF AGREEMENT</u>	42
<u>SECTION 20. REQUIRED LANGUAGE</u>	48
<u>SECTION 21. VOIDABLE AGREEMENTS</u>	49
<u>SECTION 22. TRUST ACCOUNT</u>	50
<u>SECTION 23. FEES: MONETARY LIMITS</u>	53
<u>SECTION 24. FEES: OTHER LIMITS</u>	60
<u>SECTION 25. PERIODIC REPORTS AND RETENTION OF RECORDS</u>	62
<u>SECTION 26. PROHIBITED ACTS AND PRACTICES</u>	64
<u>SECTION 27. ADVERTISING; PUBLIC EDUCATION</u>	72
<u>SECTION 28. CRIMINAL PENALTY</u>	73
<u>SECTION 29. POWERS OF ADMINISTRATOR</u>	74
<u>SECTION 30. ADMINISTRATIVE REMEDIES</u>	79
<u>SECTION 31. SUSPENSION, REVOCATION, OR NON-RENEWAL OF REGISTRATION</u>	80
<u>SECTION 32. PRIVATE ENFORCEMENT</u>	82
<u>SECTION 33. VIOLATION OF UNFAIR OR DECEPTIVE PRACTICES STATUTE</u>	85
<u>SECTION 34. STATUTE OF LIMITATIONS</u>	86
<u>[SECTION 35. SEVERABILITY]</u>	87
<u>SECTION 36. RELATION TO ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL COMMERCE ACT</u>	87

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<u>SECTION 37. UNIFORMITY OF APPLICATION AND CONSTRUCTION</u>	<u>87</u>
<u>SECTION 38. EFFECTIVE DATE</u>	<u>87</u>
<u>SECTION 39. REPEAL</u>	<u>87</u>
<u>SECTION 40. TRANSITIONAL PROVISIONS; APPLICATION TO EXISTING TRANSACTIONS</u>	<u>87</u>

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UNIFORM CONSUMER DEBT COUNSELING ACT

Prefatory Note

The consumer credit counseling industry arose as a means of assisting individuals to pay their credit card debt without resorting to bankruptcy and a means of enabling creditors to collect debt that otherwise would be discharged in bankruptcy. Through the 1980s the industry was financially supported almost entirely by creditors, which returned to the industry approximately 15% of the money they received through the efforts of the industry. Over the last decade, however, the industry has changed significantly. Responding to the dramatic increase in credit card debt, a new generation of credit counseling agencies arose. Reports of abuses by counseling agencies and injury to consumers appeared with increasing frequency in numerous media outlets. A report of two prominent consumer organizations (Consumer Federation of America and the National Consumer Law Center) has documented the situation. The problems include

- deception concerning the nature of, the need for, and the cost of debt-management plans to help consumers deal with burgeoning debt;
- excessive cost to consumers; and
- self-dealing and other conduct by agencies to evade the ban on private inurement that appears in the Internal Revenue Code requirements for tax-exempt status.

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These problems are compounded by a drastic reduction in support for the industry by its traditional benefactors, the issuers of credit cards. This has led counseling agencies to impose on consumers an increasing share of the cost of their operations.

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.

The Drafting Committee first met in Chicago in November 2003 and considered a discussion draft. Committee members reacted to numerous aspects of that draft but the Committee did not take formal votes on any of its provisions. The Committee met again in March 2004. At the Annual Meeting of the Conference in August 2004, the drafting committee received numerous comments on the draft, and many of them are reflected in this draft. Others are identified in the Preliminary Comments. In addition, the Committee of the Whole adopted two sense-of-the-house resolutions: the scope of the Act should encompass debt-settlement companies as well as credit-counseling agencies; and the Act should be drafted in such a way that each state may decide whether to permit for-profit entities to provide credit-counseling and debt-settlement services. This draft reflects those decisions.

The Drafting Committee met again in October 2004 and January 2005, and this draft reflects the decisions and discussions at those meetings.

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1 **UNIFORM CONSUMER DEBT COUNSELING ACT**

2
3 *Legislative Note: The state must make the basic policy decision whether to permit for-profit*
4 *entities to engage in the debt settlement business or the credit counseling business. The state may*
5 *decide to permit for-profit entities to provide some, but not all, forms of debt-management*
6 *services. For example, it may permit for-profit debt-settlement companies, but require all credit-*
7 *counseling agencies to be nonprofit entities. The decisions concerning for-profit/nonprofit status*
8 *are implemented by virtue of the presence or absence of specified provisions in sections 6(b)(6),*
9 *7(d), 8(4), and 10(c).*

10 **SECTION 1. SHORT TITLE.** This [act] may be cited as the Uniform Debt-
11 Management Services Act.

12 **Preliminary Comment**

13
14
15 In view of the decision to include debt settlement companies within the scope of the Act,
16 this section adopts a new name for the Act.

17 **SECTION 2. DEFINITIONS.** In this [act]:

18 (1) "Administrator" means the [_____].

19 (2) "Affiliate":

20 _____ (A) with respect to an individual, means:

21 _____ (i) the spouse of the individual;

22 _____ (ii) a sibling of the individual or the spouse of the sibling;

23 _____ (iii) an individual or the spouse of the individual who is a lineal
24 ancestor or lineal descendant of the individual or the individual's spouse;

25 _____ (iv) an aunt, uncle, great-aunt, great-uncle, first-cousin, second-
26 cousin, niece, nephew, grand-niece, or grand-nephew, whether related by the whole or the half
27 blood, adoption, or step relationship, or the spouse of any of them; or

28 _____ (v) any other individual occupying the residence of the individual;

29 and

30 _____ (B) with respect to an entity, means:

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

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- Deleted: *This*
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- Deleted: *the following*
- Deleted: *: [list to be developed]. 6(b)(6),10(c)*
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- Deleted: the Act needs a new title, e.g., Uniform Debt Adjustment Act or Uniform Debt Management Act.
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Reporter's Introductory Note to Section 2 (Definitions): There are two significant changes in the definitions:¶
¶
_ (1) To simplify the language throughout the draft, the operative terms now are "provider," "plan," and "agreement." These terms are newly defined in Section 2, and they eliminate the need to define (and use) the cumbersome terms "debt-management-services provider," "debt-management plan," and "debt-management-services agreement." Throughout the draft, the Act now ... [1]
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1 (ii) an officer of, or ~~an individual~~ performing similar functions
 2 with respect to, the entity;
 3 (iii) a director of, or ~~an individual~~ performing similar functions
 4 with respect to, the entity;
 5 (iv) ~~subject to Section 29(f), a person that receives or received~~
 6 more than \$25,000 in either the current year or the preceding year from the entity or a person that
 7 owns more than ten percent of, or an individual who is employed by or is a director of, a person
 8 that receives or received more than \$25,000 in either the current year or the preceding year;
 9 (v) an officer or director of, or ~~an individual~~ performing similar
 10 functions with respect to, a person described in subparagraph (B)(i);
 11 (vi) the spouse of, or an individual occupying the residence of, an
 12 individual described in subparagraph (B)(i) through (v); or
 13 (vii) an individual who has the relationship specified in
 14 subparagraph (A)(iv), to an individual or the spouse of an individual described in subparagraph
 15 (B)(i) through (v).
 16 (3) "Agreement" means an agreement between a provider and an individual for
 17 the performance of debt-management services.
 18 (4) "Bank" means a person engaged in the business of banking, whether a
 19 savings bank, savings and loan association, credit union, or trust company.
 20 (5) "Business address" means the physical location of a person, including the
 21 name and number of a street.
 22 (6) "Certified counselor" means an individual certified by:
 23 (A) an independent, nationally recognized certification organization that
 24 authenticates the competence of individuals providing education and assistance to other
 25 individuals in connection with debt-management services; or
 26 (B) a training program or certification organization approved by the
 27 administrator.

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1 (7) "Concessions" means assent to repayment of a debt on terms other than the
2 terms of the original contract between an individual and a creditor. It includes a reduction in:

3 (A) finance charges;

4 (B) late payment, default, or delinquency charges; or

5 (C) the principal amount of a debt.

6 (8) "Day" means calendar day.

7 (9) "Debt-management services" means services as an intermediary between an
8 individual and one or more creditors of the individual for the purpose of obtaining concessions,

9 (10) "Employee", when used in connection with "provider", means an individual
10 who furnishes services related to debt-management services, whether or not paid by the provider
11 that receives the benefit of the individual's services.

12 (11) "Entity" means a person other than an individual.

13 (12) "Person" means an individual, corporation, business trust, estate, trust,
14 partnership, limited liability company, association, joint venture, or any other legal or
15 commercial entity. The term does not include a public corporation, government, or governmental
16 subdivision, agency, or instrumentality.

17 (13) "Plan" means a program or strategy in which a provider furnishes debt-
18 management services to an individual and which includes a schedule of payments to be made by
19 or on behalf of the individual and used to pay debts owed by the individual.

20 (14) "Provider" means a person, regardless of the person's location, that provides
21 debt-management services,

22 (15) "Record" means information that is inscribed on a tangible medium or that is
23 stored in an electronic or other medium and is retrievable in perceivable form.

24 (16) "Sign" means, with present intent to authenticate or adopt a record:

25 (A) to execute or adopt a tangible symbol; or

26 (B) to attach to or logically associate with the record an electronic sound,
27 symbol, or process.

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Deleted: , in the current calendar year or in the immediately preceding calendar year, has

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Deleted: to more than three individuals whom it reasonably should know reside in this state at the time it agrees to provide the services

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Deleted: ed" includes the use of any electronic symbol or process executed or adopted with present intention to identify the person and adopt or accept a record.

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(17) "State" means a state of the United States, the District of Columbia, Puerto Rico, the United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the United States.

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(18) "Trust account" means an account held by a provider or its designee that is:
(A) established in an insured bank chartered by a state or the United

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States;

(B) separate from the other accounts of the provider or its designee;

(C) designated as a trust account or other account designated to indicate

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that the money in the account is not the money of the provider, its designee, or the officers, employees, or agents of either; and

(D) used to hold money of one or more individuals for disbursement to

creditors of the individuals.

Legislative Note: In paragraph (1) insert the name of the agency or entity that will be charged with enforcement of this Act. States must decide whether to create a new administrative agency or charge an existing entity with enforcement of this Act. If the latter, states must decide which existing entity to select. Logical choices include the attorney general or other entity charged with consumer protection generally (under a little-FTC act or similar statute) or the entity charged with regulation of consumer credit or financial institutions. It may be necessary or desirable to amend that entity's organic statute to refer specifically to this Act.

Preliminary Comment

Paragraph (2) (affiliate): The Style Committee suggests that a term with two definitions should appear only once in the list of definitions. Hence, former paragraphs (2) and (3) have been combined. The term "affiliate" is used at three places in the Act: as a disclosure item in the application for registration (section 8); as a tool to ensure the independence of an agency's board of directors (section 10(d)); and as a limit on an agency's ability to engage in self-dealing (section 26(e)). The Act does not impose obligations on affiliates that are not also officers or directors, nor does any provision impose liability on them.

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The definition in paragraph (2) is drawn from UCC § 9-102(a), but it includes more relatives in the definition. The definition in Article 9 is limited to relatives who live in the individual's home. This excludes such close relatives as nieces and first cousins unless they live in the individual's home. The language in subsection (2)(A)(iv) includes those relatives regardless of where they live.

1 Paragraph (2)(A)(v) reverts to the approach of Article 9 and uses the phrase, “occupying
2 the residence of” rather than “residing with.”

3
4 The definition in paragraph (2)(B) also is drawn from the definition of “person related to”
5 in UCC § 9-102(a), but adds subparagraph (iv). Subparagraph (iv) has been modified to declare
6 that a person that receives more than \$25,000 from a provider is an affiliate of that provider. The
7 cross reference to section 29(f) is to the provision directing the administrator to adjust dollar
8 amounts. Subparagraph (iv) also stipulates that an owner or director of the recipient is an
9 affiliate. Since the purpose of defining “affiliate” is to require independent boards of directors
10 and prevent self-dealing, the level of ownership necessary to constitute “affiliate” should be
11 relatively low. The figure ten percent has been in the last several drafts and is about to become
12 final if no one objects. The same is true of the figure, \$25,000. Under subparagraph (iv) a person
13 is not an affiliate until the person of which it is an owner, employee, or director has received
14 \$25,001 in the relevant period.

15
16 The definition of “affiliate” does not include the employees of a provider. Does it suffice
17 that officers are included in “affiliate,” or does the Committee want to expand the definition
18 further?

19
20 Paragraph (3) (agreement): This definition does not incorporate any requirement of
21 “written” or “record.” An oral agreement is within this definition. Requirements of form appear
22 in sections 17-19.

23
24 Paragraph (4) (bank): This definition is from UCC Revised Article 1 (§ 1-201(b)(4)).

25
26 Paragraph (5) (business address): This definition is new. Section 18(b) requires a
27 provider that operates via electronic communication to disclose its business address. This
28 definition makes it clear that this means the place where the provider conducts business and not a
29 post-office box or private-service mail drop.

30
31 Former paragraph (6)(debt-management plan) has been deleted. At the October 2004
32 meeting the Committee decided to define “debt-management plan” broadly, without reference to
33 the payment mechanism or to the kind of concessions the provider seeks to obtain for the
34 individual. Thus the definition includes what are often called debt-settlement programs. The
35 definition of debt-management plan has been replaced by new paragraph (12), which defines
36 “plan” to encompass what the previous draft called “debt-management plan.”

37
38 Paragraph (7) (concessions): This provision is new. It eliminates the need to comment on
39 the word “concessions” when that word appears later in the Act. A question in connection with
40 the definition is whether the bracketed language is desirable. With the bracketed language, the
41 definition includes, e.g., an extension of time to pay with no reduction in the amount of principal
42 or fees. Should this accommodation be within the definition, or should “concessions” be limited
43 to agreements to modify the amount to be paid? The word “concessions” appears in sections
44 2(9), 17(d) and (f), 19(a), and 23(c). It usually is used in the phrase “concessions consisting of a
45 reduction in finance charges or late payment, default, or delinquency charges.”
46

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Deleted: which appeared in the last draft. Is this acceptable?

Deleted: Another commissioner at the Annual Meeting suggested that there ought not be two definitions of the same word (viz., “affiliate”) and that the Act use “relative” instead. The Committee on Style did not object to the double definition of “affiliate,” and at the October 2004 meeting the Drafting Committee decided to retain it. ¶

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1 For purposes of this Act, finance charges and other fees retain their original character
2 even if a creditor adds them to the principal amount of debt, whether or not the creditor thereafter
3 calculates finance charges and fees on the increased amount. Similarly, the principal amount of
4 debt is the original principal, unaffected by a creditor's addition of finance charges or other fees.
5

6 Paragraph (9)_(debt-management services): At the October 2004 meeting, the Committee
7 decided to expand the definition to encompass the activity of entities that act as an intermediary
8 between an individual and the individual's creditors, for the purpose of changing the terms of the
9 original contract between the individual and those creditors. That is, there is no requirement that
10 the individual's funds flow through the provider. The definition includes credit-counseling
11 agencies and debt-settlement companies even if they do not have control over the individual's
12 funds, as when they are in an account managed by the individual or a third party.

13
14 The definition encompasses persons that provide one-time assistance to an individual
15 who has accumulated money and wants help negotiating with one or more of his or her creditors.
16 This assistance is within the definition, and if the person provides this assistance to more than
17 three individuals per year, the person must register and comply with the Act. Note that the
18 assistance need not entail use of a "plan," as defined in paragraph (12).
19

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20 The definition includes credit-counseling agencies even if the concessions offered by
21 creditors are not subject to negotiation. It does not, however, encompass a creditor that
22 compromises a claim with its debtor because the creditor is not operating as an intermediary. The
23 definition does not encompass entities that provide only educational or counseling services
24 concerning management of personal finance.

Deleted: Although the creditor may receive money from an individual, it is not for the purpose of "distributing" that money to a creditor. And t

25
26 At the January 2005 meeting, the Committee decided to incorporate into the definition of
27 debt-management services a requirement that the provider receive compensation. The purpose of
28 this decision is to exempt from the Act such persons as social workers who help clients pay their
29 bills. Instead of dealing with this in the definition of "debt-management services," however, the
30 draft revises section 4 to exempt persons who receive no compensation for the debt-management
31 services they provide to individuals.
32

33 Former paragraph (9)_(debt-management-services provider) has been deleted. The
34 relevant definition now appears in paragraph (14)_(provider).

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35
36 Former paragraph (10)_(debt-settlement services) has been deleted. The definition of
37 "debt-management services" encompasses the former definition of "debt-settlement services."

38
39 Paragraph (10)_(employee): The purpose of this definition is to prevent evasion of the Act
40 by resort to outsourcing the services necessary for running a debt-management business. The
41 phrase "related to debt-management services" is critical, because it has the effect of excluding
42 from the definition, e.g., an individual who makes emergency repairs to the agency's plumbing
43 system. "Services related to debt-management services" would include such things as marketing,
44 customer service, education, counseling, interaction with creditors, processing of payments by
45 individuals, and any other services provided by the agency to the individual.
46

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1 The definition encompasses all persons who provide the specified services, regardless of
2 who signs the paycheck and regardless of whether the employee works on-site at the provider's
3 place of business or elsewhere (e.g., the individual's home or the site of an entity to which the
4 provider has outsourced the services).

Deleted: The definition does not apply in Section 4, which excludes from the scope of the Act specified persons and their employees.

5
6 Paragraph (12)(person): This definition conforms to the Conference's standard
7 definition. The definition encompasses for-profit, not-for-profit, and tax-exempt entities. A
8 "public corporation" is a corporation that is authorized to exercise governmental functions. It is
9 not a "publicly traded" corporation.

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10
11 Paragraph (13)(plan): At the October 2004 meeting, observers representing debt-
12 settlement companies informed the Committee that they do not form plans. Instead, they provide
13 programs. The new definition of "plan" is designed to encompass both what now are typically
14 called "debt-management plans" and the "programs" established by debt-settlement companies.
15 This enables the operative provisions of the Act to use the term "plan" to apply to both types of
16 providers. To be a plan, the program or strategy need not encompass all the debts of the
17 individual. E.g., debt-management plans by traditional credit-counseling agencies have not
18 typically included secured debt or debts owed utilities. No provision of this Act requires that a
19 provider deal with all the creditors of an individual to whom it provides debt-management
20 services.

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21
22 The definition requires a schedule of payments. As used here, "payments" includes the
23 deposit or transfer of money into a checking or savings account. The definition requires that the
24 payments be used to pay debts of the individual. This encompasses (a) full payment of some of
25 the individual's debts; (b) full payment of all of the individual's debts; (c) partial payment of
26 some of the individual's debts; and (d) partial payment of all of the individual's debts. Each of
27 these possibilities suffices to bring the program or strategy within the definition of "plan."

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28
29 Paragraph (14)(provider): This definition replaces former paragraph (9)(debt-
30 management-services provider), thereby enabling reference throughout the Act to "provider,"
31 rather than its more cumbersome predecessor. Previous drafts incorporated a "more than three
32 individuals" element in the definition of "provider." The purpose of this was to exclude from the
33 scope of this Act persons who informally assist their friends or relatives by, for example,
34 accessing the individual's checking account to pay the individual's bills. This objective now is
35 accomplished by virtue of section 4, which exempts from the Act providers who receive no
36 compensation for their debt-management services from the individual who receives those
37 services.

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Deleted: limiting the definition to persons that provide or offer to provide debt-management services to more than three individuals is

38
39 The definition does not include an entity that merely offers to provide debt-management
40 services; the entity must provide those services to more than three individuals. Once an entity is
41 within the definition, however, its advertising and other sales practices are subject to the rules of
42 the Act.

Deleted: A person is not subject to the constraints placed on providers until it has provided or offered to provide debt-management services to the fourth individual. Thereafter, the person must comply with this Act.

43
44 The definition encompasses both a non-resident entity that serves individuals in this state
45 and a resident entity that serves individuals in other states. Under section 3, however, the Act

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1 | does not apply to resident or non-resident entities that serve only non-resident individuals, even
2 | if their method of solicitation (e.g., via the Internet) reaches individuals in this state.

3 |
4 | Paragraph (15)(record): This definition appears in UCC Revised Article 1 (§1-
5 | 201(b)(31)).

6 |
7 | Paragraph (16)(sign): This is the Conference's current definition.

8 |
9 | **SECTION 3. APPLICABILITY OF ACT**, This [act] applies to a provider that enters
10 | into an agreement with an individual whom it should reasonably know is residing in this state at
11 | the time of the agreement], unless at the time of the agreement the provider has not, in the
12 | current or immediately preceding calendar year, entered agreements with at least two individuals
13 | whom it reasonably should have known to reside in this state at the time of the agreements]. This
14 | [act] does not apply to an agreement with an individual who the provider has no reason to know
15 | resides in this state at the time of the agreement.

16 | Preliminary Comment

17 |
18 | At the January 2005 meeting, the Committee adopted the proposition that a provider
19 | should not have to comply with the law of multiple jurisdictions with respect to its services to
20 | any one individual. Hence this section has been narrowed. It no longer provides that a provider
21 | located in this state must comply with the Act if it serves only individuals residing in other states.
22 | It no longer provides that the Act applies to a provider that merely solicits residents of this state.
23 | Instead, it now applies to transactions in which a provider enters an agreement with an individual
24 | whom it reasonably should know resides in the state at the time of the agreement. The objective
25 | of the section is to limit applicability of the Act to those providers that enter agreements with
26 | persons residing in this state. The definition of "provider" makes it clear that a provider is
27 | subject to this Act even if the provider has no physical presence in this state. Section 5
28 | (Registration) has been revised to require registration if the person provides debt-management
29 | services to an individual "whom it reasonably should know resides in this state." The more-than-
30 | three-customers requirement no longer appears in the Act. If the Committee wants to retain a de-
31 | minimus exception, for the provider that inadvertently forms an agreement with a resident of the
32 | enacting state, the bracketed language could be added.

33 |
34 | The section speaks of "provider" rather than "person." But the section does not limit
35 | applicability of the Act to just those persons. For example, section 30 gives the administrator the
36 | authority to proceed against "a violator or a person who has caused a violation," "an officer,
37 | director, or employee of a violator," and a person who "knowingly authorizes, directs, or aids in
38 | the violation of a final order." Section 3 should not be interpreted to place these persons beyond
39 | the reach of the Act.

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Deleted: "signed" is drawn from UCC Revised §§ 1-201(b)(37) and 9-102(a)(7), and UETA § 2(8)

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- (1) its principal business office is located in this state or if it is formed under the laws of this state; ¶
- (2) by any means, including electronic communication, it solicits individuals located in this state to obtain debt-management services; or ¶
- (3) it

Deleted: to be located in or a resident of in this state

Deleted: . At the October 2004 meeting, the Committee questioned whether subsection (1) was too broad, to the extent it referred to "agents." The purpose of this subsection is to enable the state to regulate businesses that are located or operating within its borders, regardless of the location of their customers. A state should be able to regulate those entities that are physically present within its borders, as well as those that are incorporated there but not otherwise present. Subsection (1) has been revised accordingly and no longer refers to employees and agents. Subsection (2) focuses on the location of the provider's customers, regardless of the location of the entity, e.g., an independent call center, that does the soliciting. Subsection (3) also focuses on the customer's location, but the location as it is known or should be known by the provider.¶
¶ Under this section the Act does not apply to: (1) a provider that is not located in this state and that does not solicit or contract with individuals in this state; (2) a provider whose web site is accessible by residents of this state if the provider declines to do business with residents of this state, in which event the provider is not soliciting individuals located in this state; (3) an individual who, while living in another state, forms an agreeme... [4]

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1
2 Section 19(a)(3) requires the agreement between a provider and an individual to state the
3 individual's address. If the individual supplies an address outside this state, the provider may
4 have no reason to know that the individual is residing in this state at the time of the agreement.

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Deleted: The Act applies, however, if the individual is physically present in this state when the agreement is formed, if the provider has reason to know that fact.

5
6 Under the revised scheme, the Act applies to agreements with individuals who are
7 residing in this state on a non-permanent basis, such as a member of the armed services, an
8 individual occupying a vacation home in this state, a student, an individual who has lost his or
9 her home and temporarily resides with a relative in this state. It does not apply to an agreement
10 with an individual who moves to this state after formation of the agreement or to an agreement
11 with an individual who resides in another state but who comes to this state to meet with a
12 provider.

Deleted: It does, however, apply to agreements with individuals who are residing in this state on a non-permanent basis, such as a member of the armed services, an individual occupying a vacation home in this state, a student, an individual who has lost his or her home and moves in with a relative in this state, and so forth.

13
14 If the Committee wants the Act to apply to a transaction with an individual who travels to
15 this state to seek the services of a provider, the section could refer to an individual who is
16 “present in this state” instead of “residing in this state.” The reference to “time of the agreement”
17 would mean that the provider must comply with the Act with respect to that individual. But it
18 would also mean that if a resident of this state goes to another state to obtain debt-management
19 services, the provider need not comply with this Act as to that transaction. The problem of
20 regulation by multiple jurisdictions remains, because another state may apply its law to
21 transactions with persons whom the provider should reasonably know to be residents of that
22 state, even if the individual travels to another state to form the agreement. The provider then
23 would have to comply with the law of both states. Does the Committee wish to make this
24 change?

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25
26 This Act uses the term “individual” rather than “consumer.” The purpose of this usage is
27 to enlarge the usual meaning of that term (viz., one who acquires goods or services for personal,
28 family, or household purposes) to encompass individuals who have incurred personal debt for
29 business purposes, including farming.

30
31 Subject to the limitations stated in this section, the intention is for the Act to have as
32 expansive a reach as is constitutionally permissible. Common criteria for determining whether
33 there is a sufficient jurisdictional nexus for an Internet-based business include the business’
34 targeting a specific jurisdiction and the presence of a customer of a business in the jurisdiction.
35 Some observers have objected that the Act ought not apply to providers located in other states
36 and that it is unconstitutional for a statute to provide otherwise. A cursory review of legislation
37 reveals that statutes regulating debt-management services often apply to non-resident providers
38 that do business with residents of the state. E.g., Connecticut (Ct. Gen. Stat. § 36a-656(a));
39 Illinois (205 Ill. Comp. Stat. Ann. § 665/2); Maryland (Md. Fin. Inst. Code Ann. § 12-924(D));
40 Michigan (Mich. Comp. Laws § 451.412(j)); New York (N.Y. Gen. Bus. Law § 455(1)); and
41 Virginia (Va. Code Ann. § 6.1-363.3)). In addition, the U.S. District Court for the District of
42 Kansas has upheld the constitutionality of applying the Kansas statute to a Massachusetts
43 agency. Cambridge Credit Counseling Corp. v. Foulston, 303 F. Supp. 2d 1188 (D. Kan. 2003).

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¶
The Act applies to “persons,” not just “providers.” But persons other than providers need not register. Almost all of the prohibitions and other constraints apply to “providers.” But see section 18 (“agreements” by persons that are not registered under this Act are voidable) and section 27 (liability of persons who cause or aid violations of the Act).¶

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44 **SECTION 4. EXEMPT PERSONS.**

1 (a) This [act] does not apply to a provider that receives no compensation for debt-
2 management services from or on behalf of the individuals to whom it provides the services.

3 (b) This [act] does not apply to the following providers or their employees, when
4 the provider or its employee is engaged in the regular course of its business or profession:

5 (1) a judicial officer, a person acting under a court order, or an assignee
6 for the benefit of creditors;

7 (2) a bank and its affiliates, as defined in Section 2(2)(B)(i), if the affiliate
8 is subject to regulation by a federal or state banking regulatory authority;

9 (3) a title insurer, escrow services company, or other person that provides
10 bill-paying services if the provision of debt-management services is incidental to the bill-paying
11 services;

12 (4) an attorney licensed by this state to practice law, if the provision of
13 debt-management services is incidental to the attorney's practice; [or]

14 (5) an accountant licensed by this state, if the provision of debt-
15 management services is incidental to the accountant's practice[; or]

16 (6) a person licensed under Section [] as a [money transmitter].

