

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 1562 (Delegate Lopez)
Economic Matters

Action to Collect a Private Education Loan - Required Documents

This bill prohibits a private education lender or a private education loan collector from initiating a private education loan collection action unless the lender or collector possesses (and introduces into evidence) specified documents related to the loan. Similarly, a private education loan collector must provide specified documentation in the first collection communication with the student loan borrower (and upon request of the borrower). The bill also authorizes a person that suffers damage as a result of a creditor's failure to comply with the bill to bring an action against the creditor. Failure to produce the required documentation upon request by the borrower is an unfair, abusive, or deceptive trade practice under the Maryland Consumer Protection Act (MCPA), subject to MCPA's civil and criminal penalty provisions.

Fiscal Summary

State Effect: The bill's imposition of existing penalty provisions does not have a material impact on State finances or operations. The Office of the Attorney General (OAG), Consumer Protection Division, can handle the bill's requirements with existing resources.

Local Effect: The bill's imposition of existing penalty provisions does not have a material impact on local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill defines “private education loan” as an extension of credit that:

- is not made, insured, or guaranteed under Title IV of the Higher Education Act of 1965;
- is extended to a consumer expressly, wholly or partly, for postsecondary educational expenses (regardless of whether the loan is provided by the institution that the student attends);
- does not include open-end credit or any loan that is secured by real property or a dwelling; and
- does not include an extension of credit in which the covered institution is the creditor if (1) the term of the extension of credit is 90 days or less or (2) an interest rate will not be applied to the credit balance and the term of the extension of credit is one year or less, even if the credit is payable in more than four installments.

The bill’s requirements apply to a private education loan collection action, including a small claim action that is maintained by a private education lender or collector. The bill prohibits a court from entering a judgment in favor of a private education lender or collector unless the proper documentation is introduced into evidence in accordance with the rules of evidence applicable to actions that are not small claims actions.

A court may not enter a judgment in favor of a private education lender or collector unless the court finds that the applicable statute of limitations for the loan has not expired.

A person that suffers damage as a result of the failure of a creditor to comply with the bill’s requirements may bring an action against the creditor to recover or obtain the following:

- an order vacating any default judgment entered against the person;
- a judgment in favor of the person;
- actual damages of at least \$500 per person, per violation;
- restitution of all money taken from (or paid by) the person after a judgment was obtained by a creditor;
- punitive damages;
- attorney’s fees;
- correction of the person’s credit report; and
- any other relief that the court deems proper.

In addition, if it is proven by a preponderance of the evidence that a creditor or counsel representing a creditor filed a required affidavit containing false information, the court

must award treble actual damages to the person (or at least \$1,500 per person) for each violation.

Current Law/Background:

Private Student Loans

The Office of the Commissioner of Financial Regulation (OCFR) advises that private or alternative student loans are any student loans that are not federal student loans. These types of loans do not have the same flexible repayment terms, fixed interest rates, or the full range of borrower protections as federal student loans. Private student loans are not funded or subsidized by the federal government and are usually financed by banks, credit unions, state loan programs, or other types of private lenders.

OCFR further advises that federal student loans and private student loans are each treated differently in bankruptcy. Federal loans are only dischargeable in bankruptcy under extraordinary circumstances (or “undue hardship”). Private loans may be discharged if they do not meet the definition of “qualified loan” which is considered an unsecured form of debt and defined by the U.S. Tax Code and the Higher Education Act as a loan made (1) to an accredited institution; (2) for qualified high education expenses; and (3) to an eligible student.

Regulation of Student Loans in Maryland

Chapters 731 and 732 of 2018 require OCFR to designate an individual to serve as a Student Loan Ombudsman. Among other things, the ombudsman must receive and process complaints about student education loan servicing and may refer any matter that is abusive, unfair, deceptive, or fraudulent to OAG for civil enforcement or criminal prosecution.

Chapter 546 of 2019 prohibits a student loan servicer (*i.e.*, the entities collecting principal, interest, or other amounts owed on student loans) from taking specified adverse actions with regard to student loan borrowers. In addition, Chapter 546 requires a student loan servicer to engage in certain conduct on receipt of a written inquiry or complaint from a student loan borrower or the borrower’s authorized representative. OCFR is authorized to enforce the Act. The Student Loan Ombudsman may refer any complaint from a student loan borrower to OCFR for investigation. A violation of these provisions is an unfair, abusive, or deceptive trade practice under MCPA, subject to MCPA’s civil and criminal penalty provisions.

Maryland Consumer Protection Act

An unfair, abusive, or deceptive trade practice under MCPA includes, among other acts, any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair, abusive, or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; the collection of consumer debt; or the offer for or actual purchase of consumer goods or consumer realty from a consumer by a merchant whose business includes paying off consumer debt in connection with the purchase of any consumer goods or consumer realty from a consumer.

The Consumer Protection Division is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease and desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to \$10,000 for each violation and up to \$25,000 for each repetition of the same violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$1,000 and/or imprisonment for up to one year.

Small Business Effect: Any small business lenders or collectors that engage in lending or collecting as described in the bill may be affected, as the bill makes it more difficult to collect student loan debts that are in arrears due to additional documentation, notice, and evidence requirements. However, the number of small business entities in the State that engage in the activities described by the bill is not known.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Judiciary (Administrative Office of the Courts); Maryland Department of Labor; Department of Legislative Services

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