

New York's Coerced Debt Law Remains a Work in Progress

January 26, 2026 | [Thomas P. Quinn, Jr.](#) and [Anastasia V. Caton](#)

In mid-December New York joined a growing number of states that regulate coerced debt. The law, found in a new Article of the New York General Business Laws, will become effective on March 20th. Without question, coerced debt laws serve a noble purpose. However, even upon its passage New York Governor Kathy Hochul noted in her Approval Memorandum that the legislation "contains numerous technical errors, substantive issues and structural defects" that are to be addressed in the 2026 legislative session. Pending such corrections, what should creditors do?

What the Current Coerced Debt Law Requires

The Basics: Definitions and Parties

We should start at the beginning and understand the definition of the relevant terms. They break across three general categories: the nature of the coerced debt, the parties to such a transaction, and the coercive nature between such parties. The nature of the problematic transaction is best understood by focusing on two definitions. First is the definition of the term "debt." It is defined broadly: it means any obligation (or alleged obligation) of a consumer to pay money arising out of a transaction in which the money, property or services, insurance, or rental arrears owed for the use or occupancy of a dwelling was for personal, family or household purposes. This definition is broad enough to cover virtually all financial products, whether they are loans, lines of credit, a credit sale transaction, an insurance policy or an unpaid lease of residential rental property. A "debt" is considered a "coerced debt" if it is incurred by the "debtor" due to economic abuse including (but not limited to) fraud, duress, intimidation, threat, force, coercion, manipulation, undue influence or the nonconsensual use of the debtor's personal information.

Coerced debt involves three parties: the "debtor," the "creditor," and the person accused of forcing the debtor into the coerced debt. While this final party remains undefined in the New York law, for ease of reference this article will refer to this individual as the "perpetrator." The other two parties are defined. The new legislation defines the term "debtor" much as you would expect: they are the person who owes (or is alleged to owe) the debt in question. In plain English, the debtor is the victim of the coerced debt relationship. The "creditor" is the person, firm, corporation or organization to whom the debt is owed. It includes assignees as well as any debt collection agency or debt collector (including purchasers of defaulted debt).

The term "economic abuse" frames the nature of the coercive relationship between the debtor and the perpetrator. The definition notes that it may arise in several different contexts. For example, it may arise between partners in an intimate relationship, between family or household members, victims of human trafficking and their traffickers, or relationships between children, the elderly or individuals eligible for

protective services and their caregivers. These relationships will be considered economically abusive when there is behavior that is coercive, deceptive, manipulative, or when the perpetrator otherwise controls, restrains, or sabotages the debtor's ability to acquire, use or maintain the economic resources to which they are entitled through fraud, manipulation or coercion.

This economically abusive behavior can arise in several contexts. For example, it may arise by the perpetrator restricting a debtor's access to money, assets, credit or financial information. The perpetrator may engage in economic abuse by unfairly using the debtor's personal information or personal economic resources (such as money, assets or credit). Similarly, the perpetrator may also engage in this behavior by exerting undue influence over the debtor's economic behavior or decisions, for example: by forcing default on joint financial obligation, exploiting powers of attorney or other representative relationships, or by failing or neglecting to act in the best interest of a debtor when a fiduciary duty is owed to him / her.

Debtor Notification and Creditor Investigation

Under the current iteration of the New York coerced debt law (like other coerced debt laws around the country), a notice from the debtor triggers a creditor investigation. If the debtor notifies the creditor that a debt (or a portion of a debt) being collected is a "coerced debt" and supplies "adequate documentation" with this notice, then the creditor must cease collection activity pending an internal investigation.

For purposes of this notice, "adequate documentation" means documentation that identifies the debt in question and describes the circumstances in which it was incurred. The following documents satisfy this requirement: a police report, an FTC identity theft report that identifies the debt as coerced debt, a court order finding a particular debt to have been coerced, or a sworn and notarized statement from a "qualified third party" to whom the debtor reported the coerced debt. The law provides a list of "qualified third parties," including law enforcement officers, court employees, attorneys or physicians, registered nurses, social workers, licensed therapists or counselors, various social service agency employees, and/or clergy members.

Upon receipt of the debtor's notice and adequate information the creditor must pause collection activities. From there, the creditor is on the clock and subject to three separate timers:

- Within 10 Business Days: The creditor must notify any consumer reporting agency to which it has furnished adverse information about the debtor that the alleged coerced debt is disputed.
- Within 30 Business Days: The creditor must complete an investigation based on the information provided by the debtor and other information available in the creditor's file. There are restrictions on this investigation. First, the credit may not contact the alleged perpetrator. Additionally, the law requires that the creditor only contact the debtor using the contact information the debtor provides. Finally, the creditor may not disclose to a third party the information the debtor provides without the debtor's permission.
- Within 5 Business Days of Creditor Completing Investigation: After completing its investigation the creditor must inform the debtor of whether it will recommence collection activity.
 - If Collection Activity Will Recommence: The creditor must notify the debtor of this determination and its good faith basis for making this determination. The creditor must also provide the documents and information used as the basis for this conclusion, and

inform the debtor of their right to request reconsideration of this determination.

- *If Collection Activity Will Not Recommence*: The creditor must inform the debtor that it is ceasing debt collection. It must also delete any tradeline reporting regarding the alleged coerced debt. If the creditor is a debt collector, it must inform the original creditor that it has ceased such collection activity because the debt was determined to have been a coerced debt.