17
18 **Legislative Note:** In paragraph (6) insert the citation to any statute requiring money transmitters
19 to be licensed, conform the parenthetical to the terminology of that statute, and delete the
20 parentheses. If there is no such statute, the brackets in paragraph (4) and the bracketed
21 language in paragraphs (5) and (6) should be omitted.

22 **Preliminary Comment**

23
24
25 Subsection (a): This provision is new. It implements the decision of the Committee at the
26 January 2005 meeting, to exempt those, e.g., social workers, who provide debt-management
27 services at no cost as part of their overall services to clients. It also exempts individuals who
28 assist family members or friends if they do not receive compensation for helping their relatives
29 or friends to manage their money.

30
31 Subsection (b): This provision has been modified to exempt certain providers, instead of
32 certain "persons." If the person is not a provider, the Act does not require registration or regulate
33 conduct. Hence, the only persons who need an exemption are those that otherwise would be
34 regulated as providers. Conversely, a person that causes a provider to violate the Act or an
35 administrative order should not be exempt even if the person is not a provider.

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2 Except for bill-paying services, attorneys, and accountants, the exemption applies even if
3 debt-management services constitute a majority of the entity's business. Most of the exempt
4 entities are extensively regulated by the state or federal government (paragraphs (1), (2), (4), (5),
5 (6)).

Deleted: In the March 2004 draft, the exemption in this section applied to the enumerated persons only when providing debt-management services is incidental to the regular course of the business or profession of the person and its employees. In this draft, e

6
7 The exemption for banks in subsection (2) extends to subsidiaries of banks, but only if
8 the subsidiary is subject to regulation by a federal or state banking regulatory authority.

9
10 A debate arose at the Annual Meeting concerning whether attorneys should be exempt.
11 Attorneys are governed by a code of conduct and elaborate disciplinary structure. On the other
12 hand, this structure is not always effective to protect clients. A law firm operating as a provider
13 in New York and Vermont recently inflicted substantial injury on indebted consumers. As
14 originally enacted, the federal Fair Debt Collection Practices Act contained an exemption for
15 lawyers. When it became clear that some attorneys were abusing this exemption, Congress
16 amended the Act to remove the exemption altogether. The sentiment of the Committee at the
17 October 2004 meeting was to exempt attorneys only if debt-management services are incidental
18 to the attorneys' overall practice. The Committee reconsidered this position at the January 2005
19 meeting and decided to adhere to it.

Deleted: A correspondent, whose letter to the Committee is posted on the Committee's web site (www.nccusl.org/Update/CommitteeSearchResults.aspx?Committee=222) questions the soundness of the reasoning underlying this decision. The correspondent makes a good point, and the Committee may wish to reconsider.

20
21 The Committee also decided that the exemption should be limited to attorneys and
22 accountants who are licensed in this state.

Deleted: A second issue concerning this exemption which needs further attention is whether

23
24 The exemption extends to attorneys, accountants, and bill-paying services only if debt-
25 management services are "incidental to" the regular course of the person's business or
26 profession. If the person is held out as providing debt-management services, then debt-
27 management services are not incidental. Beyond that, the test is flexible, looking to such matters
28 as the amount of time devoted to providing debt-management services and the amount and
29 percentage of revenues derived from debt-management services. The more isolated the provision
30 of those services, the more likely it is that they are incidental. The more frequent the provision of
31 those services, the more likely it is that they are not incidental. The administrator by rule may
32 establish bright-line standards for determining "incidental to."

Deleted: In connection with creating an exemption for attorneys, the Conference does not ask each enacting state to make a judgment whether that state's system of self-regulation by attorneys is effective. Rather, the Conference indulges in a presumption that it is. This suggests that the Conference should not ask a state to make that judgment about another state's system. It probably is desirable for the exemption to encompass attorneys who are licensed in any jurisdiction. If the Committee agrees, paragraph (4) could read, "a person who is licensed by a jurisdiction in the United States to practice law." Cf. section 23(b)(9)(prohibited acts include furnishing legal advice unless the person furnishing the advice "is licensed to practice law"). A similar issue exists with respect to accountants.

33
34 The definition of "debt-management services" speaks of "acting as an intermediary
35 between an individual and one or more creditors." With this language in place, a creditor acting
36 on its own behalf is not acting as an intermediary. The definition also speaks of acting as an
37 intermediary "for the stated purpose of obtaining concessions." This excludes from the definition
38 an entity that collects debts owed to an affiliate if the stated purpose is collection of the debt and
39 not obtaining concessions from the creditor on behalf of the individual.

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Deleted: An earlier version of this section exempted a creditor that negotiates or receives settlement of a debt an individual owes it.

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40
41 Paragraph (3) exempts entities that provide bill-paying services if negotiation of the terms
42 of payment is incidental to the services generally provided by the entity. Examples of exempt
43 entities include mortgage loan servicers, athletes' agents, artists' agents, financial planners,
44 executors of estates, and personal representatives of decedents. These entities are exempt so long
45 as negotiation of payment the amount to be paid individual creditors is incidental to their overall
46 services.

1 **SECTION 5. REGISTRATION REQUIREMENT.**

2 _____ (a) Except as otherwise provided in subsection (b), a provider may not provide
3 debt-management services [to an individual whom it reasonably should know resides in this state
4 when it agrees to provide the services,] unless the provider is registered under this [act]. A
5 registration is valid for one year.

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6 _____ (b) If a provider is registered under this [act], the registration requirement of
7 subsection (a) does not apply to the officers, employees, or agents of the provider.

- Deleted: . . . (b) A provider must renew its registration every year.¶
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8 _____ (c) The administrator shall maintain and publicize the names of all registered
9 providers.

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- Deleted: make public
- Deleted: persons
- Deleted: as
- Deleted: under this [act]

10 **Preliminary Comment**

11
12
13 Subsection (a) requires providers to register under this Act. Under section 3 this
14 requirement extends to providers located in other states, if they serve individuals who reside in
15 this state. The requirement applies to “providers,” not “persons,” thereby incorporating the more-
16 than-three-individuals requirement in the definition of “provider” in section 2(13). That
17 definition also contains the limitation that the provider have reason to know the individuals
18 reside in this state. Nevertheless, it is necessary to repeat the residency requirement in this
19 section, or else a provider that did, but no longer does, serve residents of this state would have to
20 register.

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- Deleted: Section

21
22 Former subsection (b) required annual renewal of registration. This provision has been
23 relocated to section 12.

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- Deleted: . . . Subsection (b): Section 2(13) defines “provider” as “a person that . . . has provided debt-management services to more than three individuals” in a year.¶
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24
25 Subsection (c): The objective of this subsection is to enable individuals and creditors to
26 ascertain whether a given provider is registered. Posting on the Internet web site of the
27 administrator (or other appropriate official site) is the preferred method, because the information
28 is instantaneously and continuously available. To “maintain” the list, the administrator must
29 update it regularly. [The Style Committee objected to “make public, which appeared in the
30 previous draft.” Does “publicize” preserve the intended meaning?]

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31 **SECTION 6. APPLICATION FOR REGISTRATION: FORM, FEE, AND**
32 **ACCOMPANYING DOCUMENTS.**

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33 _____ (a) An application for registration must be in a form prescribed by the
34 administrator.

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1 (b) Subject to Section 29(f), an application for registration must be accompanied

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2 by:

3 (1) the fee established by the administrator;

4 (2) the bond or other assurance required by Section 14;

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5 (3) identification of all trust accounts required by Section 22;

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6 (4) evidence of insurance against the risks of dishonesty, fraud, theft, and

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7 other malfeasance or misconduct on the part of an employee or agent of the applicant in the
8 amount of \$250,000, payable to the applicant, the customers of the applicant, and this state, as
9 their interests may appear, and not subject to cancellation by the applicant without the approval
10 of the administrator; [and]

11 (5) proof of compliance with Section []; and

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12 (6) evidence of tax-exempt status applicable to the applicant under the

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13 Internal Revenue Code, 26 U.S.C. Section 1 et seq., as amended.]

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14
15 Legislative Notes: In subsection (b)(5), insert the citation to the statute specifying the
16 prerequisites for an entity to do business in this state. If the state has no such statute, substitute
17 the following for subsection (b)(5):

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

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

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

23
24
25 If the state wishes to permit for-profit entities to provide all forms of debt-management
26 services, the bracketed language containing all of subsection (b)(6) should be deleted. If the state
27 wishes to limit debt-management services to non-profit entities, the brackets should be deleted. If
28 the state wishes to permit for-profit debt-settlement companies but not for-profit credit-
29 counseling agencies, subsection (6) should state: "if the applicant's plans contemplate that
30 creditors will provide concessions in the form of reduced finance charges or fees for late
31 payment, default, or delinquency, evidence of tax-exempt status applicable to the applicant under
32 the Internal Revenue Code, 42 U.S.C. Section 1 et seq., as amended.]"

33
34 In states in which the constitution does not permit the phrase, "as amended," when
35 federal statutes are incorporated into state law, the phrase should be deleted in subsection
36 (b)(6).

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Preliminary Comment

The Style Committee observed that section 6 of the previous draft was very long and suggested either leaving the details to the administrator’s rulemaking authority or breaking it into several sections. Because the Drafting Committee has been comfortable with specifying the requirements in the statute, this draft pursues the latter alternative. The contents of former section 6 now appear in sections 6, 7, and 8, and the sections that follow have been renumbered.

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Subsection (a): “Form” encompasses format, and the administrator by rule may permit all or part of the application to be submitted electronically.

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Subsections (b)(2) and (3) refer to items “required by” other sections. If those other sections do not require the item as to a particular applicant, then the application need not contain proof of the item.

Subsection (b)(4) requires insurance in the amount of \$250,000 against the risk of employee misconduct, including theft of funds from the trust account. It is not common under existing state law to require both this kind of insurance and also a bond of the type required by section 14. The two requirements, however, protect against different risks. The insurance required by this section protects against the risk of employee dishonesty. Ordinarily, the beneficiary of such insurance would be the provider. This paragraph expands the beneficiaries to include the state and the customers of the provider, and this draft requires that the insurance not be subject to cancellation without the approval of the administrator. The insurance overlaps the bond required by section 14, but the bond covers more risks, viz., violation of any provision of the Act.

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The purpose of subsection (b)(5) is to facilitate subjecting a non-resident business to the jurisdiction of this state. If the applicant is a resident, so that the statute referenced in this subsection does not apply to it, the applicant complies with this subsection by indicating that fact. If existing statutes leave doubt about the mechanism for serving process on the provider and the state has chosen not to enact the language suggested in the Legislative Note, the administrator can promulgate a rule requiring the applicant to appoint a state official as the provider’s agent for purposes of service of process.

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SECTION 7. APPLICATION FOR REGISTRATION: REQUIRED INFORMATION.

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(a) An application for registration must be signed under oath and include [, as applicable]:

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(1) the applicant’s name, principal business address and telephone number, all other business addresses in this state, electronic mail addresses, and Internet web site addresses;

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

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1 _____ (3) the address of each location in this state at which the applicant will
 2 provide debt-management services, or a statement that the applicant will have no such location;
 3 _____ (4) the name and home address of each officer or director of the applicant
 4 and each person that owns more than ten percent of the applicant;
 5 _____ (5) identification of every jurisdiction in which, during the five years
 6 immediately preceding the application:
 7 _____ (A) the applicant or any of its officers or directors has been
 8 licensed or registered to provide debt-management services; or
 9 _____ (B) individuals have resided when they received debt-management
 10 services from the applicant;
 11 _____ (6) a statement describing, to the extent it is known or should be known,
 12 any material civil or criminal judgment or litigation, and any material administrative or
 13 enforcement action by a government agency in any jurisdiction against the applicant, or any of
 14 its officers, directors, or owners, or any person with authority to access the trust account
 15 required by Section 22;
 16 _____ (7) the applicant's financial statements, audited by an accountant licensed
 17 to conduct audits, for each of the two years immediately preceding the application or for each
 18 year or lesser period of its existence if it has not been in operation for the two years preceding
 19 the application;
 20 _____ (8) evidence of accreditation by an independent, nationally recognized
 21 accrediting organization or an accrediting organization approved by the administrator;
 22 _____ (9) evidence that, within 12 months after their initial employment, each of
 23 the applicant's counselors is a certified counselor;
 24 _____ (10) a description of the three most commonly used educational programs
 25 that the applicant provides or intends to provide to individuals who reside in this state and copies
 26 of any materials used or to be used in those programs;

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

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4 _____ (12) a copy of each current form of agreement that the applicant will use
5 with individuals who reside in this state;

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6 _____ (13) the current schedule or schedules of fees and charges that the
7 applicant will use with individuals who reside in this state;

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8 _____ (14) at the applicant's expense, the results of a criminal records check,
9 including fingerprints, conducted within the immediately preceding 12 months, on every officer

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10 and on every employee or agent of the applicant who is authorized to have access to the trust
11 account required by Section 22 or, if an applicant has submitted this information to another state,

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12 a copy of the report from the criminal-records check conducted for that state; and

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13 _____ (15) any other information that the administrator reasonably requires.

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14 (b) An applicant or registered provider shall notify the administrator within ten
15 days after a change in the information specified in subsection (a)(1), (3), (6), (12), or (13) or
16 Section 6(b)(4) or (6)].

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Preliminary Comment

19 Subsection (a): At the October 2004 meeting, the Committee decided that paragraph (1)
20 should require disclosure only of business addresses in this state. Other than the principal
21 business address, it is not necessary for the applicant to list business addresses outside this state.

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

28 Paragraph (5) (identification of states in which the applicant has done business or has
29 been registered or licensed to provide debt-management services) has been restored, to enable
30 the administrator to investigate the applicant and to coordinate enforcement efforts with
31 administrators in other states.

33 Paragraph (6) requires disclosure of material judicial and administrative proceedings in
34 any jurisdiction against the officers, directors, owners (whether or not they are authorized to

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1 access the trust account containing customers' funds), and against any other persons who may be
2 authorized to access the trust account. The administrator by rule can elaborate on what
3 proceedings are material. This paragraph does not impose any disclosure requirement with
4 respect to proceedings of which the applicant is reasonably unaware. The paragraph has been
5 rewritten to eliminate redundant verbiage, and the phrase "after reasonable investigation" has
6 been removed at the suggestion of the Style Committee. The concept "should be known"
7 encompasses facts that a reasonable investigation would have revealed.

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8
9 Paragraph (7): At the January 2005 meeting, the Committee decided to require audited
10 financial statements of all applicants. This is consistent with many existing statutes, which
11 require an applicant to supply audited financial statements.

12
13 Paragraph (8): At the January 2005 meeting, the Committee decided to require that
14 providers be accredited. This requirement reinforces regulation by the administrator and subjects
15 providers to periodic review to ensure that they meet the standards of the accrediting agency.

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16
17 Paragraph (9): To obtain registration, a provider must employ counselors who are
18 certified within 12 months of their initial employment. This requirement applies only to
19 employees who act as counselors and educators. It does not apply to such other employees as
20 customer service representatives. Section 17 prohibits a plan unless a certified counselor has
21 done specified things. The reason for requiring an applicant to produce evidence that its
22 counselors are certified is to assure the administrator that the provider will be able to comply
23 with section 17.

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24
25 Paragraph (10): As used in this paragraph, "programs" encompasses both a course of
26 instruction, which may be entirely oral, and computer software.

27
28 Paragraph (12): An agency, whether located in this state or elsewhere, need supply only
29 the documents that it will use with residents of this state. Section 29(b)(1) empowers the
30 administrator to investigate the activities in another jurisdiction of a provider that is located in or
31 doing business in this state. Under that section the administrator may obtain documents used in
32 other jurisdictions.

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33
34 Paragraph (13): As with paragraph (12), an applicant, whether located in this state or
35 elsewhere, need supply only the schedules of fees and charges for residents of this state. For
36 purposes of this paragraph, "fees and charges" includes all costs, however denominated (e.g.,
37 "voluntary contribution"), to be paid by customers of the applicant. This information will enable
38 the administrator to monitor the industry's practices in the state. It should assist the administrator
39 in determining whether an individual agency is gouging individuals, as well as whether to
40 encourage the legislature to raise the fee cap when the passage of time or changed circumstances
41 make it too low.

42
43 Paragraphs (12) and (13) require information that is current as of the time of the
44 application. An applicant is free to modify the forms or the fees without prior approval, unless
45 the administrator adopts a rule to the contrary. Subsection (b) of this section requires the provider

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1 to notify the administrator within ten days of any changes in specified information required by
2 this section, including the information required by paragraphs (12) and (13).

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3
4 Paragraph (14): In some jurisdictions the mechanics and procedures for obtaining
5 fingerprints are quite burdensome. This paragraph attempts to reduce the burden by permitting an
6 applicant that has gone through this process in one state to use the results of the process for a
7 period of 12 months in other states, too. The 12-month limitation applies to the criminal-records
8 check, not the time of submission to the other state. The criminal-records check must include a
9 check of fingerprints, but the fingerprints need not have been obtained during the 12-month
10 period.

11
12 Former paragraph (16) in the Annual Meeting Draft, which required an applicant to
13 provide an irrevocable consent giving the administrator access to the trust account, has been
14 deleted. In its place is new subsection 29(b)(4), empowering the administrator to obtain the
15 funds, as well as all books and records, from the bank holding the trust account.

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16
17 Paragraph (15): The administrator may require additional information either by
18 rulemaking procedure applicable to all applicants or by specific request in response to a specific
19 application. A Committee member has suggested that the paragraph should specify a standard
20 other than reasonableness to guide the administrator's decision to request additional information.
21 If the Committee agrees, the paragraph could state, "any other information that the administrator
22 reasonably requires in order to exercise the administrator's duties under section 10(b)." Section
23 10(b) specifies the grounds for denying registration (including a finding that the general fitness
24 of the applicant is not such as to warrant belief that the applicant will comply with the Act).

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25
26 Subsection (b): The cross-referenced sections require disclosure of the name of the
27 applicant, the addresses at which it operates, enforcement action against the applicant in another
28 state, the applicant's fee schedule and standard forms, evidence of insurance against employee
29 misconduct, and, if required for registration, evidence of tax-exempt status. Subsection (b)
30 requires prompt notification of any change in this information, and since it applies to the
31 "applicant or registered provider," this requirement of notification applies both before and after
32 the administrator has issued a certificate of registration. Notification of change in other required
33 information is governed by section 12 (Renewal of Registration), which requires notification at
34 the time of renewal of registration.

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35 **SECTION 8. APPLICATION FOR REGISTRATION: DISCLOSURE OF**
36 **INFORMATION ABOUT AFFILIATES. An application for registration must include:**

37 (1) the names of employers of each director during the ten years immediately
38 preceding the application;

39 (2) a description of any ownership interest equal to or greater than ten percent by
40 an officer, director, owner, or employee of the applicant in any affiliate of the applicant or in any

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must include, if the applicant is
organized as a non-profit entity under
Section _____ or has obtained tax-exempt
status under Section 501(c) of the Internal
Revenue Code, 42 U.S.C. § 501(c), as
amended.;¶
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1 other entity that provides products or services to the applicant or any individual relating to the
 2 applicant's debt-management services;
 3 (3) a statement of the compensation of the applicant's five most highly
 4 compensated employees for each of the three years immediately preceding the application; and
 5 [(4) if the applicant has obtained tax-exempt status under the Internal Revenue
 6 Code, 26 U.S.C. Section 1, et seq., as amended]:
 7 (A) evidence of the tax-exempt status; and
 8 (B) the identity of each director who is an affiliate, as defined in Section
 9 2(A) or (B)(i), (ii), (iv), (v), (vi), or (vii), of the applicant.

10 Legislative Note: If the state permits only nonprofit entities to provide debt-management
 11 services, the bracketed language in paragraph (4) should be deleted and subparagraphs (A) and
 12 (B) should be renumbered as paragraphs (4) and (5). If the state permits for-profit entities to
 13 provide any form of debt-management services, the brackets should be deleted. If the brackets
 14 are deleted, then in states in which the constitution does not permit the phrase, "as amended,"
 15 when federal statutes are incorporated into state law, the phrase should be deleted.

16 **Preliminary Comment**

17
 18
 19
 20 This section contains disclosures designed to enable the administrator to enforce the
 21 requirement of an independent board of directors and the restrictions on self-dealing. At the
 22 January 2005 meeting, the Committee decided to require these disclosures of all applicants, not
 23 just nonprofits.

24
 25 **SECTION 9. APPLICATION FOR REGISTRATION: PUBLIC INFORMATION.**

26 Except for the information required by Section 7(a)(7) and (14) and the addresses required by
 27 Section 7(a)(4), the administrator shall make the information in an application for registration
 28 available to the public.

29 **Preliminary Comment**

30 This section preserves the confidentiality of home addresses, financial statements, and the
 31 report on the criminal-records check. While this section prohibits the administrator from
 32 disclosing the specified information, it has no effect on the use of judicial process in connection
 33 with civil or criminal litigation.

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1 At the January 2005 meeting, it was suggested that open-records laws might obviate the
2 need for this section. A cursory survey reveals that some of those laws (e.g., Pennsylvania) may
3 not cover information submitted to an administrative agency, as opposed to information
4 generated by an agency. Further, at least some state laws (e.g., Maryland) apparently would not
5 preserve the confidentiality of financial statements.

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6 **SECTION 10. CERTIFICATE OF REGISTRATION; ISSUANCE OR DENIAL.**

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7 (a) Except as otherwise provided in subsections (b) and (c), the administrator
8 shall issue a certificate of registration to a person that complies with Sections 6 through 8.

9 (b) The administrator may deny registration if:

10 (1) the application is not accompanied by the fee established by the
11 administrator;

12 (2) the application contains information that is materially erroneous or
13 incomplete;

14 (3) an officer, director, or owner of the applicant has ever been convicted
15 of a crime, or suffered a civil judgment, involving dishonesty or the violation of state or federal
16 securities laws;

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

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dishonesty

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

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22 (c) ~~With respect to nonprofit applicants, the~~ ~~The~~ administrator shall deny
23 registration if the board of directors is not independent of the applicant's officers, employees,
24 and agents.

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25 (d) Subject to Section 29(f), a board of directors is not independent for purposes
26 of subsection (c) if more than one-fourth of its members:

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

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(2) ~~after the date ten years before~~ first becoming a director of the applicant, were employed by or directors of a person ~~[, other than a public utility company,]~~ that receives or received from the applicant more than \$25,000 in either the current year or the preceding year.

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Legislative Note: If the state limits registration to non-profit entities, the first bracketed language in subsection (c) should be deleted. If the state permits for-profit entities to provide any kind of debt-management services, the brackets should be deleted, and the second bracketed language should be deleted.

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Preliminary Comment

Subsection (b): Some conduct justifies a lifetime ban from the debt-management-services industry. Examples include some of the conduct described in paragraphs (3) and (4). Other conduct can be readily corrected, e.g., paragraphs (1) and (2). The introductory language of the subsection (administrator “may” deny) gives the administrator discretion to consider the importance of various items of adverse information about an applicant, such as the precise nature and timing of past criminal conduct. Paragraph (5) gives the administrator discretion to consider other relevant information, such as the fact of and reasons for any suspension or revocation of the applicant’s right to provide debt-management services in another state.

~~In the previous draft, paragraphs (3) and (4) included employees in the list of persons whose conduct justifies the denial of registration. Because providers may have hundreds of employees, most of whom are not in control of the provider, the Committee decided to remove that category of persons from the list. It remains a basis for action under paragraph (5), however, because the administrator should have the discretion to deny registration if, e.g., a pattern of hiring raises doubts about the likelihood that the applicant will operate the business in compliance with the Act. Unless the administrator by rule requires otherwise, paragraph (5) does not require an applicant to disclose the convictions or adverse judgments of its employees. Section 7(a)(6) requires these disclosures, but only with respect to the applicant’s officers, directors, owners, and those employees who have access to the trust account.~~

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Subsection (c) replaces former section 8(b)(6). It requires that the board of directors of a nonprofit provider be independent of the management of the agency and independent of the creditors for whom the agency is, in a sense, acting as collection agent. If the board of directors is not independent, the administrator must deny registration. Under former section 8(b)(6), denial of registration was discretionary.

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Subsection (d): Since the definition of “affiliate” includes directors (section 2(2)(B)(iii)), paragraph (1) omits this subparagraph of the definition of affiliates for purposes of determining the independence of the board. Paragraph (2) specifies a period beginning ten years before a person first becomes a director. It specifies a starting point for the period but no ending point. This means that if a person meets the employment/director test of paragraph (2) while the person

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1 is on the applicant's board of directors, the person is not independent, even if more than ten years
2 have elapsed since the person first became a member of the applicant's board.

3
4 At the January 2005 meeting, the Committee questioned whether an employee of a utility
5 company that receives more than \$25,000 from an applicant should count against the one-fourth
6 of directors who may be insiders. In response, the bracketed language has been added to
7 paragraph (2). An alternative approach would be to add at the end of the sentence, "for goods,
8 services, or facilities provided to the applicant," so that a board would not be independent if
9 more than one-fourth of its members were affiliates of the applicant or were employed by (or
10 directors of) a person that received more than \$25,000 for goods, services, or facilities provided
11 to the applicant. This approach, however, would confer independent status on employees or
12 directors of banks and all other creditors of the provider's customers. This goes too far, and it
13 conflicts with the rules of the IRS for determining independent status.

14
15 The question for the Committee is whether to retain the bracketed language, creating an
16 exemption for one particular kind of creditor. Whatever the benefits of good counsel by a utility
17 insider, creating the exception opens the possibility that a provider might include several utility
18 insiders, so that an outright majority of its board are employed by banks and utility companies.
19 The provider would not necessarily be able to get away with this, because the administrator
20 could challenge it by denying registration under subsection (b)(5). But it does not seem wise to
21 create the possibility in the first place. Should the bracketed language be retained or deleted?

22 **SECTION 11. CERTIFICATE OF REGISTRATION: TIMING.**

23 (a) The administrator shall approve or deny an initial registration within 120 days
24 after an application is filed. In connection with a request pursuant to Section 7(a)(15) for
25 additional information, the administrator may extend the 120-day period, for not more than 60
26 days. Within seven days after denying an application, the administrator, in a record, shall inform
27 the applicant of the reasons for the denial.

28 (b) If the administrator denies an application for registration or does not act on an
29 application within the time prescribed in subsection (a), the applicant may appeal and request a
30 hearing pursuant to Section [insert the citation to the appropriate section of the Administrative
31 Procedure Act or other statute governing administrative procedure, and conform the number in
32 brackets to the period specified in that Act] if it does so before the expiration of [30] days after
33 the earlier of:

34 (1) receipt of a notice of denial; or

35 (2) expiration of the period prescribed in subsection (a).
36

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Preliminary Comment

Subsection (a) requires the administrator to act on an application in an expeditious manner. If the administrator needs additional information, the administrator may extend the period, but only for a limited time. Four approaches are possible for dealing with the administrator’s failure to act on an application within the specified time. The first approach is to treat the failure to act promptly as an approval of the application. This remedy operates to the detriment of the public, and the Committee rejected it at the October 2004 meeting.

Deleted: *Legislative Note: In subsection (b) insert the citation to the appropriate section of the Administrative Procedure Act or other statute governing administrative procedure, and conform the number in brackets to the period specified in that Act*

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¶

The second approach is the converse of deeming the application approved: the application is deemed to be denied, and the applicant may exercise its right of appeal under subsection (b). This is the cleanest of the alternatives.

