

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Banking and Insurance

BILL: CS/SB 562

INTRODUCER: Banking and Insurance Committee and Senator Stargel

SUBJECT: Consumer Debt Collection

DATE: January 21, 2016 **REVISED:** _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Johnson	Knudson	BI	Fav/CS
2.			CM	
3.			FP	

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 562 amends a provision of the Florida Consumer Collection Practices Act (act), which regulates consumer collection agencies and prohibits many of the same debt collection practices prohibited by the federal Fair Debt Collection Practices Act (FDCPA). Under Florida law, in collecting consumer debts, a person is prohibited from communicating with a debtor if the person knows that a debtor is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney's name and address. However, current law contains three exceptions to this prohibition, thus allowing the communication under the following circumstances: 1) the debtor's attorney fails to respond within 30 days to a communication from the person; 2) the debtor's attorney consents to a direct communication with the debtor; or 3) the debtor initiates the communication.

The bill provides that the prohibition against an original creditor contacting the debtor would not apply if the debtor's attorney fails to provide notice of representation by certified mail to the address designated on the billing statement by the original creditor or to the registered agent of the original creditor. Such notice must state the debtor is represented by an attorney with respect to such debt, and disclose the attorney's name and address. A debtor's attorney may also provide notice of representation to an original creditor by virtue of pleadings and other filings in a filed action.

II. Present Situation:

Consumer debt covers personal debt such as mortgages, credit cards, medical debts, and other debts mainly for individual, family, or household purposes. Depending on the terms of the loan, a grace period may be provided before a debt becomes delinquent. Generally, most credit issuers will attempt to collect on a delinquent debt between 120-180 days after delinquency, before it is deemed uncollectible and is “charged off” corporate accounts. Typically, then the charged-off debt is either assigned or sold to a third-party collection agency or collection law firm, which use a variety of collection methods and judgment remedies to recover the asset, subject to applicable statutes of limitations. These remedies enable creditors to minimize losses due to nonpayment by borrowers, and help ensure the availability and affordability of consumer credit.

Between 2001 and 2013, on average 10.1 percent of outstanding credit card debt was reported as being more than 90 days delinquent. In contrast, for the same period, 8.0 percent of student loans and 3.8 percent of mortgage loans were reported as being more than 90 days delinquent.¹ In 2013, the proportion of American consumers with at least one account in third-party collections stood at 14 percent and the total amount collected from them by third-party debt collectors was approximately \$55 billion.²

In 2014, the federal Consumer Financial Protection Bureau processed over 88,300 debt collection complaints, positioning debt collection as the leading source of consumer complaints.³ Approximately 2 percent of these complaints related to a consumer being contacted directly, instead of the debt collector contacting their attorney.⁴

State and Federal Debt Collection Regulations

State and federal debt collection laws provide consumer protection against deceptive, unfair, or abusive collection practices that may occur before the debtor is sued, as well as during the litigation process.

Federal Regulation

Federal *Fair Debt Collection Practices Act* - The Federal Trade Commission (FTC)⁵ and the Consumer Financial Protection Bureau⁶ are the primary federal enforcement agencies of the Fair Debt Collection Practices Act (FDCPA).⁷ The intent of the FDCPA is to protect consumers from harmful debt collection practices and to protect ethical collectors from an unfair competitive disadvantage. The FDCPA establishes standards of conduct for the collection industry by prohibiting abusive, deceptive, and unfair debt collection practices. The FDCPA applies to third-

¹ Viktor Fedaseyev, WORKING PAPER NO. 15-23, DEBT COLLECTION AGENCIES AND THE SUPPLY OF CONSUMER CREDIT (Federal Reserve Bank of Philadelphia 2014).

² Viktor Fedaseyev and Robert Hunt, WORKING PAPER NO. 15-43 THE ECONOMICS OF DEBT COLLECTION: ENFORCEMENT OF CONSUMER CREDIT CONTRACTS, (Federal Reserve Bank of Philadelphia 2015).

³ Consumer Financial Protection Bureau, *Fair Debt Collection Practices Act, Annual Report 2014* (March 2015).

⁴ *Id.*

⁵ 15 U.S.C. s. 41 *et seq.*

⁶ 12 U.S.C. s. 5481 *et seq.*

⁷ 15 U.S.C. s. 1692 *et seq.*

party collectors, which includes contingency agencies, collection law firms, and debt buyers. Each violation of the FDCPA carries a penalty of at least \$1,000 per violation.

State Regulation

At the state level, the Florida Consumer Collection Practices Act (act)⁸ prohibits many of the same debt collection practices prohibited by the FDCPA, and gives regulatory oversight authority to the Office of Financial Regulation (OFR). The OFR is responsible for the registration of consumer collection agencies (CCAs) unless specifically exempted from registration.⁹ Further, the act authorizes the Attorney General to initiate enforcement actions against out-of-state consumer debt collectors that violate the act.¹⁰

The act defines “consumer collection agency” as “any debt collector or business entity engaged in the business of soliciting consumer debts for collection or of collecting consumer debts, and which is not otherwise expressly exempted under the act. A “debt collector” is generally defined as any person who uses any instrumentality of interstate commerce in any business the principal purpose of which is the collection of debts, or who regularly collections or attempts to collect, directly or indirectly, debts owed or due to asserted to be owed or due another.¹¹ Both the federal and state acts define “debt collector” narrowly, and exclude persons such as original creditors and their in-house collectors and persons serving legal process in connection with the judicial enforcement of any debt. Both acts also provide private civil remedies¹² to debtors for violations; if successful, the consumer may recover actual and statutory damages and reasonable attorney’s fees and costs.¹³ If the court finds that the suit fails to raise justiciable issue of law or fact, the consumer is liable for court costs and reasonable attorney’s fees incurred by the defendant.

