

# SENATE BILL 367

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SB 673/06 – FIN

71r1886

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By: **Senators Astle, Edwards, Garagiola, Kelley, Kittleman, Klausmeier, Middleton, and Pugh**

Introduced and read first time: February 1, 2007

Assigned to: Finance

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Committee Report: Favorable

Senate action: Adopted with floor amendments

Read second time: February 23, 2007

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## CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Credit Regulation – Debt Management Services**

3 FOR the purpose of authorizing a person that is not a nonprofit organization to  
4 provide debt management services in the State; requiring a person that is  
5 licensed to provide debt management services to provide a certain notice to a  
6 consumer and make certain determinations before providing debt management  
7 services for a consumer; altering ~~a certain requirement~~ requirements for a debt  
8 management services license; altering the information that must be included in  
9 a certain annual report to the Commissioner of Financial Regulation; altering  
10 the records that must be preserved by a licensee; altering certain definitions;  
11 repealing a certain defined term; making conforming changes; and generally  
12 relating to debt management services.

13 BY repealing and reenacting, with amendments,  
14 Article – Financial Institutions  
15 Section 12–901, 12–905(a), 12–907(a), 12–908(b)(11), ~~and~~ 12–916(a)(1),  
16 12–921(a), and 12–922(a)  
17 Annotated Code of Maryland  
18 (2003 Replacement Volume and 2006 Supplement)

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### EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 BY repealing and reenacting, without amendments,  
 2 Article – Financial Institutions  
 3 Section 12–908(a)  
 4 Annotated Code of Maryland  
 5 (2003 Replacement Volume and 2006 Supplement)

6 BY adding to  
 7 Article – Financial Institutions  
 8 Section 12–916(a)(3)  
 9 Annotated Code of Maryland  
 10 (2003 Replacement Volume and 2006 Supplement)

11 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
 12 MARYLAND, That the Laws of Maryland read as follows:

13 **Article – Financial Institutions**

14 12–901.

15 (a) In this subtitle the following words have the meanings indicated.

16 (b) “Annual gross revenue” means income or revenue from all sources, before  
 17 any expenses or taxes, computed according to generally accepted accounting principles  
 18 for the preceding fiscal year.

19 (c) “Consultation fee” means a fee paid by a consumer to a debt management  
 20 services provider in connection with the processing of any application that the  
 21 consumer makes for debt management services.

22 (d) “Consumer” means an individual who:

23 (1) Resides in the State; and

24 (2) Is seeking debt management services or has entered into a debt  
 25 management services agreement.

26 (e) “Consumer education program” means a program or plan that ~~seeks:~~

27 **(1) SEEKS** to improve the financial literacy of consumers **REGARDING**  
 28 **PERSONAL FINANCE, BUDGETING, AND CREDIT AND DEBT MANAGEMENT; AND**

1           **(2) PROVIDES COUNSELING TAILORED TO THE NEEDS AND**  
2 **CIRCUMSTANCES OF THE CONSUMER WITH REGARD TO OPTIONS AND**  
3 **STRATEGIES FOR ADDRESSING THE CONSUMER’S DEBT PROBLEMS, INCLUDING:**

4                   **(I) CREATING AND MAINTAINING A BUDGET;**

5                   **(II) ESTABLISHING DEBT MANAGEMENT PAYMENT PLANS**  
6 **WITH CREDITORS;**

7                   **(III) NEGOTIATING DIRECTLY WITH CREDITORS ON**  
8 **PAYMENT OR INTEREST RATE RELIEF; AND**

9                   **(IV) FILING FOR BANKRUPTCY.**

10           (f) “Debt management counselor” means a permanent, temporary, or  
11 contractual employee of a debt management services provider or its agent who  
12 provides counseling to consumers on behalf of the debt management services provider.

13           (g) “Debt management services” means receiving funds periodically from a  
14 consumer under an agreement with the consumer for the purpose of distributing the  
15 funds among the consumer’s creditors in full or partial payment of the consumer’s  
16 debts.