Deleted: To implement this alternative, one would add the bracketed sentence in subsection (a).

The third approach is to authorize a judicial appeal if the application is denied or if the administrator fails to act in a timely manner.

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The fourth approach is to leave the entire matter to be handled by judicial procedure, such as mandamus.

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At the January 2005 meeting, the Committee opted for the second approach, but it then responded positively to an observer’s suggestion that an applicant not be saddled with a “denial” that it would have to disclose to other states, simply because the administrator failed to act as directed by the legislature. This response suggests that the Committee’s real preference is for the third approach, and this draft takes that approach. Under the draft, an applicant’s failure to appeal within the specified 30-day period presumably would bar any appeal at a later time. Should reference to a deadline be deleted? If retained, the phrase, “period prescribed in subsection (a),” includes any extension of the time under subsection (a).

SECTION 12. RENEWAL OF REGISTRATION.

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The Committee discussed these alternatives at the October 2004 meeting, but did not decide which one to adopt. Which approach does the Committee prefer?
¶

(a) A provider must renew its registration every year.

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(b) An application for renewal of registration must be in a form prescribed by the administrator. It must:

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(1) be filed no fewer than 30 and no more than 60 days before the

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registration expires;

(2) be accompanied by the fee established by the administrator and the

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bond or other assurance required by Section 14;

(3) be signed under oath;

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

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(5) disclose any changes in the information contained in the applicant's application for registration or its immediately previous application for renewal, as applicable;

(6) supply evidence of insurance against risks of dishonesty, fraud, theft, and other malfeasance or misconduct on the part of an employee or agent of the provider, in an amount equal to the highest daily balance in the trust account required by Section 22 during the six-month period immediately preceding the application, payable to the applicant, the individuals who have agreements with the applicant, and this state, as their interests may appear, and not subject to cancellation by the applicant without the approval of the administrator;

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

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

(9) provide any other information that the administrator reasonably requires.

(c) Except for the information required by Section 7(a)(7) and (14) and the addresses required by Section 7(a)(4), the administrator shall make the information in an application for renewal of registration available to the public;

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

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1 (e) If the administrator denies an application for renewal of registration, the
2 applicant, within 30 days after receiving notice of the denial, may appeal and request a hearing
3 pursuant to Section [insert the citation to the appropriate section of the Administrative Procedure
4 Act or other statute governing administrative procedure], Subject to Section 31(b), until the
5 appeal process is final, the applicant may continue to provide debt-management services.
6 Thereafter, subject to the administrator's order and Section 31(c), the applicant shall continue to
7 provide debt-management services to individuals with whom it has agreements until, with the
8 approval of the administrator, it transfers them to another registered provider or returns their
9 money that is under its control.

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11 **Preliminary Comment**

13 Subsection (a): The renewal requirement has been relocated here from its former location
14 in section 5.

16 Subsection (b): The cross-referenced provisions in paragraph (4) require proof of
17 accreditation and counselor certification.

19 In paragraph (6) this draft adds the requirement that the provider may not cancel the
20 insurance without the permission of the administrator.

22 Paragraphs (7) and (8) require disclosure of amounts paid or accumulated by individuals
23 with whom the applicant has agreements. These amounts determine the size of the bonds
24 required by section 12. Paragraph (7) refers to providers and their agents that receive and
25 distribute the individual's money. Paragraph (8) applies to providers that do not take possession
26 of those funds. Some providers may require the individual to provide periodic copies of bank
27 statements. Others may not and therefore may not know the amount accumulated by all of the
28 customers.

30 Paragraph (9) authorizes the administrator to require additional information from an
31 applicant. This refers both to information required by rule and information requested in response
32 to the information in an application. This authorizes the administrator to exercise the rulemaking
33 authority to articulate indicia of success and require the applicant to disclose these indicia in its
34 application for renewal.

36 Subsection (c): The home addresses, financial statements, and criminal-records check, as
37 disclosed in an application for registration or in an application for renewal, remain exempt from
38 public disclosure.

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1 Subsection (d): The grounds for denial of an application to renew registration appear in
2 section 31. At the January 2005 meeting, the committee decided to remove the 30-day time limit
3 for the administrator's approval or denial of an application for renewal of registration. If the
4 provider files a timely application, the registration remains effective until the administrator
5 denies it. If the provider fails to file a timely application, the provider ceases to be registered
6 (section 5(a)) and is no longer authorized to provide debt-management services to individuals
7 who reside in this state. The denial of an application for renewal triggers the right of appeal
8 under subsection (c). During the 30 days following a denial, the provider may continue to
9 provide debt-management services. If the provider does not file an appeal, then the appeals
10 process becomes final, and the last sentence of subsection (e) applies. Is it necessary (or
11 desirable) for subsection (d) to contain a provision similar to the last sentence of subsection (e).

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13 Subsection (e): When a provider's registration ends, section 5(a) prohibits it from
14 providing debt-management services. An abrupt end to the provider's activity, however, may
15 adversely affect its customers who are in the middle of a plan. Consequently, this subsection
16 compels the entity to continue providing services to existing customers until the administrator
17 authorizes it to cease.

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Deleted: The administrator has 30 days to act on the application. The 30-day period starts running upon receipt of an application, not receipt of a proper application. The latter date might never occur, in which event the registration would remain effective forever.

18 **SECTION 13. REGISTRATION IN ANOTHER STATE.** If a provider holds a
19 license or certificate of registration in another state authorizing it to provide debt-management
20 services, the provider may submit a copy of that license or certificate and the application for it in
21 lieu of an application in the form prescribed by Sections 6(a) and 7(c) or Section 12(a). The
22 administrator shall accept the application and the certificate from the other state as an application
23 for registration or for renewal of registration, as appropriate, in this state if:

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- 24 (1) the application in the other state contains information substantially similar to
25 or more comprehensive than that required in an application submitted in this state; and
26 (2) the applicant, under oath, certifies that the information contained in the
27 application is current, or, to the extent it is not current, supplements the application to make the
28 information current.

29 **Preliminary Comment**

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32 This section provides for reciprocal use of applications in states that have adopted this
33 Act. It simplifies registration in states that have substantially similar laws, thereby easing the
34 burden placed on providers that operate in multiple states. This benefit is available, however,
35 only if the law of the other state is substantially similar to this Act. As a practical matter, a
36 provider can comfortably rely on this section only if the other state has also adopted this Act.
37 Some states may use a system of licensing rather than registering. This section permits use of a
38 license and application for license.

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SECTION 14. BOND REQUIREMENT.

(a) Except as otherwise provided in Section 15, a provider shall file a surety bond with the administrator.

(b) The surety bond must be in effect during the period of registration and for two years after a provider ceases providing debt-management services to individuals in this state.

(c) A surety bond must run to the state for the benefit of the state and individuals who reside in this state and obtain debt-management services from the provider.

(d) Subject to Section 29(f), a surety bond must:

(1) be in an amount equal to \$100,000 or twice the average daily balance in the trust account required by Section 22 during the six months immediately preceding the date of the application for registration or renewal of registration, whichever is greater, or in an amount that the administrator determines is warranted by the financial condition and business experience of the provider, the history of the provider in providing debt-management services, the risk to individuals, and any other factor the administrator considers appropriate;

(2) be issued by a bonding, surety, or insurance company that is authorized to do business in this state; and

(3) be conditioned upon the noncompliance of the provider or its agents with this [act].

(e) If the principal amount of a surety bond is reduced by payment of a claim or a judgment, the provider shall immediately notify the administrator of that fact and, within [30] days after notice by the administrator, shall file a new or additional surety bond in an amount set by the administrator. The amount of the new or additional bond must be at least the amount of the bond immediately before payment of the claim or judgment. If for any reason a surety terminates a bond, the provider shall immediately file a new surety bond in the same amount as the amount of the terminated bond.

(f) The administrator or an individual may obtain satisfaction out of the surety bond or other security procured pursuant to this section or Section 15 if

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- - (1) located in this state, a surety bond must run to individuals who obtain debt-management services from the provider and to the state for the benefit of the state and those individuals, wherever located; or¶
- - (2) not located in this state, a

Deleted: and who reside in this state and to the state for the benefit of the state and those individuals

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1 (1) the administrator assesses costs under Section 29(b)(2), issues a final
2 order under Section 30(a)(2), or recovers a final judgment under Section 30(a)(5) or (d); or

3 (2) an individual recovers a final judgment pursuant to Section 32(a), (b),
4 (c), or (d)(1) or (3).

5 (g) If claims against the security exceed the amount of the security, the surety or
6 other stakeholder may petition the administrator to determine the order and amount in which the
7 claims are paid.

8 **Preliminary Comment**

9
10 Subsection (a): The requirement of a bond applies to all providers, including those that
11 are not required to establish trust accounts.

12
13 Subsection (b): The bond is a source of payment of injuries caused by a provider's failure
14 to comply with this Act. It is conceivable that the administrator or an individual would not
15 commence litigation until after a provider ceases providing services in this state. This subsection
16 preserves the availability of the bond for two years after the year in which the provider's
17 registration ends. Legislation in some states contains comparable provisions. E.g., 2004 Kan.
18 Sess. Laws 22 (§4(c))(2 years after the end of registration); Md. Fin. Inst. Code Ann. § 12-
19 914(b)(3)(2 years after the provider ceases to be licensed). In others, it either requires the bond to
20 be continuously in force, run concurrently with the period of registration, or does not address the
21 duration of the bond.

22
23 Subsection (c): The bond runs in favor of the state for the benefit of the state and for the
24 benefit of the customers of the provider. Thus, it is available to compensate the administrator for
25 its enforcement costs. The bond also runs directly in favor of customers who are injured by a
26 provider's noncompliance with the Act. The subsection has been substantially revised to reflect
27 the changes in section 3 (Application to Nonresident Providers), narrowing the applicability of
28 the Act to providers that serve individuals residing in this state.

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29
30 Subsection (d): For those providers that do not receive payments for distribution to
31 creditors, and therefore are not required by section 22 to establish a trust account, the bond
32 requirement is \$100,000. For others, the bond requirement is the greater of \$100,000 or two
33 times the average daily balance in the trust account. The amount of the bond would depend on
34 the amount received from individuals and the frequency of the provider's payment to the
35 creditors. A provider that receives payments of \$1.5 million per year, or \$30,000 per week, and
36 pays creditors twice a week, would have an average daily balance of approximately \$11,000. Its
37 bond requirement would be \$100,000. A provider that receives payments of \$130 million per
38 year, or \$2.5 million per week, and pays creditors twice a week, would have an average daily
39 balance of approximately \$900,000. Its bond requirement would be \$1.8 million. This alternative
40 gives the provider an incentive to make payments to creditors on a daily basis. The administrator
41 is free to set the bond requirement for a particular provider at a different amount.

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2 A newly registered provider may have no trust account experience with respect to
3 residents of this state. The bond for this provider is \$100,000 unless, in light of the factors
4 enumerated in this subsection, the administrator determines some other amount is warranted.

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5
6 The bond requirement under existing legislation varies widely. Many of the statutes were
7 enacted decades ago and have not been amended in this respect. These statutes often require
8 bonds of modest amounts, \$10-25,000. The more recently enacted or revised legislation sets the
9 bond at much higher amounts, often to be set by the administrator in light of specified factors.
10 E.g., Connecticut (\$40,000 or 2 times the highest monthly amount paid by Connecticut
11 residents); Illinois (\$25,000 or the amount of disbursements during the preceding year); Kansas
12 (\$25,000-1,000,000); Maine (\$50,000); Maryland (\$10,000-350,000); Michigan (\$35,000-
13 100,000); New York (minimum of \$250,000); Vermont (minimum of \$50,000); Virginia
14 (\$25,000-350,000). This draft sets the amount of the bond at \$100,000 but authorizes the
15 administrator to adjust it in either direction. This flexibility may be especially important with
16 respect to true non-profit credit-counseling agencies.

17
18 The amount \$100,000 has appeared in the last several drafts, but the Committee has not
19 considered whether that is the appropriate number. There is an overlap between the insurance
20 required by sections 6 and 12 and the bond required by this section. Both protect against
21 wrongful appropriation of the money in the trust account. Only the bond, however, protects
22 against other loss that the customers of a provider might suffer. In view of the expense and
23 difficulty of obtaining bonds, it might be rational to disconnect the amount of the bond from the
24 size of the trust account and view the bond primarily as a source of compensation to individuals
25 who sue a provider. That leaves the insurance policy as the source of compensation if a provider
26 misappropriates the money in a trust account. If the Committee takes this approach, subsection
27 (d)(1) could reduce the amount of the bond and omit any reference to size of the trust account,
28 e.g.:

29
30 (1) be in an amount equal to \$50,000, or in an amount that the administrator determines
31 is warranted by the financial condition and business experience of the provider, the
32 history of the provider in providing debt-management services, the risk to individuals,
33 and any other factor the administrator considers appropriate.

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34
35 Paragraph (3) requires that the bond be conditioned upon noncompliance with the Act.
36 Nothing is payable until the administrator or an individual obtains a judicial determination that
37 the provider has failed to comply (or the administrator assesses costs under section 29(b)(2). In a
38 typical case the surety would be joined as a party defendant.

39
40 Former subsection (e) permitted a credit against the amount of the bond required by this
41 section in the amount of bonds required by other states. With the narrowing of section 3, this
42 subsection has become superfluous, and it has been deleted.

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43
44 Former subsection (f) set the amount of the bond for a newly registered provider. Further
45 reflection reveals that subsection (d) adequately covers this situation.

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Subsection (f) (formerly subsection (i)): Section 29(b)(2) empowers the administrator to charge a provider for the costs of an investigation of the provider. Section 30 empowers the administrator to seek restitution for injured individuals and recover its costs of an enforcement action. Under subsection (f) the bond or other security required by this section is a source for payment of this restitution. Section 32 authorizes private rights of action. The bond or other security is a source of payment of actual damages, damages for overcharges, the [\$1,000] minimum damages, and costs and attorney's fees. It is not available to satisfy criminal penalties under section 27, civil penalties under section 30, or punitive damages under section 32. Does the Drafting Committee concur?

Subsection (g): This newly added subsection permits the administrator to determine the order in which the security should be applied to satisfy claims, in order to make payment of claims equitable. But it may deprive individuals who uncovered wrongdoing and acted first from recovering full compensation for their injuries. At the expense of the diligent consumer, the provision may enhance the position of the individual who files a copycat action. On the other hand, the Style Committee observes that, as drafted, the surety apparently has the discretion to pay the claims in any order it chooses. Should the administrator be directed to determine priority and, if so, on what basis?

Section 32(h) requires the administrator to assist an individual in enforcing a judgment against the bond or other security if the individual has given notice of the litigation to the administrator within 60 days of initiating it.

SECTION 15. BOND REQUIREMENT: SUBSTITUTE. In lieu of the surety bond required by Section 14, a provider may deliver to the administrator any of the following, in the amount required by Section 14(d), and, except as otherwise provided in paragraph (2)(A), payable or available to the state and to individuals who have agreements with the provider as their interests may appear if the provider does not comply with this [act]:

(1) a certificate of insurance issued by an insurance company rated at least A by a nationally recognized rating organization, with no deductible; or

(2) subject to the approval of the administrator:

(A) an irrevocable letter of credit, issued or confirmed by a bank approved by the administrator, payable upon presentation of a certificate by the administrator; or

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

Preliminary Comment

- Deleted: Section...Section...S (... [15])
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- Deleted: subsection (i)
- Deleted: Section 14(f), loss payable to the state and to customers of the provider as their interests may appear, as provided in
- Deleted: subsection (c)
- Deleted: Section 14(c), if the provider does not comply with this [act]
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- Deleted: subsections (d) through (f)
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- Deleted: subsection (i)
- Deleted: Section 14(f), payable to the state and to customers of the provider as their interests may appear, as provided in
- Deleted: subsection (c)
- Deleted: Section 14(c), if the provider does not comply with this [act]
- Deleted: 3...subject to the approval of the administrator, deposit and maintain with a financial institution approved by the administrator for this purpose ... in the amount determined by the (... [21])
- Deleted: subsections (d) through (f)
- Deleted: Section 14(d), design (... [22])
- Deleted: subsection (i)
- Deleted: Section 14(f), to the s (... [23])
- Deleted: subsection (c)
- Deleted: Section 14(c), if the p (... [24])
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2 Formerly subsection (h) of section 12 (now section 14), this section has been reorganized
3 to reduce repetitive language, with no change in substance. It provides an alternative to posting a
4 bond. It authorizes the provider to procure insurance or, subject to the administrator's approval, a
5 letter of credit or debt instruments. The requirement of approval by the administrator extends to
6 both the securities deposited and the terms of the account into which they are deposited, to
7 ensure that they are available to pay claims of injured individuals. The administrator by rule can
8 develop the mechanics for liquidating the securities and paying the proceeds to injured
9 individuals.

10
11 Prior drafts authorized insurance with a deductible no greater than 10 percent of the face
12 amount of the policy. If the bond requirement for a particular provider were \$1 million, this
13 would permit a deductible of \$100,000. The burden of a deductible should not fall on the injured
14 individual, and this draft eliminates the deductible.

15
16 Paragraph (2)(A) requires the administrator's approval. This approval extends to the
17 identity of the bank and to the form of the letter of credit. The paragraph requires that the letter
18 of credit be payable upon presentation of a certificate by the administrator, and the administrator
19 may determine the nature of that certificate. For example, the administrator may require that the
20 issuer of the letter of credit will pay in the amount stipulated in the certificate as the amount of a
21 judgment obtained by an individual or the amount stipulated in the certificate as costs assessed
22 under section 29(b)(2). Section 32(h) requires the administrator to assist an individual with a
23 judgment if the individual has given notice of the litigation to the administrator within 60 days of
24 initiating it.

25 **SECTION 16. CUSTOMER SERVICE.** A provider shall maintain a telephone
26 system, staffed at a level that reasonably permits an individual to speak to a counselor or
27 customer service representative, as appropriate, during ordinary business hours.

28 Preliminary Comment

29
30
31 Some inquiries require counseling services or assistance in dealing with creditors; others
32 concern administrative matters such as confirmation of receipt of a payment, communication that
33 a payment for a particular month will be late or in a different amount than scheduled, etc. The
34 provider must provide sufficient staffing to meet the reasonably expectable demand for both
35 kinds of requests. Even if a provider desires to operate exclusively by electronic interaction with
36 individuals, it must comply with this subsection. See section 18(c) and accompanying Comment.

37
38 This subsection contemplates responses to telephonic requests by existing customers. The
39 staffing required by this subsection therefore is in addition to whatever staffing the provider
40 might have for soliciting or responding to potential customers.

41
42 Section 18 permits a provider to comply with sections 17, 19, and 25 by means of
43 electronic communication. Section 16 makes no exception for this provider. Even if a provider
44 desires to operate exclusively via electronic communication, it must comply with this section.

Deleted: Subsection (a): The requirement of a bond applies to all providers, including those that are not required to establish trust accounts. ¶

¶ Subsection (b): The bond is a source of payment of injuries caused by a provider's failure to comply with this Act. It is conceivable that the administrator or an individual would not commence litigation until after a provider ceases providing services in this state. This subsection preserves the availability of the bond for two years after the year in which the provider's registration ends. Legislation in some states contains comparable provisions. E.g., 2004 Kan. Sess. Laws 22 (§4(c))(2 years after the end of registration); Md. Fin. Inst. Code Ann. § 12-914(b)(3)(2 years after the provider ceases to be licensed). In others, it either requires the bond to be continuously in force, run concurrently with the period of registration, or does not address the duration of the bond.¶

¶ Subsection (c): The bond runs in favor of the state for the benefit of the state and the provider's customers. Thus, it is available to compensate the administrator for its enforcement costs. The bond also runs directly in favor of customers who are injured by a provider's noncompliance with the Act. This includes individuals who reside in other states if the provider is based in (... [26])

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Deleted: lowers the permissible deductible to \$10,000. Does the Committee concur?

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1
2 **SECTION 17. PREREQUISITES FOR PROVIDING DEBT-MANAGEMENT**

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3 **SERVICES.**

4 (a) A provider shall act in good faith in all matters under this [act]. “Good faith”
5 means honesty in fact and the observance of reasonable standards of fair dealing.

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6 (b) Before providing debt-management services to an individual, a provider shall
7 give the individual an itemized list of goods and services and the charges for each. The list must
8 be clear and conspicuous, in a record the individual may keep whether or not the individual
9 assents to an agreement, and describe:

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10 (1) the goods and services the provider offers:

11 (A) free of additional charge, if the individual enters into an
12 agreement;

13 (B) for a charge, if the individual does not enter into an agreement;
14 and

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15 (C) for a charge, if the individual enters into an agreement, using
16 the following terminology, as applicable, and format:

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17 Set-up fee [dollar amount of fee]

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18 Monthly service fee [dollar amount of fee or method of determining amount]

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19 Settlement fee [dollar amount of fee or method of determining amount]

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20 {Goods and services in addition to those provided in connection with a plan:

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21 [item] [dollar amount or method of determining amount]

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22 [item] [dollar amount or method of determining amount]; and

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23 (2) the goods or services the provider offers for a charge that are not
24 offered as a part of debt-management services}.

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1 | (c) A provider may not furnish debt-management services to an individual unless
2 | the provider, through the services of a certified counselor:

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3 | (1) provides the individual with reasonable education about the
4 | management of personal finance;

5 | (2) has prepared a financial analysis and a plan for the individual;

Deleted: good faith, reasonable

6 | (3) has made a determination, based on its analysis of the information
7 | provided by the individual and otherwise available to it, that the plan is suitable for the

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

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9 | (4) believes that each creditor of the individual listed as a participating
10 | creditor in the plan will accept payment of the individual's debts as provided in the plan.

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11 | (d) Before an individual assents to an agreement, a provider shall provide the
12 | individual with:

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13 | (1) a copy of the analysis and plan required by subsection (c)(2) in a
14 | record that identifies the provider and that the individual may keep whether or not the individual
15 | assents to the agreement; and

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16 | (2) with respect to all creditors identified by the individual or otherwise
17 | known by the provider to be creditors of the individual;

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18 | (A) a list of creditors that the provider expects to participate in the
19 | plan and grant concessions;

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20 | (B) a list of creditors that the provider expects participate in the
21 | plan but not grant concessions; and

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22 | (C) a list of creditors that the provider expects not to participate in
23 | the plan or as to which the provider has no reason to know.

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1 (e) Before an individual assents to an agreement to engage in a plan, a provider
2 shall disclose in a record that contains nothing else and that the individual may keep whether or
3 not the individual assents to the agreement the following information:

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4 (1) plans are not suitable for all individuals, and the individual may ask
5 the provider about other ways, including bankruptcy, to deal with indebtedness;

6 (2) establishment of a plan may adversely affect the individual's credit
7 rating or credit scores;

8 (3) nonpayment of debt may lead creditors to undertake collection
9 activity, including litigation;

10 (4) unless it is not true, the provider may receive compensation from the
11 creditors of the individual; and

12 (5) unless the individual is insolvent, if a creditor settles for less than the
13 full amount of the debt, the plan will result in the creation of taxable income to the individual,
14 even though the individual does not receive any money.

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(f) If a plan contemplates concessions by creditors in the form of reduced finance charges or fees for late payment, default, or delinquency, a provider may comply with subsection (e) by providing the following disclosure:

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IMPORTANT INFORMATION FOR YOU TO CONSIDER

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

(2) Establishment of a debt-management plan may hurt your credit rating or credit scores.

(3) [unless it is not true] We may receive compensation for our services from some or all of your creditors.

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Deleted: IMPORTANT INFORMATION FOR YOU TO CONSIDER¶
- (1) Debt-management plans are not suitable for all individuals, and you may ask us to provide information about bankruptcy and other ways to deal with indebtedness. ¶
- (2) Establishment of a debt-management plan may hurt your credit rating or credit scores. ¶
- (3) [unless it is not true.] We may receive compensation for our services from some or all of your creditors.

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1 (g) If a plan contemplates that creditors will settle debts for less than the full
2 principal amount of debt owed, a provider may comply with subsection (e) by providing the
3 following disclosure:

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4 **IMPORTANT INFORMATION FOR YOU TO CONSIDER**

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5 (1) Our program is not suitable for all individuals, and you may ask us
6 to provide information about bankruptcy and other ways to deal with
7 indebtedness.

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8 (2) Nonpayment of your debts pursuant to our program is likely to hurt
9 your credit rating or credit scores and may lead your creditors to undertake
10 activity, including litigation, to collect the debts.

11 (3) Unless you are insolvent, our program will result in the creation of
12 taxable income to you, even though you will not actually receive any money.

13 **Preliminary Comment**

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14 At the January 2005 meeting, the Committee decided to include a provision imposing on
15 providers an obligation to act in good faith. It appears as subsection (a), along with a definition
16 adapted from the UCC. Subsections (c) and (d) have been revised accordingly, eliminating the
17 reference to good faith, as have other sections throughout the Act.

18 Subsection (b): The disclosure of charges must contain the dollar amounts or the method
19 of determining the dollar amounts, e.g., "\$5 per month for each creditor that participates in the
20 plan" or "five percent of the amount of debt that a creditor writes off." At the January 2005
21 meeting, the Committee decided to include a standardized disclosure, specifying the terminology
22 and format to be used. It appears in this subsection.

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23 Braces have been placed on part of subsection (b) to flag an issue for the Committee. The
24 bracketed language contemplates that a provider may charge for goods and services provided in
25 connection with a plan. Section 26(b)(7), however, prohibits a provider from charging for any
26 matter not directly related to debt-management services; and section 23(a) prohibits charges
27 (other than for set-up, monthly service, and settlement) for providing debt-management services.
28 At a minimum, paragraph (b)(2) must be deleted. And unless there are legitimate charges for
29 goods or services in connection with a plan, the rest of the bracketed language should be deleted.
30 Are there?

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1 Subsection (c): Many debt-settlement companies do not currently see education as part of
2 their mission. At the October 2004 meeting, the Committee decided to mandate education for all
3 providers. Paragraph (1) implements this decision.

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4
5 The education may consist of an individual session with a counselor (which may also
6 include the analysis required by paragraph (2)), a group class, or an electronic educational
7 program. The education must be substantially more than an explanation of the benefits of a plan.
8 It must begin but need not be completed before commencement of a plan, since a course of
9 education may take months to complete. Education for financial literacy is receiving increased
10 attention, and several entities are attempting to define standards for effectiveness. As these
11 attempts come to fruition, the administrator may exercise rulemaking power under section 29(e)
12 to establish minimum standards for the education.

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honestly believes that the creditor will
participate.

13
14 Paragraph (3) of the prior version of this subsection required a provider to make a
15 reasonable determination that the plan is necessary to avoid financial hardship or bankruptcy. As
16 a result of decisions at the October 2004 and January 2005 meetings, this draft drops any
17 reference to reasonableness, financial hardship, or bankruptcy, instead requiring only that the
18 provider believe that the plan is suitable for the individual. For providers that assist an individual
19 to repay in full, this requires a determination that the individual has sufficient income to permit
20 payment to creditors after payment of living expenses, but not so much income that concessions
21 from creditors are not necessary. For providers that assist an individual to settle debts for less
22 than full payment, the suitability requirement means at a minimum that the individual does not
23 have the ability to satisfy creditors out of current income within a reasonable time.

Deleted: Former paragraphs 3-4 have
been slightly reorganized to implement
these changes. The standards "good faith"
and "reasonable" are vague. The
administrator may promulgate rules to
articulate factors relevant to determining
whether these vague standards are met.

