

FINAL BILL REPORT

ESHB 1311

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Synopsis as Enacted

Brief Description: Addressing credit repair services performed by a credit services organization.

Sponsors: House Committee on Consumer Protection & Business (originally sponsored by Representatives Reeves, Corry, Chapman, Reed and Cheney).

House Committee on Consumer Protection & Business
Senate Committee on Business, Financial Services, Gaming & Trade

Background:

Washington's Credit Services Organization Act.

In 1986 the Legislature adopted the Credit Services Organization Act (Act). For a fee, these businesses generally offer to provide advice or assist individuals in improving their credit rating. Typically, this is done by advocating on a consumer's behalf by disputing false and negative information contained in a consumer's credit report.

The Act requires a credit services organization offering assistance for a fee to meet certain financial and disclosure requirements. A credit services organization is prohibited from charging or receiving any money prior to full and complete performance of the services it has agreed to perform for the consumer, unless the organization has obtained a surety bond for \$10,000. All contracts must be in writing and specify cancellation rights, payment terms, and a full description of the services to be performed.

The Act also grants the consumer a five-day period during which he or she may cancel the contract. Any contract provision waiving the rights granted under the Act is prohibited. Certain persons are made exempt from the Act, including various lenders, real estate brokers, securities broker-dealers, and attorneys. A violation of the Act constitutes a gross misdemeanor.

Federal Credit Repair Organizations Act.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The Credit Repair Organizations Act (CROA) is a federal consumer protection law that regulates credit repair companies by aiming to prevent misleading or false advertisement. The CROA lists several prohibited acts, such as demanding payment for services in advance and not providing a written contract outlining the services to be provided.

Summary:

Prohibited Acts.

The list of prohibited practices under the Act is expanded to include that credit services organizations may not:

- fail to provide a monthly statement to the consumer detailing the services performed, including, if applicable, an accounting of any funds paid by a consumer and held or disbursed on the consumer's behalf, and copies of letters sent by the credit services organization on the consumer's behalf;
- send any communication to a consumer reporting agency, creditor, collection agency, or regulatory entity without the consumer's prior written authorization;
- fail to make a written communication on a consumer's behalf to any consumer reporting agency, creditor, collection agency, regulatory entity, or legal counsel; or
- fail to provide with the first written communication information sufficient to permit the consumer reporting agency, creditor, debt collector, or regulatory entity to investigate the account or accounts in question.

If a consumer provides prior consent, an activity undertaken to obtain a consumer's credit report and determine the consumer's needs for reinvestigation of accounts does not constitute services of a credit services organization for which a contract is required.

Communication Between a Consumer Reporting Agency, Creditor, or Collection Agency and the Credit Services Organization.

A consumer reporting agency, creditor, or collection agency that knows a consumer is represented by a credit services organization and knows, or can readily ascertain, the credit services organization's name and address must communicate with the credit services organization unless:

- the credit services organization fails to respond within 30 days to a communication from a consumer reporting agency, creditor, or collection agency; or
- the consumer expressly directs the consumer reporting agency, creditor, or collection agency not to communicate with the credit services organization.

A consumer reporting agency, creditor, or collection agency is not required to communicate with a credit services organization concerning an account that is subject to dispute if:

- the account has been paid, settled, or otherwise resolved and has been reported as such on the consumer's credit report;
- the account has been removed from the consumer's credit report;
- the debt collector has provided to the credit services organization or to the consumer the account verification information or documentation required under federal law;

- the debt collector is a debt buyer and has provided to the credit services organization or to the consumer the account information or documentation required under state law; or
- the consumer reporting agency, creditor, or collection agency reasonably determines that the dispute is frivolous or irrelevant pursuant to federal law.

Redacting Requirement.

A credit services organization must redact certain personal information when it sends a written communication unless the inclusion of the full number or date is otherwise required by law, legally permissible, and required to achieve the objective.

Records.

Credit services organizations are required to maintain files of statements provided to consumers for four years after the completion or termination of the credit services organization agreement.

Notice Requirements.

In addition to existing requirements, information statements provided to consumers before a contract is signed or money is exchanged must also include a conspicuous statement in boldface 10-point type at the top of the information statement that clearly outlines to the consumer how the credit services organization will act on the consumer's behalf, including that with explicit approval, the credit services organization may use the consumer's signature. The information statement must also include a notice about the consumer's right to file complaints with the Attorney General's Office about services provided or fees charged. The notice must include a list of various consumer rights, such as the right to obtain a free copy of their credit report, the right to dispute inaccurate information by contacting the consumer reporting agency directly, and the right to cancel the contract with the credit services organization for any reason before midnight on the fifth working day after it is signed.

Contract Modifications.

The contracts used by credit services organizations must include explicit written approval from the consumer to use the consumer's signature to facilitate credit repair services. The timeframe for which a credit services organization may contract for is limited to 180 days.

The Notice of Cancellation form that must accompany a credit services organization's contract is modified. The cancellation may occur before midnight on the fifth working day after the contract is signed, and the consumer may deliver the notice of cancellation via electronic or physical means. In addition, it is not necessary for a consumer to use the sample form to cancel a contract, and the credit services organization must provide easily understood and exercised cancellation instructions on its website.

Right to Damages.

Rather than just the consumer bringing action for a violation, any person injured by a

violation may bring action for recovery of actual damages and reasonable attorney's fees and costs. If a consumer brings forward an action, damages must be awarded in an amount not less than the amount paid by the consumer to the credit services organization.

Votes on Final Passage:

House 91 5

Senate 46 0

Effective: July 23, 2023