

Policy Resolution BED-26-01

DEBT SETTLEMENT REFORM AND CONSUMER PROTECTION

2026 Ratified Policy Resolutions

Business and Economic Development (BED) Committee

WHEREAS, the National Black Caucus of State Legislators (NBCSL) has a long history of protecting consumers, encouraging consumer education, and protecting consumers against predatory practices;

WHEREAS, debt settlement companies claim to offer relief to consumers overwhelmed by debt;

WHEREAS, a growing body of evidence demonstrates that these services often leave consumers, especially in minority and low-income communities, in worse financial condition, with Federal Trade Commission and State Investigations showing that fewer than 10% successfully complete the program according to the Government Accountability Office;

WHEREAS, the National Organization of Black Elected Legislative Women recognized that these for-profit firms frequently charge excessive fees, provide misleading information, and fail to deliver on their promises;

WHEREAS, debt settlement firms disproportionately market to Black, Latino, and economically disadvantaged neighborhoods, exploiting communities with limited access to traditional financial resources and making them more susceptible to high-risk debt relief schemes;

WHEREAS, harmful business practices include instructing consumers to stop paying creditors, which can lead~~ing~~^{ing} to defaults, increased fees, and long-term credit damage, as well as failing to disclose that forgiven debt may be treated as taxable income by the Internal Revenue Service;

WHEREAS, fees charged by these firms often range from 15 to 25 percent of the original debt, some companies also receive payments for referring consumers to high-cost lenders, and some even make loans themselves, creating harmful conflicts of interest according to CBS News;

WHEREAS, creditors are under no obligation to accept settlement offers, leaving consumers vulnerable to continued collection efforts and additional fees;

WHEREAS, without intervention, these practices will continue to undermine the financial stability of populations already facing systemic barriers to wealth-building; and

WHEREAS, the NBCSL has previously urged the adoption of reforms to curb deceptive practices and restore consumer protections with resolutions like PROTECTING CONSUMERS IN A NEW FINANCIAL ENVIRONMENT (BED 23-03) and PROMOTING ACCESS TO SAFE AND AFFORDABLE LENDING PRACTICES (BED-25-02).

THEREFORE BE IT RESOLVED, that the National Black Caucus of State Legislators (NBCSL) urges:

- State-level reform that includes:
 - requiring licensing and routine audits for debt settlement firms;
 - mandating clear, standardized disclosures outlining risks, fees, credit implications, and tax consequences; and
 - prohibiting debt settlement companies from issuing loans or accepting payment for loan referrals; as well as
- Federal oversight enhancements that include directing agencies, such as the Consumer Financial Protection Bureau, Federal Trade Commission, and Financial Crimes Enforcement Network to evaluate enforcement gaps, coordinate on consumer protection strategies, and examine the role of debt settlement in the broader regulatory framework of consumer finance and bankruptcy; and

BE IT FINALLY RESOLVED, that a copy of this resolution be transmitted to the President of the United States, the Vice President of the United States, members of the United States House of Representatives and the United States Senate, and other federal and state government officials and agencies as appropriate.

- **Resolution ID: BED-26-01**
 - **Sponsored by: Rep. Kim Schofield (GA), Rep. Sandra G. Scott (GA), and Rep. Viola Davis (GA)**
 - **Policy Committee: Business and Economic Development Policy Committee**
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