MCRC Maryland Consumer Rights Coalition

Abolish the Debt Penalty: Let People Keep What They Earn
Support HB 673/SB 22

The Problem:

The cost of living in Maryland has dramatically increased in the past few decades but our rules to protect working families in financial distress have not kept pace. Between 1990-2016, poverty in Maryland increased by 19.1%.[1] Currently, 576,835 Marylanders are living in poverty throughout our state. At the same time poverty is deepening, housing costs are rising. Today, a person would have to earn $28.87 per hour to be able to afford a market-rate, two bedroom apartment without spending more than 30% of their income.[2] According to Prosperity Now, 50.5% of renters are considered cost-burdened.[3]

As poverty has increased, so has indebtedness. Alongside rising housing costs, health care costs have skyrocketed. Over 288,000 Marylanders purchase their own health insurance.[4] CareFirst, Maryland's largest insurer proposed premium hikes that will result in costs ranging from $1,030 to $1,500 per year[5]. These insurance costs, coupled with unexpected medical emergencies, may lead to medical debt – one of the biggest drivers of consumer debt. A report from the Consumer Financial Protection Bureau report found that 59% of individuals who had been contacted by a debt collector stated it was due to owing medical debt.[6]

Debt collection:

When an individual falls behind on their payments, the creditor can pursue a judgement against the individual. Once a judgement has been rendered, debt collectors can garnish wages, property, and bank accounts. In Maryland, there were 46,719 debt collection cases filed in Prince George's, Baltimore County, and Baltimore City alone.[7] While there may be many reasons that these jurisdictions experienced such a large number of collection suits, ProPublica analysis from three other states found that, even accounting for income, rates of collection lawsuits are twice as high in majority Black communities compared to predominantly White ones.[8] One possible reason for this statistic is the racial wealth gap: the typical Black household has a net worth of $11,000, while the typical White household has a net worth of $141,900.[9] This means that Black households have fewer resources to cope with any type of financial emergency than White households. While we do not have a racial or gender breakdown of debt collection suits, there is a correlation between the suits and the counties that have large communities of color.

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[1] Maryland Poverty Profiles, Maryland Alliance for the Poor, http://mapadvocacy.org/wp-content/uploads/2018/01/Maryland-Poverty-Profiles_2018_1-15-2018_T.pdf
[2] ibid
[3] Prosperity Now report card, https://scorecard.prosperitynow.org/data-by-location#state/md
[4] Consumer Health Report, http://www.consumerhealthfirst.org/health-insurance-rate-review/
[5] ibid
[6] ibid
[7] Turnbull, Emanwel Calculations from Judiciary Case Search, 2017 (see Table 1)
[8] ProPublica: The Color of Debt: How Collection Suits Squeeze Black Neighborhoods, https://www.propublica.org/article/debt-collection-lawsuits-squeeze-black-neighborhoods
[9] ibid

