

and other data supporting the claims against the debtor to determine whether in every instance there was a valid, enforceable claim. Obviously the administrative burden would be considerable.

To a certain extent this burden could be reduced by a requirement, either in the bill or in regulations adopted by the District government (and I note, incidentally, that H.R. 8929 does not, except by implication, authorize the District government to make regulations), that no debt adjuster shall enter into a contract with a debtor until there has been a determination, *by impartial counsel* (not "house" counsel), that the claims against the debtor are valid and enforceable. There still would remain the problem of fair dealing, but at least the validity of the claims against the debtor would be established.

REGULATIONS

Those who urge the regulation of the debt-adjusting business have suggested some twenty-one regulatory conditions. Perhaps chief among these are the requirements that those licensed as debt adjusters give bond (the bill establishes the amount of the bond at \$5,000), that they be limited in the maximum rates they may charge, and that they be prohibited from making any charge unless the licensee has been able to secure the approval and consent of the *majority* of creditors, both in number and amount of indebtedness. With respect to the bond, it is to be questioned whether this would be of any value to a debtor who may have had his wages garnished and perhaps have lost his job as a result, by reason of the failure of the debt adjuster to make payment to a creditor. The bond requirement would seem to be of value only if it were coupled with a self-policing provision whereby any debtor injured by an act of commission or omission on the part of a debt adjuster could claim treble damages, and proceed against the surety for this amount of damages. Such a requirement would offer considerable incentive for the debtor to bring to the attention of the appropriate authorities any incident indicating that he is being misled, deceived, or defrauded, or the debt adjuster is not performing in accordance with the agreement.

The third of the suggestions set forth above also poses an interesting question. Those urging the regulation of debt adjusters would require a licensee to secure the approval and consent of only a *majority* of the creditors. This means that if a debtor has eleven creditors, the licensee need secure approval and consent of only six, whereupon he can fix his fee on the basis of the debtor's total debt. But the remaining five creditors may not accept the arrangement, and may insist on dealing directly with the debtor. I find nothing in any of the suggestions made by those urging regulation that the debt adjuster shall make a rebate to the debtor of so much of his fee as may have been based on the debts owing those creditors who refuse to deal with the debt adjuster, or basing his fee only on the total of the debts owing those creditors who have given their approval and consent to the transaction.

DEBT ADJUSTING CHARGES

Mr. Chairman, as lengthy as my testimony has been, I have touched only the fringes of what must be considered a grave problem. According to the debt adjusters, the average debt of those who patronize them is of the order of \$3,000. I understand that the fees of the debt adjusters range from twelve percent to as high as twenty-five percent. If we take fifteen percent as a conservative average, this means that the total debt owed by the average person patronizing a debt adjuster is increased \$450. In return for this amount, the debt adjusters have indicated that each such transaction may involve one or two hours at the inception of the transaction and perhaps fifteen minutes a month thereafter for the life of the transaction. Even were there no potential for deceit or fraud, there seems little justification for increasing the total debt of a group of persons the majority, and perhaps the great majority, of whom are already insolvent. Obviously, with this amount of money involved, and this financial burden imposed on those of the community who can least afford it, there would devolve on the government of the District of Columbia the duty of scrutinizing in the greatest detail the transactions engaged in by debt adjusters, and even then it might be impossible to prevent injury to these persons. In view of this, the regulation of the debt adjusting business does not appear to be appropriate, and in view of the great potential for deceit and fraud inherent in this type of activity, its prohibition, in the view of the Commissioners, is the desirable course of action—a course of action presently effective in the City of Baltimore and in