24
25 Paragraph (4) of a prior version required a provider to make a good faith, reasonable
26 determination that the individual can make the required payments and that creditors will
27 participate in the plan. This requirement is feasible for credit-counseling agencies but perhaps
28 not for debt-settlement companies. Therefore, the paragraph no longer requires that the provider
29 reasonably believe that each creditor will participate. Subsection (a), however, requires the
30 provider to act in good faith, which entails honesty and the observance of reasonable standards of
31 fair dealing. If a provider knows that a particular creditor will not participate, the provider cannot
32 in good faith believe that the creditor will participate, and therefore cannot satisfy this paragraph
33 if that creditor is included in the plan.

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Deleted: The language in the last draft
("accept the payment proposed in the
plan") is appropriate for plans of credit-
counseling agencies, but not for programs
of debt-settlement companies. This draft
changes the phrase to "participate in the
plan." To conform to the change in
subsection (b)(4), the standard in this
paragraph is changed from
reasonableness to good faith.

34
35 The requirement in paragraph (4) that the provider believe that the creditors will accept
36 the plan does not mandate communication with the creditors before an agreement is formed. The
37 provider's past experiences with the creditors may be a sufficient basis for the provider's good
38 faith belief.

Deleted: It might be preferable to
revert to the approach of the previous
draft, requiring reasonableness rather than
good faith and creating separate
subsections with different standards for
credit-counseling agencies and debt-
settlement agencies.

39
40 Subsection (d): Since secured creditors are creditors, paragraph (2) requires the provider
41 to include secured creditors in the two lists, as appropriate. Taken together, the two lists must
42 include all the creditors whose existence the provider knows or has reason to know.

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43
44 Subsections (e)-(g): Subsection (e) requires providers to give a warning to individuals
45 before they commit to a plan. Subsections (f) and (g) provide safe-harbor language for the
46 provider to use. Use of the exact language in these subsections constitutes compliance with

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1 subsection (e). If the provider uses other language, the disclosure is subject to review to
2 determine if it adequately discloses the required information.

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3
4 **SECTION 18. COMMUNICATION BY ELECTRONIC MEANS.**

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5 (a) A provider may comply with Section 17, 19, or 25 via the Internet or other
6 electronic means if the provider obtains the individual's consent in the manner provided by
7 Section 101(c)(1) of the Electronic Signatures in Global and National Commerce Act, 15 U.S.C.
8 Section 7001(c)(1), as amended, and:

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9 (1) with respect to the requirements of Section 17(c), a certified counselor
10 has reviewed and approved the education required by Section 17(c)(1) and the computer program
11 or application used to create the financial analysis and the plan required by Section 17(c)(2);

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12 (2) the individual is advised of the availability of assistance by telephone

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13 or in person and is afforded the opportunity for discussion of the financial analysis and the initial
14 plan with a certified counselor;

15 (3) the disclosures and materials required by Sections 17, 19, and 25 are

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16 presented in such a way that the individual may retain them electronically and print them;

17 (4) with respect to disclosure via an Internet web site of the information
18 required by Section 17(e), the disclosure appears on one or more screens that:

19 (A) contain no other information; and

20 (B) the individual must see before proceeding to assent to

21 formation of a plan;

22 (5) the provider:

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23 (A) at the time of providing an electronic version of the materials

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24 and agreement required by Sections 17(d) and (e), 19, and 25, informs the individual that upon

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1 electronic, telephonic, or written request, it will send the individual a written copy of the
 2 materials; and
 3 (B) if requested, before the expiration of 90 days after a plan is
 4 completed or terminated, to send a written copy of the materials, sends them at no charge within
 5 three business days of the request, except that the provider need not comply with a request more
 6 than one time per calendar month or if it reasonably believes the request is made for purposes of
 7 harassment. If requested thereafter, the provider shall send a written copy of the materials but
 8 may impose a reasonable charge.
 9 (b) A provider that complies with Section 17 pursuant to this section shall
 10 disclose on the home page of its Internet web site or on a page that is clearly and conspicuously
 11 connected to the home page by a link that clearly reveals its contents:
 12 (1) its name and all names under which it does business;
 13 (2) its principal business address and telephone number; and
 14 (3) the names of its principal officers.
 15 (c) A provider that forms plans with individuals on its Internet web site shall
 16 respond to electronically communicated requests for assistance within a reasonable time during
 17 ordinary business hours.
 18 (d)(1) In this subsection, "Act" means the Electronic Signatures in Global and
 19 National Commerce Act, 15 U.S.C. Section 7001 et seq.[, as amended.]
 20 (2) Subject to paragraph (3), if an individual who has consented in the
 21 manner provided by Section 101 of the Act withdraws the consent as provided in the Act, a
 22 provider may terminate its agreement with the individual.
 23 (3) If a provider wishes to terminate an agreement pursuant to this
 24 subsection, it shall notify the individual that it will terminate the agreement unless the individual,
 25 within 30 days of receiving the notification, consents in the manner provided in Section 101(c) of

- Deleted: within the next 30 days
- Deleted: the provider
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- Deleted: C) if requested to send a written copy of the materials, the provider sends
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- Deleted: them at no charge within three business days of the request
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- Deleted: (5) with respect to disclosure via an Internet web site of the information required by Section 14(d):¶
 (A) the disclosure appears on one or more screens that:¶
 (i) contain no other information; and¶
 (ii) the individual must see before proceeding to assent to formation of a plan; and¶
 (B) the provider informs the individual that, upon electronic, telephonic, or written request within the next 30 days, it will send the individual a written version of the disclosures at no charge; and¶
 (C) if requested to send a written version of the disclosures, the provider sends it at no charge within three days of the request; and¶
 (6) (A) the provider informs the individual that upon electronic, telephonic, or written request within 90 days after the individual assents to an agreement, it will send the individual a written copy of the agreement required by Sections 16 and 23; and¶
 (B) if requested to send a written copy of the agreement required by Sections 16 and 23, the provider sends it at no charge within three days of the request; (7) (A) At the time of providing an electronic version of a report required by Section 22, the provider informs the individual t[... [29]
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- Deleted: 14
- Deleted: by means of electronic communication via its Internet web site
- Deleted: that
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1 [the Act. If the individual consents, the provider may terminate the agreement only as permitted](#)
2 [by Section 19\(a\)\(5\)\(F\).](#)

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3
4 *Legislative Note: In states in which the constitution does not permit the phrase “as amended,”*
5 *the phrase should be deleted in subsections (a) and (d).*

6 Preliminary Comment

7
8
9 Subsection (a) permits electronic delivery of the information required by [section 17](#), and
10 it permits electronic formation of agreements. Under paragraph (2), if counseling in person is not
11 readily available in reasonable proximity to the individual’s residence, the provider must offer
12 counseling or other assistance by telephone. An alternative approach would permit agencies to
13 operate entirely by electronic communication, in which event paragraph (2) would be revised to
14 require the agency to disclose that it operates entirely by electronic communication, that some
15 other agencies provide personal contact, and that if the individual wants personal contact he or
16 she should seek out one of those other agencies. [Section 16](#) (Customer Service) would also need
17 revision. Does the Committee wish to adopt this alternative?

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18
19 Paragraph (3) does not require a provider to verify that the individual has an operable
20 printer; it merely requires that the material be presented in a printable format.

21
22 To meet the objectives of the physical delivery contemplated by section [17](#), electronic
23 delivery must satisfy certain requirements of form, such as appearing on a screen that contains no
24 other information.

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25
26 [Section 25 requires periodic reports and this section has been drafted to permit the](#)
27 [provider to make these reports electronically.](#)

28
29 Even if a plan is formed over the Internet, the individual should [be able to](#) have a hard
30 copy of the agreement with the provider. Paragraph (3) requires that the agreement [and other](#)
31 [specified materials](#) must be presented in a printable format. Paragraph (5) requires the provider
32 to send a written copy if the individual requests it. The provider may not limit the medium by
33 which the individual requests a copy. [The previous draft of paragraph \(5\) limited the time within](#)
34 [which the individual must make a request. Since the information is readily accessible to the](#)
35 [provider, the availability of written versions should not be limited to requests made in that short](#)
36 [time frame. In that case, however, the provider needs protection against requests made for the](#)
37 [purpose of harassment and against the difficulty of complying once the records are in remote](#)
38 [storage. The current draft eliminates the time limits but protects the provider against harassment](#)
39 [and stale requests. An example of harassment might be a request for a copy of a periodic report](#)
40 [three years after the period covered by the report. The subsection does not establish a bright-line](#)
41 [rule, however, and in a particular case the individual might indeed have a legitimate need for an](#)
42 [old report.](#)

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43
44 [If the Committee wants to retain the short time limits for requesting a written copy, a](#)
45 [revised version of the previous draft would read:](#)

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(5) (A) at the time of providing an electronic version of the materials required by Sections 17(d) and (e) and 25, the provider informs the individual that upon electronic, telephonic, or written request within the next 30 days, the provider will send the individual a written copy of the materials at no charge;

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(B) at the time of providing an electronic version of the agreement required by Section 19, the provider informs the individual that upon electronic, telephonic, or written request within the next 90 days, the provider will send the individual a written copy of the agreement at no charge; and

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(C) if requested to send a written copy of the materials or agreement, the provider sends them at no charge within three business days of the request.

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Subsection (b): An agency might do business under numerous names. Subsection (b) requires disclosure of all those names, along with the provider's principal location and officers, but it permits the provider to disclose this information via a link to another page of the website. The link must reveal its contents, e.g., "For the address and other information about [name of provider], click here."

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Subsection (c): A provider that operates exclusively via its web site must comply with section 16 (maintain an adequate telephone system). Having invited electronic communication, however, it also must respond within a reasonable time to requests that are transmitted electronically. The choice between electronic and telephonic media is left to the individual.

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SECTION 19. FORM AND CONTENTS OF AGREEMENT.

(a) An agreement must:

- (1) be in a record;
- (2) be dated and signed by the provider and the individual;
- (3) include the name of the individual and the address where the

individual resides;

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

(5) disclose:

(A) the services to be provided;

(B) the amount or method of determining the amount of all fees,

individually itemized, to be paid by the individual;

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

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4 (D) if a plan provides for regular periodic payments to creditors:
5 (i) each creditor of the individual to which payment will be
6 made, the amount owed to each creditor, and any concessions the provider reasonably believes
7 each creditor will offer; and

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

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10 (E) each creditor that the provider believes will not participate in
11 the plan and to which the provider will not be directing payment;

Deleted: (F) if the plan provides for other than regular periodic payments to creditors, the amounts of and dates on which the provider reasonably believes payments to creditors will be made;

12 (F) that the provider may terminate the agreement for good cause,
13 upon return of unexpended money of the individual;

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14 (G) that the individual may contact the administrator with any
15 questions or complaints regarding the provider; and

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16 (H) the address, telephone number, and Internet address or web site
17 of the administrator; and

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18 (6) be delivered to the individual immediately upon formation of the
19 agreement.

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20 (b) For purposes of subsection (a)(6), delivery of an electronic record occurs
21 when it is made available in a format in which the individual may retrieve, save, and print it.

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22 (c) If the administrator supplies the provider with any of the information required
23 under subsection (a)(5)(H), the provider complies with that requirement only by disclosing the
24 information supplied by the administrator.

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25 (d) An agreement must provide that:

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

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

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5 (3) contain a provision that restricts the individual's remedies under this
6 [act] or law other than this [act]; or

7 (4) contain a provision that:

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

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10 (B) indemnifies any person for liability arising under the
11 agreement or this [act];

Deleted: or out of performance of the agreement

12 (g) All rights and obligations specified in subsection (d) exist even if not
13 provided in the agreement. A provision in an agreement that violates subsection (d), (e), or (f) is
14 void.

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15 (h) An individual may cancel an agreement before midnight of the third business
16 day after the individual assents to it, unless the agreement fails to comply with this section or
17 Section 26, in which event the individual may cancel the agreement until the expiration of 30
18 days after the individual assents to it. To exercise the right to cancel, the individual must give
19 written or electronic notice to the provider. Notice by mail is given when mailed.

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(j) An agreement must be accompanied by a form that has the heading “Notice of Cancellation” and contains in bold face type:

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Notice of Cancellation

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

To cancel this agreement during this period, send an e-mail to (e-mail address of the provider) or mail or deliver a signed, dated copy of this notice, or any other written notice to (name of provider) at (address) before midnight on (date). If you cancel this agreement within the 3-day period, we will refund all money you already have paid us.

You also may terminate this agreement at any later time, but we may not refund fees you have paid us.

I hereby cancel this contract,

(date),

(individual’s signature)

Deleted: . You may cancel this agreement, without any penalty or obligation, at any time before midnight of the third day that begins the day after you agree to it by electronic communication or by signing it.¶

. To cancel this agreement during this period, send an e-mail to (e-mail address of the provider) or send or deliver a signed, dated copy of this notice, or any other written notice to (name of provider) at (address) before midnight on (date). If you cancel this agreement within the 3-day period, we will refund all money you already have paid us.¶

. You also may terminate this agreement at any later time, but we may not refund fees you have paid us.¶

- I hereby cancel this contract,¶

- (date) ,¶

- (individual’s signature) .

(j) In the event of a personal emergency, an individual may waive the right to cancel. To waive the right, the individual must send or deliver a signed, dated statement in his or her own words describing the circumstances that necessitate a waiver. The waiver must explicitly waive the right to cancel. A waiver by means of a written or electronic standard-form document is void.

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Legislative Note: *In subsection (j)(2), if the constitution does not permit use of the phrase, “as amended,” when federal statutes are incorporated into state law, the phrase should be deleted.*

Preliminary Comment

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Subsection (a): Paragraph (3) has been refined to coordinate better with the revision of section 3 (Applicability of Act).

Paragraph (5)(C): As in section 2(13) (defining “plan”), the word “payments” includes deposits, that is, payment to a bank account of the individual. The date of the last payment depends on the creditors’ concessions and the amount of the monthly payment by the individual, each of which may change during the course of the plan. It also depends on the timeliness of payment by the individual. None of this can be known in advance. Therefore, paragraph (5)(C) requires a good faith estimate of the date of the final payment.

In the previous draft, paragraph (D) applied to both credit-counseling agencies and debt-settlement companies. In this draft it applies only to the former and has been combined with former paragraph (E) into one paragraph. Former paragraph (F), which required debt-settlement companies to disclose the amounts and dates of payment to creditors, has been deleted.

Paragraph (5)(E): As with section 17(d)(2) (pre-agreement disclosure of creditor participation), identification of nonparticipating creditors includes secured creditors but refers only to creditors that the individual has disclosed to the provider or that the provider otherwise actually knows to be a creditor of the individual. Subparagraph (E) does not require the provider to make any disclosures with respect to creditors of which it is unaware.

Paragraph (5)(F): The good cause for termination by a provider pursuant to this paragraph does not encompass a desire to escape the fee structure to which the provider may have committed. Rather, it contemplates such things as the individual’s failure to make monthly payments or to cooperate with the provider. The standard of good cause may vary depending on whether the provider is a credit-counseling agency or a debt-settlement company, because the adverse consequences to the individual in the event of termination may be different.

Paragraph (5)(H): Compliance with this paragraph will mean that a provider that serves individuals in multiple states may have to have a different form for each state. Computerization of the standard document may minimize the difficulty of complying with this disclosure requirement.

Paragraph (6) requires immediate delivery of the record to the individual. If the record is electronic, delivery occurs when the provider makes it available in retrievable and printable form.

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

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- Deleted: At the October 2004 meeting, the Committee decided to drop several paragraphs of this subsection: former paragraph (4)(C) required disclosure that the provider may not require voluntary contributions. The substantive prohibition of required contributions in Sections 20-21 remains in the draft. The disclosure requirements in section 14 render the disclosures in former paragraphs (G) and (H) redundant, so they have been dropped as required disclosures here.
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- Deleted: 4
- Deleted: Paragraph (4)(D): At the October 2004 meeting an observer suggested changing the standard from reasonable to good faith. This change was made in Section 14, dealing with information provided before the individual assents to a plan. Under this section, however, before securing the individual’s assent to a plan the provider must have a reasonable basis for believing that each creditor will make the concessions listed in the record. Former paragraph (E) has been broken into two paragraphs. One or the other, but not both, will apply to each provider. The first, here paragraph (E), will apply to credit-counseling agencies, and it contains the latter part of former paragraph (E). New paragraph (F) will apply to debt-settlement companies and requires disclosure of the amounts of and dates on which the provider expects payments to be made to creditors. It may not be feasible for debt-settlement companies to comply with paragraphs (D) and (F).¶
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- Deleted: The language has been modified to be more appropriate for debt-settlement companies.
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For all providers, subsection (d) requires return of any unexpended money intended for payment to creditors. For debt-settlement companies, it requires refund of a set-up fee and all monthly service fees if the termination occurs within the first six months. But it does not require refund of any settlement fee. Does the Committee concur with this exception?

For a termination to be effective under subsection (d)(1), the individual must give written or electronic notice.

Subsection (e) replaces former subsection (c)(4). It permits the agreement to give the provider a power of attorney to settle debts for 50 cents on the dollar. But the percentage is calculated with respect to the amount of debt at the inception of the plan, not the amount of debt at the time of settlement. For settlements less favorable than that, the provider must secure the assent of the individual and must do so after the creditor has assented to a settlement. This affords the individual an opportunity to review the terms of the settlement before it becomes final.

Subsection (f): This subsection seeks to preserve the individual's common law and statutory rights against the unilateral decision of a provider to remove or restrict them. Thus an agency may not evade this Act by adopting the law of another jurisdiction. Nor may an agency contract for a distant forum or the surrender of rights or remedies under other law, including the right to proceed by way of a class action when appropriate. A statute designed to protect individuals should not permit the deprivation of important procedural and jurisdictional rights by means of a unilateral decision by the other party.

Subsections (h) through (j) derive from section 125 of the Truth-in-Lending Act, 15 U.S.C. § 1635. Subsection (g) confers a right of cancellation for three days after an agreement that complies with sections 19 and 26. Section 19 specifies the form and contents of the agreement, and section 26 lists prohibited conduct. Some of the prohibited conduct might be manifest in an agreement, in which event the agreement would not comply with section 26. The October 2004 Meeting Draft provided that if the provider failed to comply with section 19 or section 26, the right of cancellation never expired. This draft provides that if the agreement fails to comply with either of those sections, the individual has 30 days in which to cancel. Failure to comply with section 19 includes putting the incorrect date in the notice required by subsection (i). If the individual cancels, subsection (j) calls for forfeiture of all amounts paid, even those amounts already paid over to creditors. The purpose of this remedy is to provide an additional incentive for providers to comply with sections 19 and 26. If the agreement complies with sections 19 and 26 but the provider fails to honor the individual's attempt to cancel, section 32(f) provides a similar remedy (recovery of all amounts paid or deposited by the individual). If the right to cancel has expired, the individual still has the right to terminate under subsection (d).

SECTION 20. REQUIRED LANGUAGE. If a provider communicates with an individual primarily in a language other than English, the disclosures and documents required by this [act] must be in the other language.

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1 **Preliminary Comment**

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3 At the Annual Meeting several commissioners objected that the mandatory nature of this
4 provision is too onerous. Salespersons, they said, often use a combination of English and any one
5 of hundreds of foreign languages to accommodate their customers. It is not reasonable to require
6 the employer to have documents in every language that its employees and customers speak. An
7 alternate version of this section might provide:

8
9 If a provider communicates with an individual [primarily] in a language other
10 than English, the provider must comply with one of the following:

11 _____(a) all disclosures and documents required by this [act] must be in that
12 other language; or

13
14 _____(b) the provider must explain in that other language the meaning of every
15 provision in every disclosure and document required by this [act].
16
17

18 At the October 2004 meeting, the Committee decided to leave the section in its present
19 form. If the provider communicates primarily in a foreign language, it must provide documents
20 and disclosures in that language. If the provider is not willing to do this, then it must
21 communicate primarily in English. This places the burden on the individual to bring a translator
22 along or assume the risk of not understanding any disclosures or documents that are beyond the
23 individual's English-language skills.

24 **SECTION 21. VOIDABLE AGREEMENTS.**

25 (a) An agreement between an individual and a provider that is not registered
26 under this [act] when the agreement is formed is voidable by the individual.

27 (b) With respect to an agreement that an individual voids pursuant to this section,
28 a provider that violates Section 5, does not have a claim against the individual for breach of
29 contract and does not have a claim in restitution.

30 **Preliminary Comment**

31
32 Subsection (a): Agreements by a provider that is not properly registered under section 5
33 are voidable.

34
35 Former subsection (b) contained the remedy for subsection (a)(the provider must return to
36 the individual all money paid or deposited by the individual [which it has not already distributed
37 to creditors]). This provision now appears as section 32(a).

38
39 Current subsection (b) clarifies that the provider has no claim whatsoever against the
40 individual. The individual's right to terminate the agreement would foreclose a claim for future
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1 loss, and this section is intended to make it clear that the provider has no claims with respect to
2 any benefits conferred on the individual in the past.

3 **SECTION 22. TRUST ACCOUNT.**

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4 (a) All money paid to a provider or its designee by or on behalf of an individual
5 pursuant to a plan is held in trust. Within two business days after receipt, the provider or
6 designee shall deposit the money in a trust account established for the benefit of individuals.

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7 (b) Money in a trust account is not property of a provider or designee that
8 establishes the account. A trust account established pursuant to this section is not available to
9 creditors of the provider or designee, other than an individual from whom or on whose behalf the
10 provider or designee has received money, to the extent that the money has not been disbursed to
11 creditors of the individual.

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12 (c) A provider shall:

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

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

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

19 (B) if a plan provides for regular periodic payments to creditors,

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20 the disbursement must comply with the due dates established by each creditor; and

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

Deleted: (B) subject to rule of the administrator, the provider may delay payment to the extent that a payment by the individual is not final; and

25 (d) A person may not commingle money in a trust account established for the
26 benefit of individuals with money of a person other than those individuals.

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(e) A provider shall reconcile a trust account at least once a month. The reconciliation must compare the cash balance in the account with the sum of the balances in each individual's account. If the provider has more than one trust account, each trust account must be individually reconciled.

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

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(g) In the event, or reasonable suspicion, of embezzlement or other similar disbursement from a trust account, the provider shall, immediately upon discovery, notify the administrator by telephone, facsimile, electronic mail, or other method approved by the administrator. Unless the administrator by rule provides otherwise, within five days thereafter, the provider shall give notice describing the remedial action taken or to be taken.

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

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

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Preliminary Comment

This section requires that persons that receive money for disbursement to creditors establish trust accounts. Some providers receive the money directly. Others use third parties for the purpose of receiving the funds and managing the accounts. Under either model, the provider is a fiduciary and must establish a trust account. If the provider does not receive money for that purpose, but instead leaves the individual in control of that money, this section does not require a trust account. The Committee must decide how to deal with money in accounts that are owned by an individual but accessible to a provider by means of the power to initiate a debit transfer. A first step toward dealing with this appears in section 26(a)(4).

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1 Subsection (a): For providers at brick and mortar locations, it would be feasible to require
2 the trust account to be located in this state. For providers that operate (via the Internet or
3 telephone) nationally out of an office not located in this state, it may be unduly burdensome to
4 require a trust account in each state in which the provider operates. Some existing state statutes,
5 however, do just that. This section permits the agency to deposit money of residents of this state
6 into a trust account located in another state and containing the money of individuals who reside
7 in other states.

8
9 Subsection (b): As a person with a claim against a provider, the individual is a “creditor.”
10 Nevertheless, the individual should have access to the trust account, but only to the extent the
11 provider has received money from or on behalf of the individual and has not distributed it to
12 creditors. Without this limitation, the individual’s compensation out of the trust account would
13 come at the expense of other individuals whose money comprises the trust account.
14 Compensation of the individual for other loss or damage will have to come from assets of the
15 provider or the bond or other assurance required by [section 14](#). Because the money does not
16 belong to the provider, the trust account may not bear interest for the benefit of the provider.

17
18 The language of subsection (b) finesses the question of the process by which the
19 individual may access the trust account. This Act leaves that question to other law, but as a
20 creditor of the provider, the individual has whatever rights creditors generally have. In addition,
21 the individual may be the beneficiary of action by the administrator under sections [29-30](#).

22
23 Subsection (c) imposes obligations on the provider. If the provider uses a third party to
24 administer the trust account, the provider may delegate these obligations to the third party. The
25 provider, however, is responsible for performance of the obligations and is liable if they are not
26 performed.

27
28 The subsection contemplates that the agreement may establish a date by which the
29 individual must remit to the provider and a date by which the provider must remit to the
30 creditors. [The previous draft limited](#) paragraph (2) to credit-counseling agencies. [This draft](#)
31 [requires both kinds of providers to disburse in accordance with the agreement. Section 19\(a\)\(5\)](#)
32 [requires the provider to disclose the services to be provided, and these services include](#)
33 [disbursement to creditors. Subparagraph \(A\) reflects the use of payment systems other than](#)
34 [checks. Subparagraph \(B\) applies to credit-counseling agencies and requires that the](#)
35 [agreement—and the provider’s performance—must conform to the due dates established by the](#)
36 [creditors. It is expected that, if necessary or desirable, the provider will secure the creditors’](#)
37 [assent to modify the original due dates to maximize the feasibility of the plan.](#)

38
39 Subsection (f): Section [31\(b\)](#) provides that failure to maintain the amount is cause for
40 summary suspension of registration.

41
42 [As directed by the Committee, subsection \(g\) has been revised to narrow the situations in](#)
43 [which a provider must notify the administrator that a trust account is out of balance.](#)

44
45 Subsection (h): [A prior draft contained a numerical test of failure. The current draft](#)
46 [replaces that test with the vague standard, “reasonably apparent.” Once it becomes clear that a](#)

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Deleted: In paragraph (2) the cross reference to the prior draft to section 16(a)(4)

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Deleted: Subparagraph (B) reflects the use of payment systems other than checks. Reflecting a suggestion made at the October 2004 meeting, it also contemplates that the administrator may establish standards of finality for those other systems, e.g., ACH transfers, money orders, et al. Does it not suffice to reference the administrator’s power in the Comment? If so, then the phrase at the beginning of subparagraph (B) (“subject to ...”) may be deleted. Do we need anything comparable to paragraph (2) for debt-settlement companies?

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Deleted: . At the October 2004 meeting, a member of the Committee suggested creating an exception to subsections (f) and (g) to allow a deficit in the account if the bank debits the account because of a bounced check or other reversal of a deposit. The draft does not incorporate this suggestion because if the bank reverses a credit, the provider would also debit the individual’s account in the trust account. Hence, the trust account would not show a deficit. If the Committee still thinks a problem exists, the following clause could be appended to the end of subsection (f): “unless the reason for the deficit is that the bank has reversed a credit to the account.”¶

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1 debt-settlement plan will not work, the provider must refund the individual's money. The
2 subsection could be omitted, since the individual may terminate the agreement at any time, in
3 which event the provider must return all unspent money. But if the individual is not aware of the
4 need to give record notice of the desire to terminate, the provider might simply retain the
5 individual's money.

6
7 Presumably these funds are in the trust account, but the obligation under this subsection
8 exists even if they are not.

9
10 The subsection also requires prompt refund of payments when an individual terminates
11 the account.

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12
13 Subsection (i): This subsection requires the provider to notify the administrator of the
14 numbers of subaccounts. If the account number enables the administrator to ascertain the
15 subaccounts, then identification of subaccounts should be deleted from this subsection: (1) the
16 number of them will be very large; (2) the Act will be in the apparently anomalous position of
17 requiring identification of just the account number when a provider submits an application for
18 registration (or renewal of registration) but requiring identification of subaccounts when a
19 provider changes banks.

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20 SECTION 23. FEES: MONETARY LIMITS.