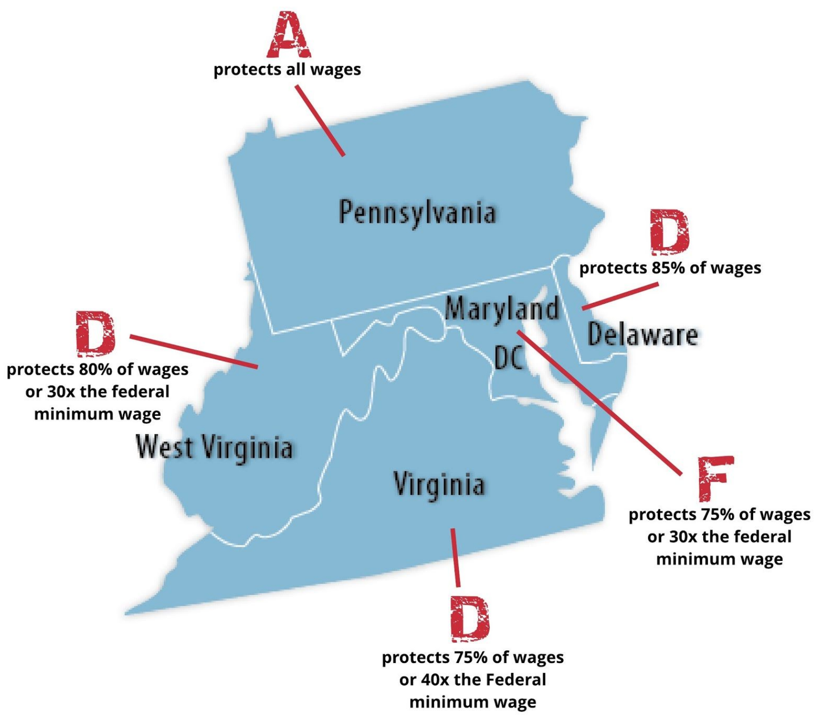
Table 1: Garnishments by County, 2016

COUNTY	# TOTAL GARNISHMENTS BY COUNTY	# OF WAGE GARNISHMENTS
Prince George's	19,059	9,963
Baltimore County	14,831	10,539
Baltimore City	12,829	9,888
Montgomery	7,146	3,228
Wicomico	3,242	2,938
Charles	3,106	1,678
Harford	3,073	1,954
Howard	2,527	1,392
Frederick	2,043	1,223
Washington	1,669	1,193
Carroll	1,228	762
St. Mary's	1,056	657
Calvert	910	543
Worcester	647	569
Cecil	634	399
Dorchester	538	402
Allegany	518	382
Somerset	476	417
Caroline	299	223
Talbot	289	206

Queen Anne's	217	137
Garrett	146	87
Kent	128	88

Source: Judiciary Case Search, 2017

As Table 1 shows, 42,586 Marylanders had their wages garnished this year. Maryland law sets the amount of wages that an individual may keep from garnishment. And Maryland's current law is one of the worst in the region.



According to the report from the National Consumer Law Center, *No Fresh Start*, Maryland receives an "F" for our wage exemption laws.[10] Pennsylvania receives an 'A' grade for leaving all wages exempt for most debts, Delaware receives a 'D' grade for protecting 85% of wages, as does West Virginia for protecting 80% of wages. Virginia also receives a 'D' grade – although Virginia only protects 75% of wages, they include an allowance for 40 times the federal minimum wage.

In contrast, Maryland does the bare minimum, only protecting 75% of wages, or 30 times the federal minimum wage.

Solution: Raise the Threshold

It has been 30 years since Maryland has raised its debt exemption threshold. We need to bring our exemptions up-to-date to account for the increased costs of living. In 1988, tuition at a four year college cost, on average, $3,190 per year. Today the average cost has increased by 213% to $9,970.[11] The median rent in 1990 was $600 per month, while today it has more than doubled to $1,478.[12] Wages haven't kept up with the rising costs-of-living and neither have Maryland's debt exemption laws.

Currently 32 states are doing a better job than Maryland in regards to debt exemptions. Current state law allows a

[10] https://www.nclc.org/images/pdf/pr-reports/report-no-fresh-start.pdf
[11] https://www.cnbc.com/2017/11/29/how-much-college-tuition-has-increased-from-1988-to-2018.html
[12] Rent 1980-2016, https://www.statista.com/statistics/200223/median-apartment-rent-in-the-us-since-1980/

low-wage worker to keep 75% of wages or 30 times the federal minimum wage, whichever is greater. Proposed legislation will tie the exemptions to 75% of wages or 45 times the Maryland minimum wage, whichever is more. These modest changes will provide critical savings for working families.

The modest goal of HB 673/SB 22 is to keep low-wage working families above the poverty line as they repay their debts.

Table 2: Wages Exempt from Garnishment per Week & Year for a Minimum-Wage, Full-Time Worker

	State Min. Wage $10.10	Wage per year
75% of wages at min wage job	$303	$15,756
30 times	$303	$15,756
45 times	$454	$23,608
50 times	$505	$26,260

As Table 2 demonstrates, the proposed legislation will increase the amount a minimum wage worker can exempt by $151 per week, or $7,852 per year.. The 2017 federal poverty line for a family of four is $483 a week or $25,100 per year. So raising the debt exemption threshold to 45 times the Maryland minimum wage will almost -but not quite-keep low-wage families above the poverty line – not wealthy by any means – but above a subsistence level of living. Under the proposed law workers earning $31,000 or more will be better off choosing to exempt 75% of their earnings.

Benefits of Raising the Debt Exemption Threshold:

Passage of this law will bring us in line with numerous other states that do a better job allowing low-wage debtors to continue to take care of their families while repaying their debts. Maintaining some reasonable level of income is necessary to allow an individual to continue to function and go to work – and thereby repay the debt they may owe.