17           (h) “Debt management services agreement” means a written contract, plan,  
18 or agreement between a debt management services provider and a consumer for the  
19 performance of debt management services.

20           (i) “Debt management services provider” means [an organization] A  
21 **PERSON** that provides or offers to provide debt management services to a consumer.

22           (j) “Fund” means the Debt Management Services Fund established under §  
23 12–905 of this subtitle.

24           (k) “Licensee” means [an organization] A **PERSON** licensed under this  
25 subtitle to provide debt management services.

1           (1)    “Maintenance fee” means a fee paid by a consumer to a debt management  
2 services provider for the maintenance or servicing of the consumer’s accounts with the  
3 consumer’s creditors in accordance with a debt management services agreement.

4           [(m) “Organization” means a nonprofit organization that is exempt from  
5 taxation under § 501(c) of the Internal Revenue Code.]

6           [(n)] (M) “Relative” means any of the following who are related to an  
7 individual by blood, marriage, or adoption:

8                   (1)    A spouse;

9                   (2)    A child;

10                  (3)    A sibling;

11                  (4)    A parent;

12                  (5)    A grandparent;

13                  (6)    A grandchild;

14                  (7)    A stepparent;

15                  (8)    A stepchild;

16                  (9)    A stepsibling;

17                  (10)   An aunt; or

18                  (11)   An uncle.

19           [(o)] (N) “Resident agent” means an individual residing in the State or a  
20 Maryland corporation whose name, address, and designation as a resident agent are  
21 filed or recorded with the State Department of Assessments and Taxation in  
22 accordance with the provisions of the Corporations and Associations Article.

23           [(p)] (O) “Trust account” means an account that is:

24                   (1)    Established in a financial institution that is federally insured;

1                   (2)    Separate from the debt management services provider's operating  
2    account;

3                   (3)    Designated as a "trust account" or by another appropriate  
4    designation indicating that the funds in the account are not the funds of the licensee  
5    or its officers, employees, or agents;

6                   (4)    Unavailable to creditors of the debt management services provider;  
7    and

8                   (5)    Used to hold funds paid by consumers to a debt management  
9    services provider for disbursement to creditors of the consumers.

10   12-905.

11           (a)    There is a Debt Management Services Fund that consists of:

12                   (1)    All revenue received for the licensing of [organizations] **PERSONS**  
13    that provide debt management services under this subtitle;

14                   (2)    Income from investments that the Treasurer makes for the Fund;  
15    and

16                   (3)    Except as provided in subsection (b) of this section, any other fee or  
17    revenue received by the Commissioner under this subtitle.

18   12-907.

19           (a)    To qualify for a license, an applicant shall satisfy the Commissioner that:

20                   (1)    The applicant [is an organization;

21                   (2)    Each] **AND EACH** of the owners, officers, directors, and principals  
22    of the applicant has sufficient experience, character, financial responsibility, and  
23    general fitness to:

24                   (i)    Engage in the business of providing debt management  
25    services;

26                   (ii)   Warrant the belief that the debt management services  
27    business will be conducted lawfully, honestly, fairly, and efficiently; and

1 (iii) Command the confidence of the public;

2 [(3)] (2) Each agent acting on behalf of the applicant to manage a  
3 trust account required under § 12-917 of this subtitle has sufficient experience,  
4 character, financial responsibility, and general fitness to:

5 (i) Engage in the business of managing a trust account;

6 (ii) Warrant the belief that the management of the trust account  
7 will be conducted lawfully, honestly, fairly, and efficiently; and

8 (iii) Command the confidence of the public; ~~and~~

9 [(4)] (3) The applicant has a net worth computed according to  
10 generally accepted accounting principles of at least \$50,000, plus an additional net  
11 worth of \$10,000 for each location at which debt management services will be provided  
12 to consumers, up to a maximum of \$500,000 as provided in subsection (b) of this  
13 section; **AND**

14 **(4) WITHIN 3 MONTHS AFTER BEING HIRED, EACH DEBT**  
15 **MANAGEMENT COUNSELOR EMPLOYED BY THE APPLICANT OR THE APPLICANT'S**  
16 **AGENT WILL RECEIVE COMPREHENSIVE TRAINING IN COUNSELING SKILLS,**  
17 **PERSONAL FINANCE, BUDGETING, AND CREDIT AND DEBT MANAGEMENT.**

18 12-908.