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21
22 **Reporter's Note:** *At the October 2004 meeting, the Committee began considering the desirability*
23 *of fee caps. Committee members and observers alike expressed wildly disparate views, from the*
24 *need for specific and low fee caps (because one of the biggest problems in credit counseling and*
25 *debt settlement is exorbitant costs to consumers) to the view that there should be no fee caps at*
26 *all (because the costs of doing business vary from state to state and because the operation of the*
27 *market will produce appropriate fees). The Committee directed the reporter to generate several*
28 *alternative versions of a section that addresses limitations on fees.*

29
30 *To place the draft in context, a brief explanation of the current state of regulation of fees*
31 *may be helpful. In many states the statutes enacted in the 1950s and 1960s banning the business*
32 *of debt-adjusting or debt-prorating are still in effect. In some of these states there is no fee cap,*
33 *and no need for a fee cap, because anyone engaged in the business is committing in a crime. In*
34 *some of these states, there is an exemption for non-profits, and there may no fee limit because*
35 *the legislature had in mind true non-profit institutions that would serve the public interest. Some*
36 *of the 1950s-era statutes have fee limits. Of the more recently enacted or revised statutes, fee*
37 *caps are very common. Most of them apply to debt settlement as well as credit counseling.*

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38
39 *In the states with fee caps, there is provision for one or more of the following kinds of*
40 *fees: set-up, monthly service, and settlement. The cap on set-up fees ranges from \$25 to \$75, with*
41 *\$50 being the most common cap. The monthly fee ranges from \$3 per creditor to 15% of the total*
42 *debt in a plan/program. The 15% figure dates from the 1950s-era legislation and is the most*
43 *commonly used figure. In states that permit debt settlement, the 15% figure often applies. Some*
44 *states, however, have a lower limit, sometimes stated as a percentage of the payment to the*
45 *creditor (3%, 6-7%, 10%) or as a dollar amount (\$20-25). One state, which does not permit for-*
46 *profits, sets fees by regulation; several (including some that permit for-profits) limit the fee to an*

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1 amount that does not exceed the provider's bona fide expenses; and one (NY) specifies that fees
2 must be fair and reasonable. The prevailing regulatory scheme is either a prohibition of the
3 business of credit counseling or debt settlement or a cap on the fees that those in the business
4 may charge.

5
6 The January 2005 draft contained three alternatives. One directed the administrator to
7 set fee caps. Another contained a soft fee cap ("fair and reasonable") and relied on disclosure.
8 The third placed fee caps in the statute. At the January 2005 meeting, the Committee opted for
9 the third alternative, placing numerical fee caps in the statute itself. The Committee also decided
10 to permit a set-up fee, a monthly service fee, and, with respect to debt-settlement companies, a
11 settlement fee. The Committee also decided that the settlement fee represents a debt-settlement
12 company's aggregate compensation and that the set-up and monthly service fees are advances
13 against the settlement fee. Hence, the set-up and monthly service fees are to be credited against
14 the settlement fee when each debt is settled. This draft attempts to implement these decisions.

15
16 (a) A provider may not impose a fee or other charge on an individual or receive
17 money from or on behalf of an individual for debt-management services except as permitted by
18 this section.

19 (b) A provider may not impose charges or receive payment for debt-management
20 services until the provider and the individual have executed an agreement that complies with
21 Sections 19 and 26.

22 (c) Subject to Section 29(f):

23 (1) if an individual assents to an agreement that contemplates concessions
24 by creditors in the form of reduced finance charge or fees for late payment, default, or
25 delinquency, the provider:

26 (A) may not charge a fee for education, counseling, or the like;

27 (B) may charge a fee not exceeding \$50 for consultation, obtaining
28 a credit report, setting up an account, and the like; and

29 (C) subject to Sections 19(d) and 29(f), may charge a monthly
30 service fee, not to exceed ten dollars times the number of creditors in a plan, except that the
31 service fee in a month may not exceed \$50;

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Deleted: Each alternative has multiple variations, which are not fully presented here. After the Committee has selected one of the alternatives, the variations will be ripe for consideration. In each alternative, subsections (a) and (b) are unchanged in substance from the last draft.

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Deleted: ALTERNATIVE (A):
- (c) Except as otherwise provided in Section 21(c):
- (1) a provider may charge for its educational and counseling services a fee that is fair and reasonable, as provided by rule of the administrator;
- (2) if an individual assents to an agreement, the provider may charge:
- (A) a reasonable fee, as provided by rule of the administrator, for consultation, obtaining a credit report, setting up an account, and the like; and
- (B) a monthly service fee not in excess of the amount determined by rule of the administrator to be reasonable in relation to the services provided; and
- (3) a provider that assists an individual in settling one or more of the individual's debts for less than the principal amount of the debt may not charge a settlement fee:
- (A) in excess of the amount ... [33]

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1 (2) If an individual assents to a plan that contemplates that creditors will
2 settle debts for less than the full principal amount of debt owed, a provider:

3 (A) may not charge a fee for education, counseling, or the like;

4 (B) subject to Section 19(d), may charge a fee for consultation,
5 obtaining a credit report, setting up an account, and the like, in an amount not exceeding the
6 lesser of \$400 and four percent of the debt in the plan at the inception of the plan; and

7 (C) subject to Sections 19(d) and 29(f), may charge a monthly
8 service fee, not to exceed ten dollars times the number of creditors in a plan, except that the
9 service fee in a month may not exceed \$50;

10 (3) if an individual does not assent to an agreement, a provider may
11 receive for its education and counseling services a fee not exceeding \$100 or, with the approval
12 of the administrator, a fee not exceeding \$500.

13 (d) Except as otherwise provided in subsection (c), if a plan contemplates that
14 creditors will settle an individual's debts for less than the full principal amount of the debt,
15 compensation for services in connection with settling a debt may not exceed, with respect to each
16 debt, the amount determined by paragraph (1) less the amount determined by paragraph (2):

17 (1) 30 percent of the excess of the amount of the debt when the individual
18 assents to the plan over the amount paid the creditor pursuant to the plan;

19 (2) to the extent it has not been credited against an earlier settlement fee:

20 (A) the fee charged pursuant to subsection (c)(2)(B); and

21 (B) the aggregate of fees charged pursuant to subsection (c)(2)(C).

22 (e) Subject to Section 29(f), if a payment by an individual under this [act] is

23 dishonored, a provider may impose a reasonable charge on the individual, not to exceed \$25.

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- - - (1) 30 percent of the debt at the time the individual assent to the plan the amount paid the creditor pursuant to the plan.¶
- - - (2) the sum of the charges under subsections (c)(2) and (d) multiplied by a fraction in which the numerator is the debt when the individual assent to the plan and the denominator is the total of debts in the plan at that time.¶

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Deleted: - - (x) Except as otherwise provided in subsection (c), a person providing debt-management services to an individual may not charge a fee to:¶
- - - (1) prepare a financial analysis or an initial budget for the individual;¶
- - - (2) provide education or counseling about the management of personal finance; or¶
- - - (3) terminate an agreement.¶

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Deleted:][the amount allowable for dishonored checks or other instruments by Section ____].

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Preliminary Comment

Subsection (a): Since this section does not authorize fees for such matters as preparing a financial analysis, preparing a budget, or terminating an agreement, the prohibition in this subsection means that providers may not impose a charge for them.

Subsection (b): In addition to specifying some of the contents of an agreement, section 19 requires immediate delivery of the record containing the agreement. If the record is a writing, this subsection prohibits a provider from collecting any money before the individual receives a copy of it. If the record is electronic, the provider may impose a fee if otherwise permitted by this section, as soon as it delivers the record, which occurs when it makes the record available in retrievable and printable form.

Subsection (c): In paragraph (2)(B) the cross reference is to the provision that requires repayment of all fees if an individual terminates an agreement within the first six months.

In a previous draft, subsection (d) required a provider to credit any set-up fee against the accruing monthly service fees. This provision has been deleted and replaced by subsection (d), which requires debt settlement companies to credit against the settlement fee all set-up and monthly fees. Intuition suggests that the credit should be allocated proportionately against each settlement fee when that fee is levied. Reflection, however, reveals that this intuition is not sound. The idea underlying the requirement of the credit is that the settlement fee represents the real fee. The other fees are permitted because the provider needs cash flow pending receipt of that fee. They are advances against settlement fees. Hence, it is appropriate to apply the credit against the first settlement fee. This approach accommodates the provider's need for cash flow pending the first settlement and provides a simple way to effectuate the credit mechanism. The complexity of the intuitive approach—allocating the credit proportionately to each debt—is extreme. It would require subsection (e) to provide:

Except as otherwise provided in subsections (c) and (d), if a plan contemplates that creditors will settle an individual's debts for less than the full principal amount of the debt, compensation for services in connection with settling a debt may not exceed, with respect to each debt, the amount determined by paragraph (1) less the amounts determined by paragraphs (2) and (3):

(1) 30 percent of the excess of the amount of the debt when the individual assents to the plan over the amount paid the creditor pursuant to the plan;

(2) the charge under subsections (c)(2) multiplied by a fraction in which the numerator is the debt when the individual assents to the plan and the denominator is the total of debts in the plan at that time;

(3) each of the charges under subsection (d) multiplied by a fraction in which the numerator is the debt when the individual assents to the plan and the denominator is the total of debts in the plan when the charge is assessed.

Calculation of this credit on an accurate basis as each debt is settled is quite cumbersome. To illustrate, consider the following scenario, represented in the table that follows this narrative: an individual has five creditors in a plan, with debt aggregating \$30,000 at the inception of the

Deleted: *Legislative Note: In subsection (y) insert the citation of the statute specifying the maximum charge a payee may impose for a dishonored check.*

Deleted: [If the Committee adopts Alternative C, the disclosure provision in Section 14(a) should be revised, perhaps as follows:¶

(a) Before providing debt-management services to an individual, a person shall provide the individual an itemized list, in a record, of services and the charges for each, describing those goods and services the person offers:¶

- (1) free of charge, if the individual enters into an agreement;¶
- (2) for a charge, if the individual enters into an agreement, using the following terminology, as applicable, and format:¶

- Set-up fee [] \$ amount of fee ¶

- Monthly service fee [amount of fee or method of determining amount] ¶

- Settlement fee [amount of fee or method of determining amount] ¶

- Goods/services in addition to those provided in connection with a plan:¶

- [item] [\$ amount or method] ¶

- [item] [\$ amount or method] ¶

Perhaps something like this standardized disclosure should be incorporated into section 14 regardless of which alternative is selected in this section.¶

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Deleted: The phrase "payment for the services," viz., debt-management services, means that the prohibition in this subsection does not apply to fees for education or counseling. ¶

- Subsection (c): Section 21(c) requires a tax-exempt provider to reduce or waive its fee in appropriate cases. ¶ ... [34]

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1 plan. Some of the creditors to whom these debts are owed continue accruing finance charges and
2 late fees; some do not. The individual makes monthly deposits of \$750. The provider imposes
3 the maximum set-up and monthly fees. From time-to-time the provider is able to achieve
4 settlement of the debts, and the terms of settlement are the stated percentage of the debt at the
5 time of settlement. At the time of each settlement, the provider collects a settlement fee, which is
6 30% of that portion of the debt at the inception of the plan which is saved (i.e. the debt at time of
7 inception less the amount paid pursuant to the settlement). As each debt is settled, there is a
8 credit against the settlement fee. The set-up fee is 4% of the total debt (\$30,000), or \$1,200, but
9 not more than \$400. Hence the credit is a fraction of \$400 equal to the initial debt of a creditor
10 divided by the total debt at the inception of the plan.

11 _____
12 The credit of the monthly fee is much more complicated. It is determined by
13 creating a fraction consisting of the amount of a debt at the inception of a plan divided by the
14 total amount of original debt still in the plan at any given point in time and multiplying that
15 fraction times the aggregate amount of monthly fees since the last settlement, and adding that
16 product to the proportionate amount of monthly fees already accrued.

17 _____
18 The following tables illustrate how the set-up fee and the monthly fees are
19 credited against the settlement fee. In the first scenario, the creditors accept varying percentages
20 of the debt in full satisfaction of the debt. These percentages may not be representative of the
21 results obtained by many providers. Several debt settlement companies have informed the
22 reporter that their average settlement is approximately 40 percent of the debt. Hence, a second
23 scenario is presented, identical to the first, except that each debt is settled for 40 percent.
24

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Assumptions:

Monthly payments of \$750

Set-up fee: 4% of total debt (\$30,000), but capped at \$400

Monthly fee: \$10 x number of unpaid creditors in the plan

Creditors settle at different times for different percentages

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<u>Debt #</u>	<u>Debt at time of plan</u>	<u>Months to settle-ment</u>	<u>Aggregate amount paid by individual</u>	<u>Monthly fee</u>	<u>Debt at time of settle-ment</u>	<u>Terms of settle-ment</u>	<u>Amount paid</u>	<u>Settlement fee (30% of savings, based on debt at inception)</u>	<u>Credit for set-up fee debt/30 x \$400</u>	<u>Credit for monthly fee</u>	<u>Total Credit</u>
<u>1</u>	<u>\$6,000</u>	<u>6</u>	<u>\$4,500</u>	<u>6 x \$50</u>	<u>\$7,000</u>	<u>40%</u>	<u>\$2,800</u>	<u>\$960</u>	<u>(6/30) \$80.00</u>	<u>\$60.00</u>	<u>\$140.00</u>
<u>2</u>	<u>\$5,000</u>	<u>11</u>	<u>\$8,250</u>	<u>5 x \$40</u>	<u>\$5,000</u>	<u>65%</u>	<u>\$3,250</u>	<u>\$525</u>	<u>(5/30) 66.67</u>	<u>\$91.67</u>	<u>\$158.34</u>
<u>3</u>	<u>\$8,000</u>	<u>20</u>	<u>\$15,000</u>	<u>9 x \$30</u>	<u>\$11,000</u>	<u>50%</u>	<u>\$5,500</u>	<u>\$750</u>	<u>(8/30) \$106.67</u>	<u>\$260.35</u>	<u>\$367.02</u>
<u>4</u>	<u>\$7,000</u>	<u>26</u>	<u>\$19,500</u>	<u>6 x \$20</u>	<u>\$8,500</u>	<u>50%</u>	<u>\$4,250</u>	<u>\$825</u>	<u>(7/30) \$93.33</u>	<u>\$304.16</u>	<u>\$397.49</u>
<u>5</u>	<u>\$4,000</u>	<u>30</u>	<u>\$22,500</u>	<u>4 x \$10</u>	<u>\$4,800</u>	<u>70%</u>	<u>\$3,360</u>	<u>\$192</u>	<u>(4/30) \$53.33</u>	<u>\$213.81</u>	<u>\$267.14</u>
	<u>\$30,000</u>			<u>\$930</u>	<u>\$36,300</u>		<u>\$19,160</u>	<u>\$3,252</u>	<u>\$400.00</u>	<u>\$929.99</u>	<u>\$1,329.99</u>

Calculation of Credit for Monthly Fees

<u>Debt #</u>	<u>Formula</u>	<u>Amount</u>
<u>1</u>	<u>6/30 (\$300)</u>	<u>\$60.00</u>
<u>2</u>	<u>5/30 (\$300) + 5/24 (\$200)</u>	<u>\$91.67</u>
<u>3</u>	<u>8/30 (\$300) + 8/24 (\$200) + 8/19 (\$270)</u>	<u>\$260.35</u>
<u>4</u>	<u>7/30 (\$300) + 7/24 (\$200) + 7/19 (\$270) + 7/11 (\$120)</u>	<u>\$304.16</u>
<u>5</u>	<u>4/30 (\$300) + 4/24 (\$200) + 4/19 (\$270) + 4/11 (\$120) + 4/4 (\$40)</u>	<u>\$213.81</u>
		<u>\$929.99</u>

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Assumptions:

Monthly payments of \$750

Set-up fee: 4% of total debt (\$30,000), but capped at \$400

Monthly fee: \$10 x number of unpaid creditors in the plan

Creditors settle at different times, but each settles for the same percentage (40%)

<u>Debt #</u>	<u>Debt at time of plan</u>	<u>Months to settle-ment</u>	<u>Aggregate amount paid by individual</u>	<u>Monthly fee</u>	<u>Debt at time of settle-ment</u>	<u>Terms of settle-ment</u>	<u>Amount paid</u>	<u>Settlement fee (30% of savings, based on debt at inception)</u>	<u>Credit for set-up fee debt/30 x \$400</u>	<u>Credit for monthly fee</u>	<u>Total Credit</u>
<u>1</u>	<u>\$6,000</u>	<u>6</u>	<u>\$4,500</u>	<u>6 x \$50</u>	<u>\$7,000</u>	<u>40%</u>	<u>\$2,800</u>	<u>\$960</u>	<u>(6/30) \$80.00</u>	<u>\$60.00</u>	<u>\$140.00</u>
<u>2</u>	<u>\$5,000</u>	<u>10</u>	<u>\$7,500</u>	<u>4 x \$40</u>	<u>\$5,000</u>	<u>40%</u>	<u>\$2,000</u>	<u>\$900</u>	<u>(5/30) \$66.67</u>	<u>\$83.33</u>	<u>\$150.00</u>
<u>3</u>	<u>\$8,000</u>	<u>17</u>	<u>\$12,750</u>	<u>7 x \$30</u>	<u>\$11,000</u>	<u>40%</u>	<u>\$4,400</u>	<u>\$1,080</u>	<u>(8/30) \$106.67</u>	<u>\$221.75</u>	<u>\$328.42</u>
<u>4</u>	<u>\$7,000</u>	<u>23</u>	<u>\$17,270</u>	<u>6 x \$20</u>	<u>\$8,500</u>	<u>40%</u>	<u>\$3,360</u>	<u>\$1,092</u>	<u>(7/30) \$93.33</u>	<u>\$270.40</u>	<u>\$363.73</u>
<u>5</u>	<u>\$4,000</u>	<u>26</u>	<u>\$19,500</u>	<u>3 x \$10</u>	<u>\$4,800</u>	<u>40%</u>	<u>\$1,920</u>	<u>\$624</u>	<u>(4/30) \$53.33</u>	<u>\$184.52</u>	<u>\$237.85</u>
	<u>\$30,000</u>						<u>\$14,480</u>	<u>\$4,596</u>	<u>\$400.00</u>	<u>\$820.00</u>	<u>\$1,220.00</u>

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Calculation of Credit for Monthly Fees

<u>Debt #</u>	<u>Formula</u>	<u>Amount</u>
<u>1</u>	<u>6/30 (\$300)</u>	<u>\$60.00</u>
<u>2</u>	<u>5/30 (\$300) + 5/24 (\$160)</u>	<u>\$83.33</u>
<u>3</u>	<u>8/30 (\$300) + 8/24 (\$160) + 8/19 (\$210)</u>	<u>\$221.75</u>
<u>4</u>	<u>7/30 (\$300) + 7/24 (\$160) + 7/19 (\$210) + 7/11 (\$120)</u>	<u>\$270.40</u>
<u>5</u>	<u>4/30 (\$300) + 4/24 (\$160) + 4/19 (\$210) + 4/11 (\$120) + 4/4 (\$30)</u>	<u>\$184.52</u>
		<u>\$820.00</u>

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1 Undoubtedly, one could write a computer program to calculate the amount of the
2 credit, so it would not impose an undue burden on the provider. But it would not be feasible for
3 the individual to verify that the proper amount had been credited. Hence this approach is too
4 cumbersome. In contrast, it is a relatively simple matter to calculate the credit under the version
5 of subsection (e) that appears in the draft. Using the facts in the first table, for example, the first
6 settlement fee is \$960, which would be reduced by the \$400 set-up fee and the \$300 in monthly
7 fees. At the time of the second settlement, the \$525 settlement fee would be reduced by the \$200
8 in monthly fees that had accrued since the first settlement. Subsequent settlement fees would be
9 reduced by \$270, \$120, and \$40, respectively. This approach it is simpler than either of the
10 others, and it is capable of reasonable verification by the individual (or the individual's attorney
11 or other professional advisor).

12
13 Still another approach would be to credit the pro rata portion of the set-up fee at
14 the time a debt is settled, but defer the credit of the monthly fee. Under this approach, the
15 provider would credit the sum of all monthly fees against the settlement fee on the debt that is
16 settled last. Using the example in the table above, the provider would not be entitled to receive
17 any portion of the last settlement fee and, in fact, would have to write the individual a check for
18 \$791.33 (\$192-\$53.33-\$930). This approach has several serious problems:

- 19 • It tempts a provider not to make any payment to the individual unless the individual has
20 the acuity to demand it;
- 21 • It provides a disincentive to negotiate a settlement with the individual's creditors once the
22 provider concludes that the settlement fees will be consumed by the credit for set-up and
23 monthly fees;
- 24 • It seems impossible to draft;
- 25 • It creates the need to consider, when an individual terminates a plan before all debts are
26 paid, whether the reimbursement to the individual should encompass
27 (a) that portion of the set-up fee that had not already been credited against settlement
28 fees;
29 (b) that portion of the monthly fees attributable to debts that had been settled;
30 (c) that portion of the monthly fees attributable to debts that have not been settled.
31

32 **SECTION 24. FEES: OTHER LIMITS.**

33 (a) A provider may not solicit a voluntary contribution from an individual or any
34 other person for any service provided to the individual. A provider may accept voluntary
35 contributions from an individual but, until 30 days after completion or termination of a plan, the
36 aggregate amount of money received from or on behalf of the individual may not exceed the total
37 amount the provider is authorized to charge the individual under Section 23.

38 (b) If an individual who has entered into an agreement does not make payments
39 required by the agreement for 60 days, a provider may terminate the agreement.

Deleted: Subsection (y): The Drafting Committee may wish to consider whether it is appropriate to borrow the state's general provision on fees for bounced checks. In the context of debt-management services, it may be appropriate to set the sanction for writing a bad check at a level that just permits the provider to recover the costs a bad check causes it to incur. The issue is of diminishing importance because the prevailing practice for both credit-counseling agencies and debt-settlement companies is to use direct debits to the individual's bank account. The use of checks is disappearing. ¶

¶ Former subsection (j) addressed the adjustment of dollar amounts. At the direction of the Committee, this provision has been moved to section 26 (Powers of Administrator), and the annual adjustment is mandatory. ¶

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Deleted: (b) Except as otherwise provided in Section 14(b), a provider may not require an individual, as a condition of entering into a plan, to purchase a counseling session, an educational program, or materials and supplies. Except as otherwise provided in subsection (c), however, the provider may charge the individual a fair and reasonable amount for counseling sessions, educational programs, or supplies if the individual does not assent to an agreement. ¶
- (c) A [non-profit or tax-exempt] provider may not deny services to an individual whom it determines cannot pay the provider's usual fee. The provider shall reduce its fee to the extent necessary to enable the individual to acquire its services. ¶

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1 (c) If a provider or an individual terminates an agreement, the provider shall
2 immediately return to the individual:

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3 (1) any money of the individual remaining in its possession or in a trust
4 account; and

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5 (2) any portion of the set-up fee and monthly service fees received
6 pursuant to Section 23(c)(2) which have not been credited against settlement fees.

7 (d) If a provider imposes a fee or other charge or receives money or other
8 payments not authorized by subsection (a) or Section 23, except as a result of an unintentional
9 error made in good faith notwithstanding the maintenance of procedures reasonably designed to
10 prevent the error, the individual may void the agreement and recover as provided in Section 32.

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11 (e) If, as a result of an unintentional error made in good faith notwithstanding the
12 maintenance of procedures reasonably designed to prevent the error, a provider receives money
13 not authorized by subsection (a) or Section 23, the provider shall return the money to the
14 individual no later than two business days after learning of the error.

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15 Preliminary Comment

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18 Subsection (a): A common abuse by allegedly non-profit credit-counseling agencies has
19 been deceiving or coercing consumers into making allegedly voluntary contributions to the
20 agency. Subsection (a) seeks to end this practice. The provision has been revised (a) to prohibit
21 the solicitation of contributions as well as the requiring of contributions, and (b) to apply to for-
22 profit entities in those states that choose to permit them. Section 23(a) precludes a provider from
23 receiving a “voluntary” payment in addition to or in excess of the amounts stipulated in section
24 23. The separate prohibition in this section is included in order to leave no doubt that the current
25 practice of many providers is unlawful.

Deleted: Legislative Note: If the state does not permit for-profit providers, the bracketed language in subsection (c) should be deleted. If the state permits for-profit providers, the brackets should be deleted.¶

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27 Neither section 23 nor this section prohibits the solicitation or receipt of charitable
28 contributions by social service agencies or other entities that provide services in addition to debt-
29 management services. Section 23 puts the prohibition in terms of “receiv[ing] money ... for debt-
30 management services,” and this section puts the prohibition in terms of “solicit[ing] a voluntary
31 contribution ... for any service provided to the individual.” The administrator and the courts have
32 the power to prevent evasion of this subsection.

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34 Former subsection (b): The first sentence of this subsection prohibited a provider from
35 requiring purchase of counseling or educational services or materials or supplies. It was
36 redundant of section 23(a), which bans charges except as permitted by section 23. The second

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1 sentence of the subsection authorized, a counseling agency to impose charges for education or
2 counseling services to individuals who do not enter agreements. This subject is now covered in
3 section 23(c)(3). Hence, the entire subsection has been deleted.

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4
5 Subsection (b): In the context of credit-counseling agencies, if the provider is acting in
6 conformity with the Act, there will be no money in the trust account. This provision addresses
7 the provider that has not distributed the money to creditors as required by section 22(c)(2).
8 Perhaps more importantly, it requires a debt-settlement company in possession of an individual's
9 money to return it.

Deleted: Subsection (c): This is the current practice of most counseling agencies, is a requirement for qualification as a section 501(c)(3) entity, and appears in some state statutes that regulate credit-counseling agencies. An industry Observer at the November 2003 meeting pointed to the risk of adverse selection since virtually all individuals seeking debt-management services are financially stressed. The ISO standards for accreditation, however, require that there "be objective evidence of conformance to demonstrate ... the individual credit counseling agency stands ready to serve all clients who seek service regardless of ... a client's ability to pay" Does the Committee wish to impose this obligation on for-profit entities, too?¶

10
11 Subsection (c): Upon termination, whether by the provider or the individual, the provider
12 must immediately return the individual's money. This does not require refund of money properly
13 held as payment of fees. But subsection (2) requires a debt settlement company to refund all set-
14 up fees and monthly service fees that have not already, in effect, been refunded as a credit
15 against settlement fees for debts already settled.

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Deleted: . . (1) at least once each month; ¶

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17 Subsection (d): If a provider overcharges, the individual has the option of voiding the
18 agreement. The portion of subsection (d) that, in a previous draft, dealt with the consequences of
19 a provider's imposition or receipt of excess charges, has been relocated to section 32(b)-(c)
20 (Private Enforcement).

21
22 Subsection (e): The standard "unintentional error made in good faith notwithstanding the
23 maintenance of procedures reasonably designed to prevent the error" derives from the federal
24 Truth-in-Lending Act Section 130(c), 15 U.S.C. Section 1640(c). To promote consistency in the
25 law of consumer protection, courts should interpret the phrase in this Act in a manner consistent
26 with the federal interpretations of the federal statute.

27 SECTION 25. PERIODIC REPORTS AND RETENTION OF RECORDS.

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

29 (1) upon rescission or termination of an agreement; and

30 (2) before rescission or termination of any agreement:

31 (A) at least once each month; and

32 (B) within five business days after a request by an individual,

33 except that the provider need not comply with more than one request in any calendar month.

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

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36 (1) the amount of money received from the individual since the last

37 report;

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

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(3) the amounts deducted from the amount received from the individual;
(4) the amount held in reserve; and

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

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

(B) the amount of the debt when the individual assented to the

plan;

(C) the amount of the debt when the creditor agreed to the

settlement; and

(D) calculation of a settlement fee.

