

To: House Committee on Commerce and Economic Development

From: Association of Vermont Credit Unions

Date: 2/5/2026

Re: Response to H.385 Draft 1.2-an act relating to remedies and protections for victims of coerced debt.

Association of Vermont Credit Unions supports the intent of H.385; protecting victims and providing pathways to reclaiming financial independence while removing barriers that may cause undue trauma or revictimization. In fact, credit unions have a long history of consumer-friendly products like credit builder loans and financial counseling to support financial success and independence, and many Vermont credit unions report a practice of collaborating with members to create favorable debt restructuring and reduction.

Like financial institutions around this country, Vermont credit unions are also feeling the rapidly increasing impact and expense of fraud. This bill has the potential for exploitation by fraudsters and subjects all losses, through no fault of their own, on Vermont financial institutions including legal remedies and sanctions. And while we are supportive of the intent of this bill, the effect of this legislation on operating procedures will create an undue burden and expense on Vermont credit unions.

Key Concerns

1. Subjective Determination and Documentation

The mix of “adequate documentation” as proposed in this legislation provides improved access for victims, however with the wide and varied accountability and documentation required from each party it opens the door for exploitation and fraud in reporting.

- The bill's acceptance of unverified identity theft reports as adequate documentation creates significant risk of fraudulent claims. And, credit unions face full statutory liability for rejecting them, even when acting in good faith.
- Additionally, we would ask for a reconsideration of “crisis workers” as defined by 12 V.S.A § 1614(a)(1) and to instead require any and all qualified third party professionals to be governed and held accountable through employment and by a certifying licensing body i.e.: VT bar, Secretary of State, Dept of Health, etc., an officer of the court or law enforcement.

2. Operational Burden and Expense

The interaction between the bill's requirements and existing federal regulations creates compliance complexity, confusion, and inconsistency that will require ongoing legal consultation and system modifications, adding permanent cost increases to credit union operations.

Credit unions will need to renegotiate contracts with collection agencies, legal counsel, and service providers to ensure compliance with the bill's restrictions, creating additional legal and administrative costs.

The bill's requirements for immediate credit reporting notifications and potential deletions create complex and inconsistent compliance obligations with consumer reporting agencies.

The 30-day implementation timeline requires credit unions to completely rebuild their debt collection, fraud resolution, and consumer reporting systems.

The bill's 10-day review requirements, specialized contact protocols, and documentation mandates require dedicated staffing and systems, additional compliance personnel, separate communication channels, creating permanent increases in operational costs.

Vermont credit unions request a reconsideration of the timeline to allow for appropriate intake and consideration before triggering changes required for debt collection and credit reporting. We believe 30 days to receive and request additional information is more appropriate with a requirement to notify credit reporting agencies, if a verified claim of coerced debt, within 90 days.

3. Economic Abuse and “Friendly Fraud”

With a broad definition of economic abuse there is a risk of misuse of this legislation to request relief for debt that was incurred during a relationship that is no longer beneficial, whether of a domestic or commercial partnership. The bill as proposed could provide unintended burdens to the financial institution to disprove “economic abuse” with little recourse to pursue a perpetrator without incurring significant legal expenses.

Additional Recommended Considerations

- Safe Harbor Provision: Add language preserving existing creditor programs that

exceed the bill's minimum requirements, allowing credit unions to maintain proven fraud-resolution practices.

- **Limitation on Retroactive Application:** Restrict the bill's application to debts incurred after the effective date, preventing disruption of final judgments and existing secured obligations.

Conclusion

Vermont credit unions appreciate the work of this body and the considerations of all stakeholders in crafting legislation that will help survivors of domestic abuse or human trafficking. In general, we are supportive of the efforts of this bill and this body. We appreciate your consideration of the issues we have raised that will create an undue financial and operational burden on financial institutions that are already heavily regulated entities acting in good faith to provide necessary credit accessibility to Vermont consumers. We ask this body to remove the subjective “economic abuse,” reconsider extending response timelines to claims, and to amend the documentation and third party to better align with legal burden of proof to dissolve a legal credit contract.

Thank you for your consideration.

Carrie L. Allen

President, Association of Vermont Credit Unions