19 (a) To apply for a license, an applicant shall submit to the Commissioner an  
20 application on the form that the Commissioner provides.

21 (b) The application shall include:

22 (11) [Evidence] **IF APPLICABLE, EVIDENCE** of nonprofit status under  
23 § 501(c) of the Internal Revenue Code;

24 12-916.

25 (a) (1) A licensee may not perform debt management services for a  
26 consumer unless:

1 (i) **1.** The licensee provides the consumer with a consumer  
2 education program;

3 **2. THE LICENSEE PROVIDES THE CONSUMER WITH A**  
4 **WRITTEN SUMMARY OF THE COUNSELING OPTIONS AND STRATEGIES FOR**  
5 **ADDRESSING THE CONSUMER'S DEBT PROBLEMS DEVELOPED UNDER §**  
6 **12-901(E)(2) OF THIS SUBTITLE; AND**

7 **3. THE CONSUMER SIGNS AN ACKNOWLEDGMENT**  
8 **STATING THAT THE CONSUMER HAS REVIEWED THE WRITTEN SUMMARY AND**  
9 **HAS DECIDED TO PROCEED WITH ENTERING INTO A DEBT MANAGEMENT**  
10 **SERVICES AGREEMENT WITH THE LICENSEE;**

11 (ii) The licensee, through a debt management counselor certified  
12 by an independent organization, has:

13 1. Prepared a financial analysis of and an initial budget  
14 plan for the consumer's debt obligations;

15 2. Provided a copy of the financial analysis and the  
16 initial budget plan to the consumer; and

17 3. Provided to the consumer, for all creditors identified  
18 by the consumer, a list of:

19 A. The creditors that the licensee reasonably expects to  
20 participate in the management of the consumer's debt under the debt management  
21 services agreement; and

22 B. The creditors that the licensee reasonably expects not  
23 to participate in the management of the consumer's debt under the debt management  
24 services agreement;

25 (iii) The licensee and the consumer have executed a debt  
26 management services agreement that describes the debt management services to be  
27 provided by the licensee to the consumer;

28 (iv) The licensee has a reasonable expectation based on the  
29 licensee's past experience that each creditor of the consumer that is listed as a  
30 participating creditor in the consumer's debt management services agreement will  
31 accept payment of the consumer's debts owed to the creditor as provided in the  
32 consumer's debt management services agreement; [and]

1                   **(V) THE LICENSEE HAS MADE A DETERMINATION, BASED ON**  
2 **THE LICENSEE'S ANALYSIS OF THE INFORMATION PROVIDED BY THE CONSUMER**  
3 **AND OTHERWISE AVAILABLE TO IT, THAT:**

4                   **1. THE DEBT MANAGEMENT SERVICES ARE**  
5 **SUITABLE FOR THE CONSUMER; AND**

6                   **2. THE CONSUMER WILL BE ABLE TO MEET THE**  
7 **PAYMENT OBLIGATIONS UNDER THE DEBT MANAGEMENT SERVICES**  
8 **AGREEMENT; AND**

9                   **[(v)] (VI) A copy of the completed debt management services**  
10 **agreement has been provided to the consumer.**

11                   **(3) IN ADDITION TO THE REQUIREMENTS UNDER PARAGRAPH (1)**  
12 **OF THIS SUBSECTION, BEFORE PROVIDING DEBT MANAGEMENT SERVICES FOR A**  
13 **CONSUMER, A DEBT MANAGEMENT SERVICES PROVIDER SHALL PROVIDE A**  
14 **WRITTEN NOTICE TO THE CONSUMER STATING:**