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

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Preliminary Comment

Subsection (a): An individual is entitled to regular communication of the status of his or her account. This subsection requires providers to give accountings on a monthly basis. This adopts for all the current practice of many providers to give a monthly accounting.

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

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Deleted: Paragraph (4) is bracketed because section 20 places strict limits on what a provider may charge and does not explicitly permit a provider to retain any amounts in reserve. Unless one can point to an appropriate instance of holding any of an individual's payment in reserve, the language should be omitted. Otherwise, it creates an implication that a reserve is permissible.

If a plan contemplates concessions consisting of reduction in finance charges or late payment, default, or delinquency fees, section 22(c)(2) requires distribution of all the money

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1 each month. With respect to individuals in these plans, accumulating reserves is not permitted.
2 For plans that contemplate settlement for less than the full amount or principal owed a creditor,
3 the provider or its designee may accumulate money from month to month.

4
5 Paragraph (5) applies primarily to debt-settlement companies. If no creditor has agreed to
6 settlement terms during a reporting period, the subsection does not require the provider to make
7 any disclosure. Hence, the subsection ordinarily would not apply to plans operated by credit-
8 counseling agencies, because creditors receive the full principal amount of the debt owed them
9 and do not “agree” to accept any particular amount as payment in full.

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10
11 Subsection (c): The period of retention should be tied to the statute of limitations in
12 section 34, perhaps one year longer than the statute, so as to afford a reasonable time for the
13 discovery process to unfold. For private actions, the statute of limitations is two years. For public
14 enforcement, it is four years. Hence, this subsection requires retention of records for five years.

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15 **SECTION 26. PROHIBITED ACTS AND PRACTICES.**

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16 (a) A provider may not:

17 (1) misappropriate or misapply money in a trust account;

18 (2) settle a debt on behalf of an individual for more than 50 percent of the
19 amount of a debt owed a creditor at the time of an agreement, unless the individual assents to the
20 settlement after the creditor has assented;

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authorizing it to settle a debt,

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requires the individual to assent,

21 (3) take a power of attorney that authorizes it to settle a debt, unless the
22 power of attorney expressly limits the provider’s authority to settling debts for no more than 50
23 percent of the amount of the debt owed a creditor when the individual assents to a plan;

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24 (4) initiate a transfer from an individual’s account at a bank or with
25 another person unless the transfer is:

- 26 (A) a return of money to the individual; or
27 (B) properly authorized by the agreement and this [act] and for:
28 (i) payment to one or more creditors pursuant to a plan; or
29 (ii) payment of a fee;

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30 (5) offer a gift, bonus, premium, reward, or other compensation to an
31 individual for executing an agreement;

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paying a monthly service fee, a settlement
fee, or a settlement; and¶
. . . . (B) properly authorized by the
agreement and this [act];¶

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1 (6) offer, pay, or give a gift, bonus, premium, reward, or other Deleted: 4

2 compensation to a person for referring a prospective customer, unless neither the provider nor
3 the person making the referral communicates to the prospective customer the identity of the
4 source of the referral;

5 (7) receive a bonus, commission, or other benefit for referring an Deleted: 56

6 individual to a person; Deleted: for any reason

7 (8) structure a plan in a manner that would result in a negative Deleted: 67

8 amortization of any of an individual's debts, unless a creditor that is owed a negatively
9 amortizing debt agrees to refund or waive the finance charge upon payment of the principal
10 amount of the debt;

11 (9) compensate its employees on the basis of a formula that incorporates Deleted: 78

12 the number of individuals the employee induces to enter into agreements;

13 (10) take a confession of judgment or power of attorney to confess Deleted: 8

14 judgment against an individual or appear on the individual's behalf in a judicial proceeding; Deleted: 9

15 (11) settle a debt or lead an individual to believe that a payment to Deleted: .

16 a creditor is in settlement of a debt to the creditor at the time of settlement, [the provider Deleted: 9

17 receives from the creditor and gives to the individual a certification] [the individual receives a Deleted: 0

18 certification by the creditor] that the payment is in full settlement of the debt; Deleted: o

19 (12) make a representation that:

20 (A) the provider will furnish money to pay bills or prevent

21 attachments;

22 (B) payment of a certain amount will permit satisfaction of a

23 certain amount or range of indebtedness; or

24 (C) participation in a plan will or may prevent litigation,

25 garnishment, attachment, repossession, foreclosure, eviction, or loss of employment;

26 (13) misrepresent that it is authorized or competent to furnish legal advice Deleted: 10

27 or perform legal services; Deleted: 1

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1 ~~(14)~~ represent that it is a not-for-profit or tax-exempt entity unless it has
2 received certification of that status from the Internal Revenue Service; or

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- Deleted: 12
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3 ~~(15)~~ employ an unfair, unconscionable, or deceptive act or practice,
4 including the knowing omission of any material information.

5 (b) With respect to an individual to whom a provider furnishes debt-management
6 services, the provider may not, directly or indirectly:

- 7 (1) purchase a debt or obligation of the individual;
- 8 (2) receive from or on behalf of the individual;

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

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

- 12 ~~(3)~~ lend money or provide credit to the individual;

- Deleted: .
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- 13 ~~(4)~~ obtain a mortgage or other security interest;

Deleted: in property owned by the individual

14 ~~(5)~~ disclose the identity or identifying information of the individual or the
15 identity of the individual's creditors, except to:

- Deleted: . (5) make a representation that:¶
- (A) the provider will furnish money to pay bills or prevent attachments;¶
- (B) payment of a certain amount will permit satisfaction of a certain amount or range of indebtedness; or¶
- (C) participation in a plan will or may prevent litigation, garnishment, attachment, repossession, foreclosure, eviction, or loss of employment;¶

- 16 (A) the administrator, upon proper demand; or
- 17 (B) a creditor of the individual, to the extent necessary to
18 secure the cooperation of the creditor in a plan;

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

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21 ~~(7)~~ charge for or provide credit insurance, other insurance, coupons for
22 goods or services, membership in a club, access to computers or the Internet, or any other matter
23 not directly related to debt-management services or education concerning personal finance; or

24 ~~(8)~~ furnish legal advice or perform legal services, unless the person
25 furnishing that advice or those services is licensed to practice law.

- Deleted: 9
- Deleted: including the preparation of or advice concerning a release of attachment or garnishment, stipulation, affidavit for exemption, compromise document, or other legal document other than an agreement for debt-management services,

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

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(d) A provider may not receive compensation, directly or indirectly, for advising, arranging, or assisting an individual in connection with obtaining an extension of credit or other service from a lender or service provider.

(e) A provider may not purchase goods, services, or facilities from a person if an employee or affiliate of the provider owns more than ten percent of the person, or an employee or affiliate of the provider is an employee or affiliate of the provider of the goods, services, or facilities, unless the supplier of the goods, services, or facilities:

(1) supplies the goods, services, or facilities generally; and

(2) supplies them to the provider at a cost no greater than the cost generally charged to other persons by the supplier of the goods, services, or facilities.

(f) This [act] does not prohibit an assignment of wages by an individual to a provider to the extent permitted by law other than this [act].

Legislative Note: In lieu of subsection (a)(15), the state may wish to amend its general deceptive practices statute to clarify that that statute applies to providers of debt-management services as defined in this Act.

In states in which the constitution does not permit use of the phrase "as amended" in subsection (g), the phrase should be deleted.

Preliminary Comment

At the November 2003 meeting there was some discussion of whether the Act should state that counseling agencies are fiduciaries. An agency undoubtedly is a fiduciary with respect to management and disbursement of the trust account, even without any express statement to that effect in the Act. The Drafting Committee postponed consideration of whether there should be a broader statement regarding an agency's fiduciary status and, if so, exactly what that status entails.

General principles of the law of fiduciaries include such statements as "One who stands in a fiduciary relationship to another has a duty not to profit at the expense of the other" and "A fiduciary has a duty to act for the benefit of the other as to matters within the scope of the relationship." Several provisions in the Act serve to promote these principles.

(1) Section 20 limits the extent to which a provider may profit at the expense of a customer.

(2) Section 23 prohibits misappropriation of trust funds

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Deleted: if:
- - - (1) the person providing debt-management services, or an employee or affiliate of that person, owns more than 10 percent of the lender or service provider; or
- - - (2) an employee or affiliate of the person providing debt-management services is an employee or affiliate of the lender or service provider.

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Deleted: . This subsection does not prohibit a provider from purchasing legal, accounting, or banking services from a member of its board of directors, if the supplier of those services:

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Deleted: f) In connection with collecting debts owed to it or another person, a provider may not:
- - - (1) use a false, deceptive, or misleading representation or means;
- - - (2) engage in conduct the natural consequence of which is to harass, oppress, or abuse a person; or
- - - (3) use unfair or unconscionable means.
- - - (g) In applying

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Deleted: subsection (f), the administrator and the courts shall give due consideration to judicial and administrative interpretations given to Sections 806 through 808 of the Federal Fair Debt Collection Practices Act, 15 U.S.C.

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1 unauthorized debiting of a customer's bank account
2 revealing confidential information about a customer
3 deception of the customer
4 referral fees
5 self-dealing via affiliates.
6

7 At the January 2005 meeting, the Committee decided not to add a provision generally
8 declaring that a provider is a fiduciary of the individual with whom it forms agreements. A
9 provider continues to have fiduciary obligations to the individuals in some aspects of their
10 relationship. Examples of those aspects are listed in the preceding paragraph. There may be
11 others.

13 Subsection (a): Two new paragraphs (paragraphs (2)-(3)) have been added, to limit the
14 extent to which a debt-settlement company may settle a debt without the individual's
15 contemporaneous assent. They prohibit the use of a power of attorney to authorize the provider
16 to settle debts on whatever terms the provider deems desirable, or on any terms other than those
17 specified in paragraph (2). A power of attorney may authorize the provider to settle debts for 50
18 percent or less of the amount of the debt at the time the individual assented to the plan. For
19 settlements less favorable to the individual than that, a power of attorney is prohibited and
20 ineffectual. These paragraphs supplement section 19(e), which imposes similar limits on the
21 terms that a provider may include in an agreement.

23 Paragraph (4): Credit-counseling agencies typically have access to their customers'
24 checking accounts, for the purpose of withdrawing money to pay the customers' creditors and to
25 pay the agency its monthly fee. Similarly, debt-settlement companies may have their customers
26 establish accounts with banks or other persons for the purpose of accumulating money until it is
27 paid to creditors, and the company typically initiates transfers out of these accounts to pay
28 monthly service fees and/or settlement fees, as well as to pay creditors. This paragraph prohibits
29 providers from initiating transfers that are not properly authorized by the agreement and the Act.
30 Section 23 limits the amount of the fees.

32 Paragraph (6): The November 2003 draft prohibited referral fees altogether. The Annual
33 Meeting and September 2004 drafts prohibited them unless the referring party provides screening
34 services to determine if the prospective customer is a good candidate for the educational or other
35 services of the provider. Those drafts permitted compensation only for the screening services and
36 not for the bare referral. The fact remains, however, that whether the screening function is done
37 by a creditor in-house or is outsourced, it is a subset of the creditor's collection costs. The
38 creditors' direct support of the credit-counseling industry has declined over the last decade. At
39 the October 2004 meeting, the Committee voted to prohibit the provider from permitting the
40 creditor to pass this indirect cost on to it. At the January 2005 meeting, the Committee adhered to
41 this decision.

43 Payment of referral fees may be an efficient way to attract business and achieve
44 economies of scale. But it has the potential to drive up the provider's cost of doing business,
45 which is reflected in the prices charged to individuals. In addition, there is a risk of deception. If
46 a creditor, for example, refers an individual to a particular provider, the individual is likely to

Deleted: It would not seem wise to abandon these specific provisions in favor of a vague statement that a provider owes a fiduciary duty to its customers. Conversely, the addition of that vague statement to the existing list in this section is likely to be either aspirational (and therefore ineffectual) or productive of litigation about marginal conduct.¶

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Deleted: The paragraphs of this subsection have been placed in a new order, and three new paragraphs (2, 9, and 10) have been added.

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1 perceive this as an endorsement by a creditor that is seeking to help the individual. In fact, the
2 referral may be driven by identification of which provider is willing to pay the highest price for
3 the referrals.

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4
5 The prohibition against paying referral fees does not preclude payment for sales leads or
6 lists of prospective customers, if the provider does not reveal the identity of the person that
7 supplied the list. The vice here is misleading the individual into believing that an entity with
8 which the individual has a relationship (viz., one of the individual's creditors) is disinterestedly
9 recommending that the individual seek the services of the provider. Hence, neither the provider
10 nor the creditor (or other person supplying the individual's name to the provider) may reveal to
11 the individual that the creditor (or other person) is in any way connected to the reason the
12 provider is communicating with the individual. If the source of the list is identified to the
13 individual by either the provider or the source, the sales lead becomes a referral, and the provider
14 may not pay for it. The language of paragraph (6) has been revised to incorporate this
15 qualification.

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17 Paragraph (7): This provision is the converse of paragraph (6). Its purpose is to reduce or
18 eliminate the economic incentive for an agency to refer individuals to persons who provide
19 loans, goods, services, facilities, or other products of any kind. The protection of financially
20 stressed, vulnerable consumers justifies discouraging a provider from recommending products
21 provided by others. At the October 2004 meeting, it was suggested that this paragraph not
22 prohibit a provider from including on its web site a link to the web site of an entity providing
23 other services or products and receiving payment based on the number of times individuals hit
24 that link. The assertion was that this is a form of advertising. No change to permit this has been
25 made in the text or the comment of this draft, because the practice is indistinguishable from
26 payment for referrals. Placing a link on the provider's web site necessarily amounts to an
27 endorsement of or referral to the owner of the linked web site. It should not matter whether the
28 referral is by electronic link or verbal recommendation. The provider is free, of course, to place
29 the link on its web site, so long as it does not receive compensation from the owner/sponsor of
30 the other web site. This distinguishes disinterested advice from referrals motivated by the
31 provider's self-interest.

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32
33 At the January 2005 meeting, the Committee directed that language similar to the new
34 language in paragraph (6) be added to paragraph (7) as well. That change has not been made in
35 this draft: the objection to compensating providers for referrals to other entities rests on a
36 somewhat different basis than the objection to compensating other entities for referrals to
37 providers. In the former situation, a major part of the objection is exposing the financially
38 stressed, vulnerable consumer to offers of questionable value at the instance of a provider that
39 may be motivated only by the payment for the referral. This is in addition to the potential
40 deception implicit in the individual's knowledge that a provider made the referral in the
41 individual's best interest, is secondary. If the Committee disagrees and still thinks that paragraph
42 (7) should be limited in a manner similar to paragraph (6), then the paragraph needs to be
43 refined. A referral may take at least two different forms: (a) the provider may recommend to the
44 individual that the individual acquire goods, services, etc., from a third party; or (b) the provider
45 may supply the third party with information about the individual. The paragraph would have to
46 address each of these separately. With respect to the latter situation, the paragraph could

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1 [incorporate language similar to the language in subsection \(a\)\(6\) \(“unless neither the provider nor](#)
2 [the recipient communicates to the individual that the provider is the source of the referral.”\) With](#)
3 [respect to the former situation—referral by the provider directly to the individual—this approach](#)
4 [makes no sense. If the Committee wants to adhere to its direction to the reporter, an exception](#)
5 [necessary for referrals by the provider directly to the individual calls into question whether the](#)
6 [paragraph should remain in the Act at all.](#)

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8 Paragraph (8): At the November 2003 meeting an observer noted that at least one creditor
9 engages in a practice that might, depending on the annual percentage rate and the amount of the
10 monthly payment, result in negative amortization. This creditor, however, forgives or refunds the
11 accrued finance charge if the individual completes the plan. Apparently, this is true even if the
12 individual ends his or her relationship with the counseling agency and self-administers the plan.
13 If the individual does not self-administer it to completion, the negative amortization remains.
14 Given the high rate of non-completion of plans, the Drafting Committee may wish to consider
15 whether it is appropriate to encourage this creditor’s practices by allowing plans to include debts
16 that involve negative amortization. The Virginia statute deals with this general problem by
17 prohibiting a plan that, at the conclusion of the plan, would result in negative amortization. This
18 approach would not prohibit the practice of the creditor in question. The Committee has yet to
19 consider whether negative amortization should be permitted. Now is the time.

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21 Paragraph (11): If a plan contemplates settlement of a debt for less than the full principal
22 amount of the debt, the provider should not pay the creditor unless it receives formal
23 acknowledgment from the creditor that the debt is satisfied. [The prior version of this paragraph](#)
24 [sought to accomplish that by barring a misrepresentation. This draft supplements the](#)
25 [misrepresentation approach by adding a prohibition against settling a debt unless the provider](#)
26 [delivers a certification from the creditor. It retains the prohibition against misleading the](#)
27 [individual. To violate the paragraph, a misrepresentation does not have to be express. If a](#)
28 [settlement contemplates that a creditor will be accepting installment payments, the provider must](#)
29 [make it clear to the individual that the initial installment\(s\) do not settle the debt. Two alternative](#)
30 [phrasings are presented: one requires the provider to obtain and deliver the creditor’s](#)
31 [certification; the other contemplates that the creditor’s certification come either directly from the](#)
32 [creditor or indirectly, through the provider. Which is preferable?](#)

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34 Paragraph (12): This paragraph formerly appeared as subsection (b)(5). It has been
35 [relocated to this subsection to leave no doubt that it applies to advertising. Subparagraph \(B\) and](#)
36 [\(C\) prohibit certain representations that sometimes are used to entice individuals to sign up for](#)
37 [plans. They are prohibited here even when they are true because they too often are untrue.](#)

39 Paragraph (15): This paragraph prohibits false or misleading representations whether or
40 not the provider knows of the deception. In accord with existing statutes prohibiting unfair or
41 deceptive acts or practices, the risk of falsity or deception is on the person that makes an express
42 statement. On the other hand, the paragraph prohibits omissions only if the omitted facts are
43 material and are known to the provider. [The prohibition applies to all stages of a transaction](#)
44 [between a provider and an individual, including a provider’s attempt to collect a debt owed to it](#)
45 [or to another person.](#)

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1 Subsection (b): Paragraph (4) has been expanded to ban security interests altogether. A
2 provider may not take a security interest in property of an individual to whom it furnishes debt-
3 management services or in the property of a family member of other person.

4
5 Paragraph (5)(B) and (C) prohibit certain representations that sometimes are used to
6 entice individuals to sign up for plans. They are prohibited here even when they are true because
7 they too often are untrue.

8
9 Paragraph (5): So long as the provider strips out the individual's identifying information,
10 it is free to disclose information for purposes of academic research or construction of a scoring
11 system. If the identifying information is present, however, this paragraph prohibits disclosure of
12 any of the information, except as permitted by the two specified exceptions. The only
13 permissible purpose for a disclosure to a creditor of the individual is to secure its cooperation.

14
15 Paragraph (6): The cross-referenced section permits debt-settlement companies to receive
16 a portion of the forgiven debt. Other entities are not permitted to receive any portion of any
17 forgiven debt.

18
19 Paragraph (7): This paragraph is intended to prohibit the sale to individuals of insurance
20 and other products that in other contexts have been the cause of large expense for largely
21 worthless products as a means of evading statutory regulation. The catch-all at the end of the
22 paragraph is intended to thwart the exercise of ingenuity in generating new ideas to evade the
23 limits imposed by the Act. The administrator may adopt rules specifying items that fall into the
24 catch-all.

25
26 Paragraph (8): Subsection (a)(13) prohibits misrepresentations that an agency is
27 authorized or competent to provide legal services. This paragraph prohibits performing those
28 services, unless the person is a licensed attorney. A provider does not violate this subsection if
29 the person providing legal services is licensed in a state, even if not this state. It may, however,
30 violate other law that prohibits the unauthorized practice of law.

31
32 Subsection (c): The language that formerly appeared at the end of subsection (b)(9) has
33 been moved into a separate subsection. The Style Committee believes it should be deleted
34 altogether and addressed in a comment.

35
36 Subsection (d): This paragraph prohibits a provider from receiving compensation for
37 performing specified services for a third party. At the January 2005 meeting, the Committee
38 decided to broaden the prohibition, making it applicable regardless of the presence or absence of
39 any connection between the third party (or persons related to the third party) and the provider
40 (or persons related to the provider).

41
42 This subsection supplements subsection (a)(6) (prohibiting referral fees). It is broader, in
43 that it attempts to prevent evasions of subsection (a)(6) through the ruse of performing services
44 for the lender or service provider.

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Deleted: The Drafting Committee needs to resolve a dilemma: this paragraph prohibits some activity of debt-settlement companies, viz., preparation of or advice concerning a settlement. ¶

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Deleted: In the previous draft the persons related to the third party or the provider included "officer, director, owner, employee, or affiliate." The definition of "affiliate," however, includes officers, directors, and controlling persons. Hence this draft deletes officers, directors, and owners from the list of related persons, which now consists of employees and affiliates. This is a drafting change but not a substantive change (except, perhaps to the extent that "owner" is different from "a person that controls").

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Deleted: narrower than subsection (a)(7) in that it only applies if there is a particular relationship between the agency and the other person.

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1 Subsection (g): This subsection prohibits insider transactions unless the transactions are
2 bona fide market transactions. The purpose of the subsection is to prohibit the use of a provider
3 to channel money to related entities. Tax-exempt providers may do this in an attempt to evade
4 restrictions on those with tax-exempt status. For-profit providers may do this in order to establish
5 a high cost of doing business, which they then might use to persuade the legislature to increase
6 the permissible fees and charges.

7
8 Former subsections (f) and (g) prohibited deception, oppression, unfairness, and
9 unconscionability in connection with a provider's debt collection activity. The prohibition is
10 redundant of subsection (a)(15) (prohibiting unfair, unconscionable, or deceptive conduct) and,
11 at the suggestion of the Style Committee, has been deleted.

12 SECTION 27. ADVERTISING; PUBLIC EDUCATION.

13 (a) Advertising for debt-management services, in any medium, must disclose in
14 an easily comprehensible manner the information specified in Section 17(e)(2) and (3).

15 (b) The administrator may provide public education concerning personal finance
16 and may assess a fee on providers, based on the amount of money the provider spent on
17 advertising in the preceding calendar year]. The administrator shall set the fee in such a way as to
18 offset the cost of the public education.

19 Preliminary Comment

20
21
22 Subsection (a): This subsection seeks to counteract the deception and pressure often
23 exercised by providers that engage in extensive advertising. In the October 2004 meeting draft,
24 the cross reference was to the provisions requiring disclosure of the success rate of the agency's
25 plans; the likely impact on the individual's credit report; that plans are not suitable for all
26 individuals; and that other alternatives for dealing with indebtedness are available. To ease the
27 disclosure burden, in this draft the cross reference is to just the provisions requiring disclosure of
28 the likely impact on credit rating and the likelihood of collection efforts. To prevent the
29 disclosures from becoming as incomprehensible as the Truth-in-Lending Act disclosures on TV
30 and radio, this draft requires that the information be disclosed "in an easily comprehensible
31 manner." The Official Comment could clarify that this refers to type size in print and TV ads and
32 to speed of delivery in TV and radio ads. At the Annual Meeting a commissioner suggested as an
33 alternative that the administrator's web site contain appropriate disclosures.

34
35 Subsection (b): This subsection seeks to expand the amount of public education
36 concerning management of personal finance. As originally drafted, it imposed an obligation to
37 provide public education on any provider that spent more money on advertising than on public
38 education. It would have been a lightning rod for objections, may have raised constitutional
39 issues, and might have required defining "public education" in such a way as to preclude self-
40 serving infomercials that promote debt-management plans and underemphasize education. In
41 addition, at the Annual Meeting a commissioner observed that a provider could evade the spirit

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Deleted: This subsection prohibits insider transactions unless those transactions are bona fide market transactions.

Deleted: Subsection (2) recognizes that members of an agency's board of directors may provide services for free or on a reduced-fee basis. To the extent this practice benefits the agency more than obtaining the services elsewhere would benefit it, the practice seems unobjectionable. Limiting the nature of the services to those specified is designed to prevent attempted evasions of the limit. At the Annual Meeting a commissioner suggested changing "at a cost less than" to "at a cost no greater than." A restraint on insider dealing is more effective if the exception is limited to below-market prices, but the Committee may wish to consider the suggestion.¶

¶ The Drafting Committee may wish to consider expanding the kinds of services covered by this subsection and the kinds of insiders from whom the agency may purchase services. To the extent the agency purchases at below-market (... [35])

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1 of the requirement by placing the required advertising in a medium or at a time that would reach
2 a different audience than its primary advertising reaches. It could, for example, direct its public
3 education to a population that it knows does not need the education or that the provider does not
4 seek to serve. The current draft makes public education a function of the administrator, leaves it
5 to the discretion of the administrator, and authorizes the administrator to shift the costs of the
6 effort to registered providers. The administrator may determine the fee structure in any
7 reasonable manner, including fees based on the provider's revenues or the number of individuals
8 who have agreements with the provider. Alternatively, if the Committee prefers the bracketed
9 language, the fee is based on the provider's advertising expenditures.

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11 If the Committee adopts this approach, the provision could appear here or in section 29
12 (Powers of Administrator).

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13 **SECTION 28. CRIMINAL PENALTY.** [Subject to Section 29(f), upon] [Upon]

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14 conviction, a person that knowingly and willfully {violates this [act] or a rule or order issued
15 under this [act]} {violates Section 5, 14, 19, 22, 23(a), or 26 of this [act] or a rule or order issued
16 to implement any of those sections} must be fined not more than [\$1,000] for the first violation
17 and not more than [\$5,000] or imprisoned not more than [five] years, or both, for each
18 subsequent violation.

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19 **Preliminary Comment**

21 At the Annual Meeting a commissioner suggested that if this section remains, it ought to
22 specify the level of the crime (or leave that to each state) and not specify the sanction, since the
23 general criminal law specifies the sanctions. Another commissioner suggested that not all
24 violations of the Act merit criminal sanctions and this section should be narrowed accordingly. A
25 third commissioner suggested eliminating the section altogether and relying on the general
26 criminal statutes. A fourth commissioner sent a message pointing out a problem that may arise in
27 a prosecutor's ability to charge a person with a crime under this section as it existed in the 2004
28 Annual Meeting Draft. He passed on the comments of a deputy attorney general in his state:
29

31 Here are the general virtues I believe will improve statutes that include criminal
32 sanctions:

33 (1) A statute that creates a crime should include a title that clearly and concisely
34 describes the proscribed behavior (murder in the first degree, kidnapping, robbery, etc.,
35 not "penalties");

36 (2) A clear and logical recitation of as few elements as are necessary to clearly define the
37 proscribed behavior (not 127 pages of a complex chapter followed by "any person who
38 violates this chapter shall be guilty of a misdemeanor");

39 (3) A penalty section that simply states the category of crime without giving details as to
40 the sentence (for example, "kidnapping is a class A felony," not "any person who violates
41 this section shall be punished as follows"-- sentencing details should be addressed in

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1 other sections or chapters that deal exclusively with sentencing and that set forth
2 penalties to be applied to all crimes of a given category); and
3 (4) Each crime should be set forth in a single statutory section that defines a single crime
4 and categorizes the crime in a single category such as “misdemeanor” or “class B
5 felony,” etc....

6
7 A treatise could be written on this subject, but following the above principles and
8 following the general principles of good legislative drafting will promote the creation of
9 criminal prohibitions that are simple to understand and stated in such a way that the
10 prosecution and defense of these crimes will focus more on a determination of the facts
11 and less on the semantics of the statutory section alleged to have been violated.
12 Complexity is the enemy of justice when society seeks to define criminal behavior.