Florida law and the federal act prohibit certain collection practices. The prohibited acts under s. 559.72, F.S., apply to any person, rather than only debt collectors, as provided under FDCPA. For example, Florida law and the FDCPA generally prohibit a debt collector from contacting a consumer the debt collector knows is represented by an attorney.¹⁴ The FDCPA prohibits direct communication with a borrower when “the debt collector knows the consumer is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney’s name and address, unless the attorney fails to respond within a reasonable period of time to a communication from the debt collector.” Section 559.72(18), F.S., prohibits *any person* in collecting consumer debts from communicating with a debtor if:

⁸ Part VI of ch. 559, F.S.

⁹ Persons exempt from registration include original creditors, Florida Bar members, financial institutions authorized to do business in Florida and their wholly owned subsidiaries and affiliates, and insurance companies that are authorized to do business in this state. [Section 559.553(3), F.S.]

¹⁰ Section 559.565, F.S.

¹¹ Section 559.55(7), F.S.

¹² Section 559.77(1), F.S., provides that any person who fails to comply with any provision of this section is liable for actual damages and additional statutory damages as the court may allow, but not exceeding \$1,000, together with court costs and reasonable attorney fees incurred by the plaintiff. In determining the defendant’s liability for additional statutory damages, the court must consider the nature of the defendant’s noncompliance, the frequency and persistence of the noncompliance, and the extent to which the noncompliance was intentional. Section 559.77(1), F.S., also addresses class action lawsuits.

¹³ 15 U.S.C. s. 1692j and Section 559.77, F.S., respectively. Section 559.77(3), F.S., provides that a person is not liable in any action under this section if the person shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error, notwithstanding the maintenance of procedures reasonably adopted to avoid such errors.

¹⁴ 15 U.S.C. 1692c.

the person knows that the debtor is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney's name and address, unless the debtor's attorney fails to respond within 30 days to a communication from the person, unless the debtor's attorney consents to a direct communication with the debtor, or unless the debtor initiates the communication.

Therefore, current law contains three exceptions to this prohibition, thus allowing the aforementioned communication under the following circumstances: 1) the debtor's attorney fails to respond within 30 days to a communication from the person; 2) the debtor's attorney consents to a direct communication with the debtor; or 3) the debtor initiates the communication.

III. Effect of Proposed Changes:

Section 1 amends s. 559.72(18), F.S., to provide that an original creditor collecting a debt is not liable for violating the requirements of the subsection if the debtor or the debtor's attorney fails to provide the original creditor with notice of representation by certified mail. The notice must be sent to the address designated on the billing statements from the original creditor or to the registered agent of the original creditor. Such notice must state the debtor is represented by an attorney with respect to such debt, and disclose the attorney's name and address. A debtor's attorney may also provide notice of representation to an original creditor by virtue of pleadings and other filings in a filed action.

The current FDCPA provides that a debt collector is prohibited from communicating with a consumer in connection with the collection of any debt if the debt collector knows the consumer is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney's name and address, unless the attorney fails to respond within a reasonable period of time to a communication from the debt collector or unless the attorney consents to direct communication with the consumer.¹⁵

Section 2 provides the act is effective July 1, 2016.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

¹⁵ 15 U.S.C. s. 1692(c).

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

Debtors may incur additional costs associated with the requirement to use certified mail to provide the notice of attorney representation. Original creditors may benefit by having notice of attorney representation delivered by certified mail, which will ensure the notice is received at the proper address; thus, they will be less likely to violate the statute and incur associated fines.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

The term, “original creditor,” is not defined in part VI of ch. 559.72, F.S. The terms, “creditor” and “debt collector” are defined.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends section 559.72 of the Florida Statutes.

IX. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Banking and Insurance on January 19, 2016:**

The CS provides the following changes;

- Reinstates current law, which provides a prohibition on contacting a debtor when the person collecting the debt knows that the debtor is represented by an attorney with respect to the debt and, though lacking actual knowledge of the name and address of the debtor’s attorney, the person is otherwise able to “*readily ascertain*” the name and address of the debtor's attorney.
- Provides that the prohibition against an original creditor contacting the debtor would also not apply if the debtor’s attorney fails to provide notice of representation by certified mail at the address designated on the billing statement by the original creditor or to the registered agent of the original creditor. A debtor’s attorney may also provide notice of representation to an original creditor by virtue of pleadings and other filings in a filed action.

- Eliminates the provision allowing the Office of Financial Regulation to adopt rules for notice of representation and receipt of response.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