15                   **(I) THAT IF THE CONSUMER ELECTS TO FILE FOR**  
16 **BANKRUPTCY, THE CONSUMER WILL BE REQUIRED UNDER FEDERAL**  
17 **BANKRUPTCY LAW TO RECEIVE PRE-BANKRUPTCY CREDIT COUNSELING**  
18 **SERVICES FROM A NONPROFIT CREDIT COUNSELING AGENCY THAT IS**  
19 **APPROVED BY THE UNITED STATES TRUSTEE PROGRAM;**

20                   **(II) WHETHER THE DEBT MANAGEMENT SERVICES**  
21 **PROVIDER IS APPROVED BY THE UNITED STATES TRUSTEE PROGRAM TO**  
22 **PROVIDE PRE-BANKRUPTCY CREDIT COUNSELING SERVICES; AND**

23                   **(III) THAT THE CONSUMER SHOULD CONTACT A FEDERAL**  
24 **BANKRUPTCY COURT TO OBTAIN A LIST OF CREDIT COUNSELING AGENCIES**  
25 **THAT ARE APPROVED BY THE UNITED STATES TRUSTEE PROGRAM.**

26 12-921.

27                   **(a) (1) On or before April 30 of each year, a licensee shall report to the**  
28 **Commissioner on the debt management services business of the licensee conducted**  
29 **during the preceding calendar year.**



1                   (2)    The annual report shall be on the form that the Commissioner  
2 requires.

3                   (3)    The report shall include:

4                           (i)    An audited financial statement that is prepared in  
5 accordance with generally accepted accounting principles and includes a balance  
6 sheet, income statement, statement of changes in fund balances, and statement of  
7 cash flow;

8                           (ii)   An alphabetical list of all debt management counselors who  
9 provided services for the licensee during the previous calendar year;

10                           (iii)   The number of consumers for whom the licensee provided  
11 debt management services under a debt management services agreement during the  
12 preceding calendar year;

13                           (iv)   The number of consumers who signed new debt  
14 management services agreements with the licensee during the preceding calendar  
15 year;

16                           (v)    The highest number of consumers for whom the licensee  
17 provided debt management services under a debt management services agreement  
18 during any month in the preceding calendar year; [and]

19                           (vi)   The amounts paid by consumers to the licensee, both in total  
20 and for each month, during the preceding calendar year, broken down by:

21                                   1.    Payments to be disbursed to creditors; and

22                                   2.    Payments for the licensee's services;

23                           **(VII) THE PERCENTAGE OF ALL CONSUMERS WHO RECEIVED**  
24 **A CONSUMER EDUCATION PROGRAM AND SUBSEQUENTLY EXECUTED A DEBT**  
25 **MANAGEMENT SERVICES AGREEMENT DURING THE PRECEDING CALENDAR**  
26 **YEAR; AND**

27                           **(VIII) A REPRESENTATIVE SAMPLE OF THE WRITTEN**  
28 **SUMMARY REQUIRED UNDER § 12-916(A)(1)(I)2 OF THIS SUBTITLE.**

29 12-922.

1           (a) To enable the Commissioner to determine compliance with this subtitle, a  
2 licensee shall make and preserve the following books, accounts, and records for a  
3 period of at least 7 years:

4                   (1) A general ledger containing all assets, liability, capital, income,  
5 and expense accounts;

6                   (2) Each debt management services agreement between the licensee  
7 and a consumer;

8                   (3) Books and records for each consumer with whom the licensee has a  
9 debt management services agreement; [and]

10                   (4) Bank statements and bank reconciliation records;

11                   (5) **A COPY OF EACH WRITTEN SUMMARY REQUIRED UNDER §**  
12 **12-916(A)(1)(I)2 OF THIS SUBTITLE; AND**

13                   (6) **A COPY OF EACH SIGNED ACKNOWLEDGMENT REQUIRED**  
14 **UNDER § 12-916(A)(1)(I)3 OF THIS SUBTITLE.**

15           SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
16 June 1, 2007.

Approved:

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Governor.

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President of the Senate.

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Speaker of the House of Delegates.