13
14 _____ At the October 2004 meeting, a member of the Committee suggested the Uniform
15 Securities Act as a model. The current draft of this section is modeled on section 508 of that act.
16 It criminalizes all violations of the Act and all violations of the administrator’s rules and orders.
17 A more limited approach would be to adopt the language in the second set of braces, thereby
18 criminalizing only the violation of the specified sections of the Act (sections 5 (registration
19 requirement), 14 (bond requirement), 19 (form and contents of agreement), 22 (trust account
20 requirement), 23(a) (fee limits), and 26 (prohibited acts and practices)). This would be
21 somewhat, though not totally, responsive to the views quoted above.

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22
23 As now drafted, there is no requirement that only the administrator may initiate a
24 criminal prosecution. Any law enforcement official with the general authority to initiate criminal
25 prosecutions may initiate a prosecution for violation of this Act. Nor does this section in any way
26 preclude prosecution under any other law of this state.

27
28 The Committee must decide: (1) whether the Act should contain criminal sanctions; (2)
29 the sections for which violation should carry criminal sanctions; and (3) whether the amount of
30 the monetary fine should be subject to annual adjustment under section 29.

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31
32 _____ The Style Committee observes that suspension or revocation of registration requires
33 violation of a material requirement, but that this section imposes criminal liability for violation
34 of any requirement. It suggests that this section also contain a requirement of materiality. Unlike
35 the provision on suspension or revocation, this section requires a violation to be knowing and
36 willful. If there is such a thing as a knowing and willful violation of a non-material requirement
37 in the enumerated sections, prosecution is unlikely. And the addition of a materiality element
38 creates a hurdle for a prosecutor even in cases where there is little doubt about materiality.
39 Nevertheless, the Committee may wish to consider the suggestion.

40 **SECTION 29. POWERS OF ADMINISTRATOR.**

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41 (a) The administrator may act on its own initiative or in response to complaints
42 and may receive complaints, take action to obtain voluntary compliance with this [act], refer

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1 cases to the [attorney general] for prosecution, and seek or provide remedies as provided in this
2 [act].

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3 (b) The administrator may:

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4 (1) investigate and examine, in this state or elsewhere, by subpoena or
5 otherwise, the activities, books, accounts, and records of a person that provides or offers to
6 provide debt-management services to determine compliance with this [act];

7 (2) charge ~~the~~ person the reasonable expenses necessarily incurred to
8 conduct the examination;

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9 (3) require or permit a person to file a statement under oath as to all the
10 facts and circumstances of a matter to be investigated; and

11 (4) obtain ex parte from a court of competent jurisdiction an order
12 authorizing seizure from a bank at which a trust account required by Section 22 is maintained all
13 money, books, records, accounts, and other property of the provider that is in the control of the
14 bank and relates to individuals who reside in this state.

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15 (c) The administrator may adopt rules to carry out the requirements [and further
16 the purposes] of this [act] [in accordance with Section [insert the appropriate section of the
17 Administrative Procedure Act or other statute governing administrative procedure]. The rules
18 may contain classifications, adjustments, and exceptions to effectuate the purposes of this [act],
19 prevent circumvention of the [act], or facilitate compliance with this [act].

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

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24 (e) ALTERNATIVE 1: The administrator, by rule, shall establish reasonable
25 fees for processing an application for registration or renewal of a registration in the amount
26 reasonably necessary for administering this [act].

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1 ALTERNATIVE 2: Subject to subsection (f), the fee for processing an
2 application for registration is [\$1,000]. The administrator, by rule, shall establish reasonable fees
3 for processing an application for renewal of a registration in the amount reasonably necessary for
4 administering this [act]. The fee [may/must] be based on the average amount of debt, [{}during
5 the six calendar months], {on the last day of each of the six calendar months}} immediately
6 preceding the application for renewal, in the applicant's plans for individuals who reside in this
7 state.

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8 ALTERNATIVE 3: Subject to subsection (f), the fee for processing an
9 application for registration is [\$1,000]. The fee for renewal of registration is the applicant's
10 proportionate share of all costs and expenses reasonably incurred in administration of this [act],
11 as estimated by the administrator for the following fiscal year, and any deficit actually incurred
12 in, or anticipated for, the fiscal year in which the application for renewal is made. The
13 proportionate share is the proportion that the [{}aggregate debt in the applicant's plans for
14 individuals residing in this state bears to the aggregate debt in the plans of all registered
15 providers for individuals residing in this state] {applicant's gross income, as shown in its audited
16 financial statement, bears to the gross income, as shown in their audited financial statements, of
17 all registered providers}}]. Upon renewing an applicant's registration, the administrator shall
18 inform the provider of the amount of the fee. The provider shall pay the fee within [30] days. If
19 the provider does not pay the fee within [30] days, the administrator may [{}proceed against the
20 applicant's surety bond] {suspend the applicant's registration} {impose a penalty in the amount
21 of twice the fee}}].

22 (f) The administrator, by rule, shall adopt dollar amounts in lieu of those
23 specified in Sections 2, 6, 10, 14, 23, [28], 30, and 32, to reflect inflation, as measured by the
24 United States Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, or
25 other index adopted by rule by the administrator. The administrator shall adopt a base year and
26 shall adjust the dollar amounts, effective on July 1 of each year, if the change in the index from
27 the base year, as of December 31 of the preceding year, is at least ten percent; but the dollar

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1 amount shall be rounded to the nearest \$100, except that the amounts in Section 23 shall be
2 rounded to the nearest \$1.

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3 (g) The administrator shall notify registered providers of a change in dollar
4 amounts pursuant to subsection (f) and make that information available to the public.

5
6 **Legislative Note:** Subsection (a): If the administrator is the attorney general, the penultimate
7 clause (“refer cases to the [attorney general]”) should be deleted. If the state wishes the
8 prosecution to be handled by some other official the name of that official should be substituted
9 for “attorney general.”

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10
11 Subsection (c): If the APA (or other applicable statute) authorizes the entity charged with
12 administration of this Act to adopt rules, the bracketed phrase at the end of the first sentence of
13 subsection (c) (beginning “in accordance with”) should be deleted.

14
15 **Preliminary Comment**

Deleted: . Subsection (d): Insert the citation to the appropriate section of the Administrative Procedure Act or other statute governing administrative procedure.¶

16
17 Former subsection (a) (directing the administrator to determine whether to
18 approve applications for registration) has been deleted. According to the Style Committee,
19 section 10 renders it superfluous.

Deleted: Section

20
21 Subsection (b): At the Annual Meeting a commissioner suggested establishing a limit on
22 the amount of expenses that could be charged to the provider, specifically, limiting liability for
23 investigative charges to those instances in which the administrator concludes that the provider
24 has violated the Act. At the October 2004 meeting the Committee was disinclined to impose this
25 limitation, and the draft remains unchanged in that respect.

Deleted: . Subsections (b) and (c) from the October 2004 Meeting Draft have been inverted and modified to clarify that the administrator may act on its own initiative. They appear in this draft as subsections (a) and (b).¶

26
27 A prior draft of subsection (a) provided that failure to comply with what is now
28 subsection (b)(3) was grounds for a cease and desist order, but it was not clear what the person is
29 to cease and desist from. In this draft the failure to comply with subsection (b)(3) is grounds for
30 suspension of registration, and the provision has been moved to section 31(a)(4).

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31
32 Paragraph (4) permits the administrator to recover money and other property from the
33 bank holding the trust account. The previous draft did not say anything about the procedure for
34 doing this. The Style Committee raised a question about the constitutionality of section 31(c),
35 which permits the administrator to seize property from a provider. Both this paragraph and
36 section 31(c) have been revised to ease this concern. An alternative approach might be to revert
37 to the language of the previous draft (viz., silence with respect to procedure) and use the
38 comments to point out that the statute does not address the procedures to be used and that any
39 process used by the administrator must meet constitutional standards.

40
41 Subsection (c): The administrator has broad powers to adopt rules to implement and
42 further the purposes of this Act. In exercising this power, however, the administrator should be

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1 mindful of section 38, which exhorts those enforcing the Act to promote uniformity among the
2 enacting states.

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3
4 The Style Committee wants to delete the bracketed phrase, “and further the purposes” of
5 the Act. Is this acceptable to the Committee?

6
7 Subsection (e): This draft presents three alternative versions for setting registration fees.
8 Alternative (1) appeared in the previous draft. The section or the comment could articulate that
9 the criterion for setting “reasonable” fees is the amount necessary to defray the costs of
10 administering the Act, not just the costs of the registration process.

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11
12 Alternative (2) repeats the substance of Alternative (1), but goes on to specify that the
13 criterion for setting the fee is the average amount of debt in the plans being managed by the
14 applicant. It poses alternative methods of calculating the average amount. Instead of looking to
15 the average amount of debt, the statute could specify the provider’s revenues as the basis. See
16 Alternate (3).

17
18 Alternative (3) builds on Alternative (2). It bases the fee on the size of the applicant’s
19 business relative to the aggregate business of registered providers. The California statute (Cal.
20 Fin. Code § 12214(b)) adopts this approach. If the Committee selects this alternative, the last two
21 sentences (obligation to pay the fee and consequences of failure to pay it) could be moved to
22 other sections of the Act (although, if the final version of this section presents two or three
23 alternatives for selection by each state, perhaps those sentences ought to remain here).

24
25 Subsection (e) might also provide, “The administrator may retain for the use of the
26 administrator the aggregate of fees, reimbursement of examination expenses, and any other
27 payment made to the administrator pursuant to this [act] and may carry forward any balance of
28 money from a fiscal year to be expended for the administration and enforcement of the [act] in
29 the following fiscal year.” The Maryland statute contains a more elaborate version. The Oregon
30 statute provides that fees of the type referred to here stay with the administrator, but that all civil
31 penalties of the type received by the administrator pursuant to section 30 shall be credited to the
32 general money of the state treasury.) Does the Drafting Committee wish to include anything
33 along these lines, perhaps on an optional basis for states that wish to include it?

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34
35 Subsection (f): The administrator must adjust annually all dollar amounts that appear in
36 the Act. Those amounts are found in the following sections:

- 37
- 38 Section 2(3)(D): threshold for becoming an affiliate (\$25,000)
- 39 Section 6(b)(4): employee theft insurance (\$250,000)
- 40 Section 10(c)(2): independence of board of directors (\$25,000)
- 41 Section 14(d): bond (\$100,000)
- 42 Section 23(c)(2), (d), (e)(2): fee caps
- 43 Section 23(g): NSF fee (\$25)
- 44 Section 28: criminal penalty (\$1,000/\$5,000)
- 45 Section 29(f): application fee (\$1,000)
- 46 Section 30(a), (b): civil penalty (\$10,000)

Section 32(c): minimum damages (\$5,000)

Section 32(d): punitive damages (\$10,000)

SECTION 30. ADMINISTRATIVE REMEDIES.

(a) The administrator may enforce this [act] and rules adopted under this [act] by:

(1) ordering a violator or an officer, director, or employee of a violator to

cease and desist from the violation and any similar violations;

(2) ordering a violator or a person who has caused a violation to take

affirmative action to correct the violation, including the restitution of money or property to a person aggrieved by a violation;

(3) subject to Section 29(f), imposing on a violator or a person who has caused a violation a civil penalty not exceeding [\$5,000] for each violation;

(4) commencing a civil action to:

(A) enforce an order; or

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

both; and

(5) intervening in an action brought under Section 32.

(b) Subject to Section 29(f), if a person violates or knowingly authorizes, directs,

or aids in the violation of a final order issued under subsection (a)(1) or (2), the administrator may impose a civil penalty not exceeding [\$10,000] for each violation.

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

[county].

(d) The administrator may recover the reasonable costs of enforcing the [act]

under subsections (a) through (c), including attorney's fees based on the hours reasonably expended and the hourly rates for attorneys of comparable experience in the community.

(e) In determining the amount of a civil penalty to impose under subsection (a) or

(b), the administrator shall consider the seriousness of the violation, the good faith of the

violator, the violator's previous violations, the deleterious effect of the violation on the public,

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1 the net worth of the violator, and any other factor the administrator considers relevant to the
2 determination of the civil penalty.

3 Preliminary Comment

4
5
6 The Style Committee suggests that this section merely adopt by reference the powers of
7 the administrator in the administrator's organic statute. That is a reasonable suggestion, but it
8 assumes that administration of this Act will be placed with a person that has broad powers. In
9 any event, subsections (a)(3), (a)(5), and (b) are not universal and would still be necessary.

10
11 Subsection (a): At the October 2004 meeting the Committee decided to permit the
12 administrator to proceed without specifying the need for notice and an opportunity for a hearing.
13 This permits the incorporation of former subsection (b) into subsection (a). The administrator's
14 power and procedure is governed by the state's administrative procedure act.

15
16 Subsection (a) has been revised also to permit the administrator to proceed against those
17 officers, directors, or employees who are responsible for a provider's violation of the Act.

18
19 Former paragraph (4) authorized the administrator to revoke, suspend, or deny renewal of
20 registration under section [31]. The Style Committee suggests that the paragraph is unnecessary
21 and, if it be referenced at all, the reference should be in a comment. It has been deleted.

22
23 Paragraph (4) authorizes the administrator to commence civil actions. Hence, the
24 administrator may proceed either by administrative proceeding under subsection (a)(1)-(3) or by
25 civil action under subsection (a)(4). Section 29(b) authorizes the administrator to refer cases to
26 the attorney general for prosecution. The Drafting Committee needs to decide whether to place
27 all enforcement in the hands of the administrator, split it between the administrator and the
28 attorney general, or let the states choose which model to use.

29
30 Subsection (d), authorizing recovery of expenses by the administrator, is new. Does the
31 Committee concur?

32
33 Reporter's Note: Former section 31 (violation of unfair or deceptive practices statute) has been
34 relocated. It now appears as section 33, and former sections 32 and 33 have been renumbered.

35 **SECTION 31. SUSPENSION, REVOCATION, OR NON-RENEWAL OF** 36 **REGISTRATION.**

37 (a) The administrator may suspend, revoke, or deny renewal of a provider's
38 registration [, or may petition a court to suspend or revoke a provider's registration,] if [the
39 administrator concludes that]:

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VIOLATION OF UNFAIR OR
DECEPTIVE PRACTICES STATUTE

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provider violates both this [act] and

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Deleted: [insert reference to the
statute(s) dealing with deceptive acts and
practices in consumer transactions], an
individual may not recover under both for
the same act or practice. ¶

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citation to the state's little-FTC or
deceptive practices act. ¶

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Preliminary Comment¶

¶
The prior version of this section stated
that a violation of this Act constitutes a
violation of the deceptive practices
statute. The current version
acknowledges that conduct that violates
this Act also may violate that other
statute. The section prohibits recovery
under multiple statutes for the same
conduct. The aggrieved individual may
seek relief under either statute. ¶

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opportunity to be heard.]

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1 (1) a fact or condition exists that, if it had existed when the registrant
2 applied for registration, would have been ground for denying registration;

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

5 (3) the provider is insolvent;

6 (4) the provider or an employee or affiliate of the provider has refused to
7 permit the administrator to make an examination authorized by this [act], has failed to comply
8 with Section 29(b)(3) within 15 days after request, or has made a material misrepresentation or
9 omission in complying with Section 29(b)(3); or

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

12 (b) If a provider does not comply with Section 22(f) or if the administrator
13 otherwise finds that the public health, safety, or welfare requires emergency action, the
14 administrator may order a summary suspension effective on the date specified in the order,

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15 (c) If the administrator suspends, revokes, or denies renewal of the registration of
16 a provider, the administrator may obtain ex parte from a court of competent jurisdiction an order
17 authorizing seizure of any records and assets of the provider which are located in this state.

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20 Preliminary Comment

21 Subsection (a): The Committee did not discuss this section at the October 2004 or
22 January 2005 meetings. Presumably, however, if the Act does not specify the need for notice and
23 hearing in section 30, it need not specify it here either. Hence, the change in this subsection.
24 Should the bracketed phrase be deleted as well? At the Annual meeting a commissioner
25 suggested that this section be restructured. As now drafted, the administrator may take the
26 specified actions. The suggestion is that the administrator not have the power to suspend or
27 revoke a registration and that this section merely specify the grounds on which the administrator
28 could ask a court to take that action. Does the Committee wish to pursue this suggestion? The
29 bracketed language takes a step in this direction, but leaves a parallel power in the administrator
30 to act on its own.

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31 In paragraph (2) the word "material" has been newly bracketed, for potential deletion.
32 The administrator is unlikely to take action because of a trivial violation, and inclusion of
33

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1 “material” creates a litigation handle for an offending provider. Should the word be retained or
2 deleted?

3
4 Subsection (b): Section 22(f) deals with failure to maintain a trust account in an amount
5 equal to the sum of the balances in each individual’s escrow account. Since subsection (a) does
6 not specify the need for prior notice and opportunity for a hearing, the requirement in this
7 subsection for a post-suspension hearing has been deleted.

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- Deleted: If the section
- Deleted: the bracketed sentence should be deleted

8
9 Subsection (c): The Style Committee questions the constitutionality of the original
10 version of this subsection, which permitted the administrator to seize assets. As revised, the draft
11 now authorizes the administrator to obtain a judicial seizure on an ex parte basis. (See the
12 Preliminary Comment to section 29(b).)

13 **SECTION 32. PRIVATE ENFORCEMENT.**

14 (a) If an individual voids an agreement pursuant to Section 21(a), the individual
15 may recover in a civil action all money paid or deposited by or on behalf of the individual
16 pursuant to the agreement [except for amounts paid to creditors], together with recovery under
17 subsection (d)(2) and (3).

18 (b) If an individual voids an agreement pursuant to Section 24(d), the individual
19 may recover in a civil action [three times the amount of the unauthorized fees, charges, money,
20 or payments] [the total of all amounts paid or deposited by or on behalf of the individual
21 pursuant to the agreement], together with recovery under subsection (d)(2) and (3).

22 (c) If a provider does not comply with Section 24(e), an individual may recover
23 in a civil action two times the unauthorized money, together with recovery under subsection
24 (d)(2) and (3).

25 (d) An individual who is injured by a violation of this [act] other than Section 6,
26 7, 8, or 12 or by a violation of a rule adopted by the administrator under this [act] other than a
27 rule adopted to implement Section 6, 7, 8, or 12 may recover in a civil action:

28 (1) subject to subsection (e), compensatory damages, including damages
29 for noneconomic injury, or, subject to Section 29(f), for violation of Sections 17, 18, 19, 20, [22,]
30 23, 24, 25, or 26, the greater of compensatory damages, including damages for noneconomic
31 injury, or \$[5,000];

32 (2) subject to subsections (e) and (f), punitive damages; and

Deleted: ... At the Annual meeting a commissioner suggested that this section be restructured. As now drafted, the administrator may take the specified actions. The suggestion is that the administrator not have the power to suspend or revoke a registration and that this section merely specify the grounds on which the administrator could ask a court to take that action. Does the Committee wish to pursue this suggestion? (If so, it will be necessary to deal separately with non-renewal of registration.)¶

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(3) the costs of the action, including reasonable attorney's fees based on the amount of time involved.

(e) In a class action:

(1) except for violation of Section ~~26(a)(4)~~, the minimum damages ~~provided~~ in subsection (d)(1) do not apply; and

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(2) ~~subject to Section 29(f)~~, punitive damages may not exceed [\$10,000] per class member.

(f) In determining the amount of punitive damages under subsection (d) or (e),

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the court shall consider the seriousness of the violation, the good faith of the violator, the violator's previous violations, the deleterious effect of the violation on the public, the net worth of the violator, and any other factor the court considers relevant to the determination of the damages.

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(g) In addition to the remedy available under subsection (d), if a provider ~~does not~~ give effect to an individual's rights under Section ~~19(h)~~, the individual may recover in a civil action all money paid or deposited by or on behalf of the individual pursuant to the agreement.

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~~(h) If, within 60 days after filing an action under subsections (a), (b), (c), (d), or (e), an individual notifies the administrator of the action, the administrator shall assist the individual in enforcing a judgment against the bond or other security that is required under Section 14.~~

~~(i) An individual's action, except a class action, takes precedence over a ~~previous~~ or subsequent action by the administrator with respect to the claim of ~~the~~ individual. An~~

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~~individual's class action takes precedence over a subsequent action by the administrator with respect to claims common to both actions, but the administrator may intervene ~~in the class~~ action. An administrator's action on behalf of a class of ~~individuals~~ takes precedence over ~~an individual's~~ subsequent class action with respect to claims common to both actions. Whenever an action takes precedence over another action under this subsection, the ~~non-precedent~~ action may be stayed to the extent appropriate while the precedent action is pending and may be~~

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1 dismissed if the precedent action is dismissed with prejudice or results in a final judgment
2 granting or denying the claim.

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4 Preliminary Comment

5
6 This section specifies the private remedies for an individual who has been injured by a
7 violation of this Act. More than one subsection may apply to a particular violation, and the
8 individual may recover under any of them, so long as there is not double recovery for the
9 violation.

10
11 Subsections (a), (b), and (c) have been relocated from sections 21 (Voidable Agreements)
12 and 24 (Fees: Other Limits), pursuant to the Committee's decision to locate all remedies
13 provisions in one section.

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14
15 Subsection (a) : Section 21(a) makes an agreement voidable if the provider is not
16 properly registered under this Act. Under this subsection the individual may recover all money
17 paid by the individual[, except for amounts passed on to creditors]. This sanction is to disgorge
18 all money that the provider otherwise would have earned for its services.

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19
20 Subsection (b): Section 24(d) permits an individual to void an agreement if a provider
21 exceeds the fee caps. The Committee must decide whether, when an individual elects to void the
22 agreement, the individual should be able to recover three times the overcharge or the more
23 deterrence-oriented remedy of returning all money received from the individual, including the
24 money that was paid over to the creditors. For an overcharge, forfeiture of all amounts received
25 may be too draconian. A similar question is presented under subsection (a), where the remedy,
26 although draconian, may nevertheless be appropriate.

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27
28 As the draft now stands, the treble damages remedy is available only if the individual
29 voids the agreement. If the individual does not void the agreement, recovery is under subsection
30 (d)(1) (actual damages but not less than \$5,000). Should the treble damages remedy be available
31 to an individual who does not void the agreement?

32
33 Subsection (c): Section 24(e) requires a provider that has unintentionally exceeded the fee
34 caps to return the excess charges within two days after learning of the overcharge. If the provider
35 fails to do so, this subsection provides for recovery of twice the overcharge.

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36
37 Subsection (d): "Compensatory damage" in paragraph (1), which includes recovery for
38 noneconomic injury, encompasses emotional distress, humiliation, aggravation, etc.

39
40 The minimum damages provision applies only to the specified violations (prerequisites
41 for a plan, electronic communication, form and contents of an agreement, failure to use foreign
42 language documents, trust account, fee caps, other limitations on fees, periodic reports, and
43 prohibited acts and practices). For violation of other sections, including failure to register and
44 failure to provide customer service, the aggrieved individual may recover actual damages,
45 punitive damages, or both. The administrator also may enforce these other sections. Does the

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1 Committee concur with this dichotomy? Is it necessary to provide the exception for sections 6-8
2 and 12 (dealing with the application requirements): could an individual ever sustain actual
3 damages as a result of a provider's violation of those sections?

4
5 "Costs of the action" in paragraph (3) encompasses filing fees, jury fees, expert witness
6 fees, and everything else that may be taxed as costs against the losing party.

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7
8 Subsection (e): An aggrieved individual may proceed by class action if the prerequisites
9 for class actions under the rules of civil procedure are satisfied. The minimum damages
10 provision does not apply unless the provider violates section 26(a)(4), which prohibits a provider
11 from initiating a transfer of an individual's money unless the transfer is authorized by the Act
12 and the agreement.

13
14 Subsection (g) is new. It implements the remedy implicit in section 19(h) when an
15 individual exercises the right to rescind: section 19(a)(6) requires a provider to deliver to the
16 individual, immediately upon formation, a copy of an agreement that complies with sections 19
17 and 26. If the provider complies with this obligation, the individual has only three days to
18 rescind. Upon rescission, the provider must refund all money paid by the individual. The
19 provider can protect itself against any out-of-pocket loss by keeping any such money until the
20 three-day period has expired, in which event this subsection imposes no loss on the provider. If,
21 however, the provider fails to deliver a proper copy of the agreement, the rescission period is 30
22 days, in which event rescission may very well occur after the provider has disbursed funds to
23 creditors. In this scenario, the remedy in this subsection results in an out-of-pocket loss to the
24 provider. It thus provides an additional incentive for the provider to conform to the requirements
25 of sections 19 and 26.

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26
27 Subsection (h) is new. Without creating an obstacle to private enforcement, it provides an
28 incentive for an individual to inform the administrator of alleged violations of the Act.

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29
30 _____ At the Annual Meeting a commissioner suggested adding a provision to resolve possible
31 conflicts between public and private enforcement actions. Subsection (j) is drawn almost
32 verbatim from UCCC § 6.113.

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33 SECTION 33. VIOLATION OF UNFAIR OR DECEPTIVE PRACTICES

34 STATUTE. If an act or practice of a provider violates both this [act] and [insert reference to the
35 statute(s) dealing with deceptive acts and practices in consumer transactions], an individual may
36 not recover under both for the same act or practice.

37 Preliminary Comment

38
39
40 The prior version of this section stated that a violation of this Act constitutes a violation
41 of the deceptive practices statute. The current version acknowledges that conduct that violates
42 this Act also may violate that other statute. The section prohibits recovery under multiple statutes
43 for the same conduct. The aggrieved individual may seek relief under either statute.

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1 At the October 2004 meeting, the Committee seemed to concur with the triggers in the
2 draft. This draft contains an additional trigger, drawn from the Uniform Consumer Sales
3 Practices Act (termination of proceedings by the administrator). There was some sentiment at the
4 October meeting that four years was appropriate for actions by the administrator, but too long for
5 private actions. In this draft the limitations period for private enforcement is two years.

6
7 Subsection (c): The language of this subsection is from H.R. 3331, a bill to regulate
8 providers. The Style Committee has observed that it is ambiguous and will always require
9 judicial action to implement.

10 ~~SECTION 35. SEVERABILITY. If any provision of this [act] or its application to~~
11 ~~any person or circumstance is held invalid, the invalidity does not affect other provisions, or~~
12 ~~applications of this [act] that can be given effect without the invalid provision or application, and~~
13 ~~to this end the provisions of this [act] are severable.]~~

14 **SECTION 36. 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 (15 U.S.C. Section 7001 et seq.) but
17 does not modify, limit, or supersede Section 101(c) of that act (15 U.S.C. Section 7001(c)) or
18 authorize electronic delivery of any of the notices described in Section 103(b) of that act (15
19 U.S.C. Section 7003(b)).

20
21 Reporter's Note: Former Section 37 (Relation to Law of Other States) provided relief to
22 providers that are located in this state but serving individuals in another state and therefore
23 subject also to the law of the other state. With the revision of Section 3 to limit the applicability
24 of the Act to providers that serve individuals residing in this state, this section has been deleted.

25 ~~SECTION 37. UNIFORMITY OF APPLICATION AND CONSTRUCTION. In~~
26 ~~applying and construing this Uniform Act, consideration must be given to the need to promote~~
27 ~~uniformity of the law with respect to its subject matter among states that enact it.~~

28 **SECTION 38. EFFECTIVE DATE.** This [act] takes effect on [_____].

29 **SECTION 39. REPEAL.** The following laws are repealed:

30
31 *Legislative Note: Insert the citation to any existing legislation regulating consumer credit*
32 *counseling, debt settlement, debt adjustment, debt prorating, or the like.*

33 **SECTION 40. TRANSITIONAL PROVISIONS; APPLICATION TO EXISTING**
34 **TRANSACTIONS.**

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RELATION TO LAW OF OTHER
STATES. ¶

... (a) If compliance with a provision of
this [act] by a provider located in this
state would constitute a violation in
another state of a statute that regulates
persons providing or offering to provide
debt-management services, the provider
need not comply with that provision of
this [act] with respect to its operations in
that state.¶

... (b) Failure to comply with a
provision of this [act] pursuant to
subsection (a) is not a violation of this
[act] or ground for denial, suspension, or
revocation of a license under this [act].¶
Preliminary Comment¶

¶
... This section addresses the situation of
an agency that is subject to inconsistent
requirements in two states. It
accommodates only agencies that are
physically located in this state. A
domestic agency must comply with this
Act with respect to individuals in this
state. It must comply with this Act also
with respect to individuals in other states,
except to the extent that compliance with
the law of those other states would put it
in violation of this Act, to which extent it
may ignore this Act. This section makes
no allowance for agencies located in
other states. Those entities must comply
with the requirements of this Act even if
that puts them in violation of the law of
the state in which they are located. The
section thus in all cases gives priority to
the state in which the affected individuals
reside.¶

¶
... The ABA Advisor to the Committee
has observed that this provision does not
adequately address the burden imposed
on providers by section 3. That section
extends this Act to a provider that is
located in this state (or organized under
the laws of this state) even though it does
not provide services to any individual in
this state. Section 34 offers relief to this
provider only to the extent that
compliance with the Act would place the
provider in violation of the law of another
state. If compliance with both is possible,
the provider would have to comp[... [38]

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1 (a) Transactions entered into before this [act] takes effect and the rights, duties,
2 and interests resulting from them may be completed, terminated, or enforced as required or
3 permitted by a law amended, repealed, or modified by this [act] as though the amendment,
4 repeal, or modification had not occurred.

5 (b) If a provider that is [lawfully] furnishing debt-management services to
6 individuals residing in this state when this [act] takes effect applies for registration under this
7 [act] before the expiration of three calendar months after the effective date of this [act], the
8 provider may continue to provide debt-management services to individuals who reside in this
9 state until the earlier of:

10 (1) denial of registration under Section 11; or

11 (2) expiration of [the 120-day period, as it may be extended, specified in
12 Section 11] [18 months after the effective date of this [act]].

13 **Preliminary Comment**

14
15
16 Subsection (a): “Law” includes statutes, administrative rules, and judicial decisions. This
17 subsection permits a provider to continue operating under prior law as to transactions in process
18 when the Act becomes effective. It may be burdensome for a provider to comply with prior law
19 for some of its customers and with this Act for others of its customers. Hence, the language of
20 this subsection, “may be,” permits a provider to comply with this Act even with respect to
21 transactions entered before this Act takes effect.

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22
23 For subsection (a) to save a transaction in process when the Act takes effect, the
24 transaction must have been permitted by prior law. If prior law prohibits a transaction, nothing in
25 this subsection validates it. Query whether this is wise: if a transaction violates prior law, does
26 the Committee wish to permit a provider to continue to service existing customers? It would be a
27 hardship to the customers if the provider abruptly ceased activity, and permitting the provider to
28 continue, if conditioned on prompt registration, might serve as an incentive to register under the
29 Act.

30
31 Subsection (b): This newly added provision permits a provider to continue performing
32 existing agreements, even if in violation of prior law, if the provider applies for registration in a
33 timely manner. It also permits a provider that is providing debt-management services lawfully
34 under prior law to serve new customers if it applies for registration in a timely manner. If the
35 Committee concurs, the remaining question is the period of time during which the unregistered
36 provider may continue operating:

- 37 • until denial of its application for registration;

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- until expiration of the time period specified in section 11;
- or, because of the likelihood of delay during the first years of the Act, until a fixed, but longer, time.

Reporter's Introductory Note to Section 2 (Definitions): There are two significant changes in the definitions:

(1) To simplify the language throughout the draft, the operative terms now are “provider,” “plan,” and “agreement.” These terms are newly defined in Section 2, and they eliminate the need to define (and use) the cumbersome terms “debt-management-services provider,” “debt-management plan,” and “debt-management-services agreement.” Throughout the draft, the Act now speaks simply of “provider,” “plan,” and “agreement.”

(2) Because the Act now applies to both credit counseling and debt settlement, some definitions have been revised to encompass both entities and their activities. For example, subsection (9) defines “debt-management services” to encompass the activities of both kinds of entities. Similarly, subsection (12) defines “plan” to encompass what credit-counseling agencies now call a debt-management plan (or DMP) and what debt-settlement companies now call a “program.” As a result of these changes, “provider” now refers to both types of entities, and the draft does not define or use the term “debt-settlement-services provider.” At those points in the draft where it is desirable to have different rules for the two types of entities, a descriptive phrase differentiates them (e.g., in section 14: “if a plan contemplates that creditors will settle the debts for less than the full principal amount of the debt” and “if a plan contemplates concessions in the form of reduced finance charge or reduced fees for late payment, default, or delinquency.”)

, unless the context requires otherwise

“Affiliate,” subject to Section 29(f),

At the October 2004 meeting, the Committee questioned whether subsection (1) was too broad, to the extent it referred to “agents.” The purpose of this subsection is to enable the state to regulate businesses that are located or operating within its borders, regardless of the location of their customers. A state should be able to regulate those entities that are physically present within its borders, as well as those that are incorporated there but not otherwise present. Subsection (1) has been revised accordingly and no longer refers to employees and agents. Subsection (2) focuses on the location of the provider’s customers, regardless of the location of the entity, e.g. an independent call center, that does the soliciting. Subsection (3) also focuses on the customer’s location, but the location as it is known or should be known by the provider.

Under this section the Act does not apply to: (1) a provider that is not located in this state and that does not solicit or contract with individuals in this state; (2) a provider whose web site is accessible by residents of this state if the provider declines to do business with residents of this state, in which event the provider is not soliciting individuals located in this state; (3) an individual who, while living in another state, forms an agreement with a non-resident provider and later moves to this state; or (4) a resident of this state who forms an agreement with a provider located in another state while the individual temporarily is in that other state, if the provider has no reason to know that the individual resides in this state.

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profit entity under Section _____ or

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(e) The applicant or registered provider shall notify the administrator within 10 days after a change in its name, principal business address, principal telephone number, or the information specified in subsections (b)(4) or (c)(1), (3), (6), (11), or (12), or (d)(4) .

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In subsection (b)(5), insert the citation to the statute specifying the prerequisites for an entity to do business in this state. If the state has no such statute, it may substitute the following for subsection (b)(5):

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

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

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

If the state wishes to permit for-profit entities to provide debt-management services, the bracketed language containing subsection (b)(6) should be deleted. If the state wishes to limit debt-management services to non-profit entities, the brackets should be deleted.

In subsection (d)(introduction), insert the citation to the statute that authorizes the formation of not-for-profit corporations. If the state does not permit for-profit entities to provide debt-management services, the bracketed language should be deleted.

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Subsection (a): “Form” encompasses format, and the administrator by rule may require or permit all or part of the application to be submitted electronically.

Subsections (b)(2) and (3) refer to items “required by” other sections. If those other sections do not require the item as to a particular applicant, then the application need not contain proof of the item.

Subsection (b)(4) requires insurance in the amount of \$250,000 against the risk of employee misconduct, including theft of funds from the trust account. It is not common under existing state law to require both this kind of insurance and also a bond of the type required by section 12. The two requirements, however, protect against different risks. The insurance required by this section protects against the risk of employee dishonesty. The proceeds of the insurance policy would be payable to the provider and would enable it to continue operating. The bond required by section 12 protects against the risk of violation of any provision of this Act. The proceeds would be paid to or for the benefit of the administrator and the customers of the provider.

The purpose of subsection (b)(5) is to facilitate subjecting a non-resident business to the jurisdiction of this state. If the applicant is a resident, so that the statute referenced in this subsection does not apply to it, the applicant complies with this subsection by indicating that fact. If existing statutes leave doubt about the mechanism for serving process on the provider and the state has chosen not to enact the language suggested in the Legislative Note, the administrator can promulgate a rule requiring the applicant to appoint a state official as the provider’s agent for purposes of service of process.

Subsection (c): At the October 2004 meeting, the Committee decided that paragraph (1) should require disclosure only of business addresses in this state. Other than the principal business address, it is not necessary for the applicant to list business addresses outside this state.

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

Paragraph (5) (identification of states in which the applicant has done business or has been registered or licensed to provide debt-management services) has been restored, to enable the administrator to investigate the applicant and to coordinate enforcement efforts with administrators in other states.

Paragraph (6) requires disclosure of material judicial and administrative proceedings in any jurisdiction against the officers, directors, owners, and persons authorized to access the trust account containing customers’ funds. The administrator by rule can elaborate on what proceedings are material. This paragraph does not impose any disclosure requirement with respect to proceedings of which the applicant is reasonably unaware.

Paragraph (7) requires audited financial statements only if the applicant has them. If the applicant is not in the practice of obtaining audited statements, this paragraph does

not require them. This is contrary to many existing statutes, which require an applicant to supply audited financial statements.

Paragraph (8): To obtain registration, a provider must employ counselors who are certified within 12 months of their initial employment. This requirement applies only to employees who act as counselors and educators. It does not apply to such other employees as customer service representatives. Section 14 prohibits a plan unless a certified counselor has done specified things. The reason for requiring an applicant to produce evidence that its counselors are certified is to assure the administrator that the provider will be able to comply with section 14.

Paragraph (9): As used in this paragraph, “programs” encompasses both a course of instruction, which may be entirely oral, and computer software.

Paragraph (11): An agency, whether located in this state or elsewhere, need supply only the documents that it will use with residents of this state. Section 26(c)(1) empowers the administrator to investigate the activities in another jurisdiction of a provider that is located in or doing business in this state. Under that section the administrator may obtain documents used in other jurisdictions.

Paragraph (12): As with paragraph (11), an applicant, whether located in this state or elsewhere, need supply only the schedules of fees and charges for residents of this state. For purposes of this paragraph, “fees and charges” includes all costs, however denominated (e.g., “voluntary contribution”), to be paid by customers of the applicant. This information will enable the administrator to monitor the industry’s practices in the state. It should assist the administrator in determining whether an individual agency is gouging individuals, as well as whether to encourage the legislature to raise the fee cap when the passage of time or changed circumstances make it too low.

Paragraphs (11) and (12) require information that is current as of the time of the application. An applicant is free to modify the forms or the fees without prior approval, unless the administrator adopts a rule to the contrary. Subsection (e) of this section requires the provider to notify the administrator within 10 days of any changes in specified information required by this section, including the information required by paragraphs (11) and (12).

Paragraph (13): In some jurisdictions the mechanics and procedures for obtaining fingerprints are quite burdensome. This paragraph attempts to reduce the burden by permitting an applicant that has gone through this process in one state to use the results of the process for a period of 12 months in other states, too. The 12-month limitation applies to the criminal-records check, not the time of submission to the other state. The criminal-records check must include a check of fingerprints, but the fingerprints need not have been obtained during the 12-month period.

Former paragraph (16), which required an applicant to provide an irrevocable consent giving the administrator access to the trust account, has been deleted. In its place

is new subsection 26(c)(4), empowering the administrator to obtain the funds, as well as all books and records, from the bank holding the trust account.

Paragraph (14): The administrator may require additional information either by rulemaking procedure applicable to all applicants or by specific request in response to a specific application.

Subsection (d) collects in one place additional disclosures for non-profit entities. An observer at the October 2004 meeting suggested that these disclosures be required of all entities, so as not to make the requirements for non-profits more onerous than for for-profits. The reporter's notes from that meeting fail to reflect any decision by the Committee with respect to this suggestion. Pending review by the Committee, this draft incorporates the suggestion. (If the Committee's decision is to require these disclosure only of non-profits, the brackets will come off in the introductory clause, and the reference to non-profits in paragraph (4) will be deleted.)

Subsection (e): The cross-referenced sections require evidence of insurance against employee misconduct and disclosure of the name of the applicant, the addresses at which it operates, enforcement action against the applicant in another state, the applicant's fee schedule and standard forms, and tax-exempt status. Subsection (e) requires immediate notification of any change in this information, and since it applies to the "applicant or registered provider," this requirement of notification applies both before and after the administrator has issued a certificate of registration. Notification of change in other required information is governed by Section 10 (Renewal of Registration), which requires notification at the time of renewal of registration.

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(a) Except as otherwise provided in this section

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the information in an application for registration

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(b) The administrator shall preserve the confidentiality of the information

required by Section 6(c)(7) and (13) and the addresses required by Section 6(c)(4). .

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(e) If a provider whose principal place of business is located in this state provides a surety bond to comply with the law of another state with respect to individuals who reside in that state, the amount of the bond required under this section is reduced by the amount of that bond, and the bond filed pursuant to this section must not run for the benefit of persons in that state, provided, however, that the amount of the bond shall not be reduced to less than the larger of \$100,000 or two times the average daily balance of the amounts received from residents of this state and deposited in the trust account required by Section 19 during the six months immediately preceding the date of the application for registration or renewal of registration, or such other amount as determined by the administrator.

(f) For an initial registration of a provider that has not provided debt-management services in this state within the immediately preceding five years, the amount of the surety bond is the larger of \$100,000 or an amount determined by the administrator, based on the administrator's consideration of the financial condition and business experience of the provider, the history of the provider in providing debt-management services, the potential loss to individuals, any other factor the administrator considers appropriate, and, for providers that are required by Section 19 to maintain a trust account, an estimate of the average daily balance in the trust account during the twelfth month after registration.

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on the basis of first-in-time

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in the amount required by

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of no more than \$10,000

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Section 14(d)

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and

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and, as provided in

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subject to the approval of the administrator, deposit and maintain with a financial institution approved by the administrator for this purpose

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, in the amount determined by the administrator pursuant to

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Section 14(d), designated as available, as provided in

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Section 14(f), to the state and to customers of the provider as their interests may appear, as provided in

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Section 14(c), if the provider does not comply with this [act]

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(i) The administrator that issues a final order under Section 27(a)(2) or recovers a final judgment under Section 27(a)(5) or any individual who recovers a final judgment pursuant to Section 30(a), (b), or (c)(1) or (3) may obtain satisfaction of the order or judgment out of the surety bond, insurance, letter of credit, or other security required pursuant to this section. If claims against the security exceed the amount of the security, the surety or other stakeholder may petition the administrator to determine the order and amount in which the claims are paid.

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Subsection (a): The requirement of a bond applies to all providers, including those that are not required to establish trust accounts.

Subsection (b): The bond is a source of payment of injuries caused by a provider's failure to comply with this Act. It is conceivable that the administrator or an individual would not commence litigation until after a provider ceases providing services in this state. This subsection preserves the availability of the bond for two years after the year in which the provider's registration ends. Legislation in some states contains comparable provisions. E.g., 2004 Kan. Sess. Laws 22 (§4(c))(2 years after the end of registration); Md. Fin. Inst. Code Ann. § 12-914(b)(3)(2 years after the provider ceases to be licensed). In others, it either requires the bond to be continuously in force, run concurrently with the period of registration, or does not address the duration of the bond.

Subsection (c): The bond runs in favor of the state for the benefit of the state and the provider's customers. Thus, it is available to compensate the administrator for its enforcement costs. The bond also runs directly in favor of customers who are injured by a provider's noncompliance with the Act. This includes individuals who reside in other states if the provider is based in this state. If the provider has no presence in this state other than its agreements with individuals who live in this state, then the benefits of the bond are limited to the administrator and residents of this state.

Subsection (d): For those providers that do not receive payments for distribution to creditors, and therefore are not required by Section 19 to establish a trust account, the bond requirement is \$100,000. For others, the bond requirement is the greater of \$100,000 or two times the average daily balance in the trust account. The amount of the bond would depend on the amount received from individuals and the frequency of the provider's payment to the creditors. A provider that receives payments of \$130 million per year, or \$2.5 million per week, and pays creditors twice a week, would have an average daily balance of approximately \$900,000. Its bond requirement would be \$1.8 million. This alternative gives the provider an incentive to make payments to creditors on a daily basis. The administrator is free to set the bond requirement for a particular provider at a different amount.

The bond requirement under existing legislation varies widely. Many of the statutes were enacted decades ago and have not been amended in this respect. These statutes often require bonds of modest amounts, \$10-25,000. The more recently enacted or revised legislation sets the bond at much higher amounts, often to be set by the administrator in light of specified factors. E.g., Connecticut (\$40,000 or 2 times the highest monthly amount paid by Connecticut residents); Illinois (\$25,000 or the amount of disbursements during the preceding year); Kansas (\$25,000-1,000,000); Maine (\$50,000); Maryland (\$10,000-350,000); Michigan (\$35,000-100,000); New York (minimum of \$250,000); Vermont (minimum of \$50,000); Virginia (\$25,000-350,000). This draft sets the amount of the bond at \$100,000 but authorizes the administrator to adjust it in either direction. This flexibility may be especially important with respect to true non-profit credit-counseling agencies.

Paragraph (3) requires that the bond be conditioned upon noncompliance with the Act. Nothing is payable until the administrator or an individual obtains a judicial determination that the provider has failed to comply. In a typical case the surety would be joined as a party defendant.

Subsection (e): A provider located in this state must provide a bond in an amount based on the size of its trust account, which may contain funds of individuals who reside in other states. The laws of those other states may require the provider to furnish a bond to protect the residents of those states. This subsection provides some relief from having to provide duplicative bonds. In no event, however, does the bond amount fall below the amount it would be if the provider were not located in this state.

Subsection (f): Special provision is made for a newly registered provider that does not have the trust account experience contemplated by subsection (d) for fixing the amount of the bond.

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February 15, 2005 4:14:00 PM

Subsection (i): Section 27 empowers the administrator to seek restitution for injured individuals. Under subsection (i) the bond or other security required by this section is a source for payment of this restitution. Section 30 authorizes private rights of action. The bond or other security is a source of payment of actual damages, damages for overcharges, the [\$1,000] minimum damages, and costs and attorney's fees. It is not available to satisfy criminal penalties under Section 24, civil penalties under Section 27, or punitive damages under Section 30. Does the Drafting Committee concur?

The last sentence has been added, to permit the administrator to determine the order in which the security should be applied to satisfy claims. This seeks to make payment of claims equitable. But it may deprive individuals who uncovered wrongdoing and acted first from recovering full compensation for their injuries. At the expense of the diligent consumer, the provision enhances the position of the individual who files a copycat action. Should this last sentence be dropped? Should the administrator be directed to determine priority on the basis of first-in-time?

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The standard "level that reasonably permits an individual to speak to a counselor ..." is vague. Is this satisfactory?

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February 23, 2005 10:07:00 AM

(5) with respect to disclosure via an Internet web site of the information required by Section 14(d):

- (A) the disclosure appears on one or more screens that:
 - (i) contain no other information; and
 - (ii) the individual must see before proceeding to assent to formation of a plan; and
- (B) the provider informs the individual that, upon electronic, telephonic, or written request within the next 30 days, it will send the individual a written version of the disclosures at no charge; and
- (C) if requested to send a written version of the disclosures, the provider sends it at no charge within three days of the request; and

(6) (A) the provider informs the individual that upon electronic, telephonic, or written request within 90 days after the individual assents to an agreement, it will send the individual a written copy of the agreement required by Sections 16 and 23; and

(B) if requested to send a written copy of the agreement required by Sections 16 and 23, the provider sends it at no charge within three days of the request;

(7) (A) At the time of providing an electronic version of a report required by Section 22, the provider informs the individual that upon electronic, telephonic, or written request within the next 30 days, it will send the individual a written copy of the report; and

(B) if requested to send a written copy of the report, the provider sends it at no charge within three days of the request.

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Is this wise, or should oral notification suffice?

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It requires debt-settlement companies to secure the individual's consent at the time of settling each debt.

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ALTERNATIVE (A):

(c) Except as otherwise provided in Section 21(c):

(1) a provider may charge for its educational and counseling services a fee that is fair and reasonable, as provided by rule of the administrator;

(2) if an individual assents to an agreement, the provider may charge:

(A) a reasonable fee, as provided by rule of the administrator, for consultation, obtaining a credit report, setting up an account, and the like; and

(B) a monthly service fee not in excess of the amount determined by rule of the administrator to be reasonable in relation to the services provided; and

(3) a provider that assists an individual in settling one or more of the individual's debts for less than the principal amount of the debt may not charge a settlement fee:

(A) in excess of the amount determined by rule of the administrator to be reasonable in relation to the services provided; or

(B) before settlement of the individual's debt.

ALTERNATIVE B:

(c) Except as otherwise provided in Section 21(c):

(1) a provider may charge for its educational and counseling services a fee that is fair and reasonable, as provided by rule of the administrator; and

(2) if an individual assents to an agreement, the provider may charge a fee not exceeding \$50 for consultation, obtaining a credit report, setting up an account, and the like.

(d) Except as otherwise provided in Section 21(c), [if a plan contemplates concessions by creditors in the form of reduced finance charge or reduced fees for late payment, default, or delinquency,] a provider may charge a monthly service fee not exceeding the lesser of 10 percent of the monthly payment by or on behalf of the

individual or \$10 for each creditor that is listed in the agreement between the provider and the individual, except that the total monthly service fee may not exceed \$50.

(e) Except as otherwise provided in subsection (c) [and (d)] and in Section 21(c), if a plan contemplates that creditors will settle an individual's debts for less than the full principal amount of those debts:

(1) a provider may not charge or receive compensation with respect to a debt until the settlement of the debt;

(2) compensation for services in connection with settling a debt may not exceed, with respect to each debt, [the lesser of \$600 or] 15 percent of the amount of the forgiven portion of the debt; and

(3) a provider may not receive any compensation with respect to a debt that the individual settles directly with the creditor to which that debt is owed.

ALTERNATIVE C:

(c) Except as otherwise provided in Section 21(c):

(1) a provider may charge for its education and counseling services a fee that is fair and reasonable; and

(2) in connection with a plan, a provider may not receive compensation of any kind except for a set-up fee, a monthly service fee, and, if the plan contemplates that creditors will settle an individual's debts for less than the full principal amount of those debts, a settlement fee.

(d) If a plan contemplates that creditors will settle an individual's debts for less than the full principal amount of those debts, a provider may not charge or receive a settlement fee with respect to a debt until the settlement of the debt.

END OF ALTERNATIVES. Under each alternative, the section would continue:

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February 16, 2005 10:47:00 AM

The phrase “payment for the services,” viz., debt-management services, means that the prohibition in this subsection does not apply to fees for education or counseling.

Subsection (c): Section 21(c) requires a tax-exempt provider to reduce or waive its fee in appropriate cases.

At the Annual Meeting some commissioners questioned whether a fee limit should appear in the statute. They suggested that the power to set fees should be vested in the administrator and that the statute should articulate standards for the administrator to use. Alternative A implements this suggestion

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February 16, 2005 2:48:00 PM

Subsection (2) recognizes that members of an agency’s board of directors may provide services for free or on a reduced-fee basis. To the extent this practice benefits the agency more than obtaining the services elsewhere would benefit it, the practice seems unobjectionable. Limiting the nature of the services to those specified is designed to prevent attempted evasions of the limit. At the Annual Meeting a commissioner suggested changing “at a cost less than” to “at a cost no greater than.” A restraint on insider dealing is more effective if the exception is limited to below-market prices, but the Committee may wish to consider the suggestion.

The Drafting Committee may wish to consider expanding the kinds of services covered by this subsection and the kinds of insiders from whom the agency may purchase services. To the extent the agency purchases at below-market prices, the transaction is unobjectionable. The risk, of course, is re-opening the door to self-dealing.

The Committee should consider whether the prohibitions of subsection (c) and (d) are appropriate if the provider is a for-profit entity. With respect to subsection (d), is it a sufficient protection that the provider’s fees are capped? The prohibition in subsection (d) reinforces the fee cap and may provide a second line of defense if an enacting state loosens or abandons fee caps.

At the October 2004 meeting, it was suggested that a provider be able to purchase goods, services, or facilities from any insider, not just directors, if the conditions of the second sentence are met. The reporter’s notes fail to indicate the Committee’s response to this suggestion. If the Committee wishes to pursue this approach, the paragraph might read as follows:

A provider may not purchase goods, services, or facilities from a person if an employee or affiliate of the provider owns more than 10 percent of the person, or an employee or affiliate of the provider is an employee or affiliate of the provider of the goods, services, or facilities, except that this subsection does not prohibit a provider from purchasing legal, accounting, or banking services from any supplier of those services that both

- (1) supplies those services generally; and
- (2) supplies them to the provider at a cost [no greater than][less than] the cost generally charged by the supplier of those services to other persons.

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The language of subsection (e) is drawn almost verbatim from the federal statute. To eliminate some of the vagueness of the terms in these provisions, it directs the courts to look to the interpretations given the federal statute. This follows the approach of statutes in more than 20 states, which direct their courts, in applying the state's unfair-or-deceptive-acts-or-practices statutes, to be guided by the federal courts' interpretation of section 5 of the FTC Act.

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March 18, 2005 4:20:00 PM

provider that in the preceding calendar year spent more money on advertising than on public education

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SECTION 37. RELATION TO LAW OF OTHER STATES.

(a) If compliance with a provision of this [act] by a provider located in this state would constitute a violation in another state of a statute that regulates persons providing or offering to provide debt-management services, the provider need not comply with that provision of this [act] with respect to its operations in that state.

(b) Failure to comply with a provision of this [act] pursuant to subsection (a) is not a violation of this [act] or ground for denial, suspension, or revocation of a license under this [act].

Preliminary Comment

This section addresses the situation of an agency that is subject to inconsistent requirements in two states. It accommodates only agencies that are physically located in this state. A domestic agency must comply with this Act with respect to individuals in this state. It must comply with this Act also with respect to individuals in other states, except to the extent that compliance with the law of those other states would put it in violation of this Act, to which extent it may ignore this Act. This section makes no allowance for agencies located in other states. Those entities must comply with the requirements of this Act even if that puts them in violation of the law of the state in which they are located. The section thus in all cases gives priority to the state in which the affected individuals reside.

The ABA Advisor to the Committee has observed that this provision does not adequately address the burden imposed on providers by section 3. That section

extends this Act to a provider that is located in this state (or organized under the laws of this state) even though it does not provide services to any individual in this state. Section 34 offers relief to this provider only to the extent that compliance with the Act would place the provider in violation of the law of another state. If compliance with both is possible, the provider would have to comply with both. The result of this is that, with respect to each requirement that the two states impose, the provider will have to comply with the more onerous one. To illustrate, assume this state has a fee cap of \$50 and a bond requirement of \$100,000, and the state in which its customer resides has a fee cap of \$75 and a bond requirement of \$250,000. Under the operation of section 34, the provider would not get the benefit of the higher fee cap in the other state, since compliance with this Act would not put it in violation of the law of the other state; but it would have to post a bond of \$250,000 even though this state only requires \$100,000. The provider is in the position of determining whether the law of the two states on any given matter is different and then always having to comply with the more burdensome one. To respond to this predicament, subsection (a) could be revised to read:

If a provider located in this state provides debt-management services to an individual residing in another state and the other state permits and regulates persons providing debt-management services to its residents, the provider need not comply with the following provisions of this [act] with respect to those individuals:

This would not relieve the provider of the need to register, and the state would retain its authority (and responsibility) to regulate entities that are located in the state or organized under the laws of the state. The Act would be fully applicable to the extent a provider is serving individuals in a state that bans the business of debt management or a state in which the statutes are silent. But if the other state has a statutory scheme for regulating providers, this language would relieve the provider of having to comply with any part of this Act with respect to the residents of the other state.

A less extreme response would be to exempt a provider from having to comply with the provisions of this Act that are different from the corresponding provisions of the law of the other state. So, for example, if the other state did not address the subject of dealing with affiliates, the provider would still have to comply with the ban in this Act. (The last clause might read, “the provider need not comply with provisions of this [act] that are different from the specific provisions of the law in the other state.”)