If the investigation results in the creditor recommencing collection activities the law permits the debtor to request a reconsideration. This request must be made within 30 days of the mailing date of the creditor's post investigation determination. At this juncture, debtors are permitted to submit additional documentation (of a caliber and type similar to the debtor's initial notice) in support of the reconsideration request. Creditors have a 30-day period (running from receipt of the reconsideration request) to make a subsequent determination.

If any party (including but not limited to the creditor or an assignee) recommences collection activity after it had previously ceased, the current law permits the debtor send a subsequent coerced debt notification to the creditor. At this point this process starts from the top.

The above process is only set in motion once the debtor provides sufficient "adequate documentation" in support of its claim that the obligation is coerced debt. What happens if this information is not provided? In this case the creditor must notify the debtor of this deficiency. The statute provides a model form of this notice.

Public and Private Rights of Action

In addition to the debtor notification right and creditor investigation rule, the new legislation also provides several private and public rights of action. The first is against the alleged perpetrator. Under the law the perpetrator is civilly liable to creditor and/or the debtor for the amount of the debt. The perpetrator's liability to the debtor arises if the debtor has already paid some or all of the amount owed under the coerced debt. If either the creditor or debtor is successful in such action the perpetrator is liable for reasonable attorneys' fees and costs.

Additionally, the statute also provides debtors with several causes of action against the creditor. First, if a debtor suffers an injury due to the creditor's violation of the notice and investigation rules, the debtor may sue for statutory damages of \$1,000, plus actual damages and reasonable costs and attorney's fees.

Second, debtors may also seek a declaratory judgment that a debt (or a portion of a debt) is coerced debt. To bring an action for declaratory judgment, the debtor must certify that their notice of coerced debt (or subsequent notice of coerced debt) was sent via first class mail in a properly-addressed envelope (preferably with proof of receipt) and either (a) the 30 day creditor investigation period has run and the debtor has not received a notice informing them that collection activity has ceased or (b) the creditor has informed the debtor of its conclusion that the debt is not coerced debt.

If the debtor is able to establish, by a "preponderance of the evidence," that the debt is coerced debt, the court will issue a judgment declaring that debtor is not liable for such obligation. The creditor is then

restrained from attempting to hold the debtor liable for such debt or enforcing any judgement on such obligation. This court order will also enjoin and restrain all future collection activities with respect to the debt. Any action previously brought by the creditor to collect such debt is to be dismissed, and any prior adverse credit reporting must be deleted. A debtor successfully bringing such suit is also entitled to reasonable attorneys' fees and costs.

Not only does the New York coerced debt law provide the debtor with a sword, but it also provides them with a shield. It permits debtors to raise coerced debt as an affirmative defense in any creditor action to collect such a debt. If they are successful in raising such affirmative defense the debtor is entitled to their reasonable costs in defending the creditor's collection action.

It is worth highlighting that the debtor's private rights of action and affirmative defense rights are limited if the underlying debt is secured by real or personal property. The statute notes that such rights only affect the debtor's liability for any deficiency (i.e., their personal liability) resulting from the repossession, surrender or foreclosure and liquidation of the collateral property.

In addition to private rights of action afforded debtors, the coerced debt law also empowers the Attorney General to bring an action seeking injunctive relief, as well as a civil penalty of \$5,000 per violation.

Potential Fixes and Clarifications

As noted above, Governor Hochul acknowledged upon signing the coerced debt bill into law that it required fine tuning. To do so, twin bills were entered into the New York State Assembly during the first week of January 2026. New York Assembly Bill 9460 / Senate Bill 8830 (the "Corrective Legislation") would clarify the drafting of the current law in several key regards, and exempt certain types of transactions from its coverage in whole or in part.

We will not bury the lede: in its form as of the publication date of this article, the Corrective Legislation would result in three sweeping changes that would limit the scope of the law. First, it would largely exclude debts secured by real property from the coverage of the statute. Only the debtor's private right of action against the perpetrator of the coerced debt would remain applicable. Similarly, a more limited exclusion would apply to debts secured by personal property (for example: a car loan or retail instalment sales contract). Such transactions would be exempt from not only the debtor notice and creditor investigation requirements, but also the right of the debtor to seek declaratory relief. Otherwise, the remainder of the coerced debt law would apply to personal property-secured debts. Finally, the Corrective Legislation would also push the effective date of the coerced debt law out by an additional 90 days and would apply the law prospectively: only debts incurred on or after the new effective date of the law would be covered.

The Corrective Legislation would make a number of additional substantive changes. Definitionally, it would expand the types of "adequate documentation" that must accompany a claim of coerced debt. First, the types of official reports that may be included would no longer be limited to FTC identity theft reports. Under the Corrective Legislation, adequate documentation may include any official report filed by the debtor with a federal, state or local law enforcement agency so long as such report is subject to criminal penalties if the debtor files a false report. The Corrective Legislation would also require the statement of a qualified third party to be one derived from the qualified third party acting in their professional capacity.

Unnecessary and confusing linguistic clutter would also be removed. Three definitions - coerced debt, debt and economic abuse - would be combined into a single, crisper, and less open-ended definition of "coerced debt." Under the Corrective Legislation, "coerced debt" would be a debt arising out of a consumer-purpose transaction due to duress, intimidation, threat, force, manipulation or undue influence in the context of intimate relationships, relationships between family or household members, relationships between human traffickers and their victims, relationships between children and their parents or caretakers, and/or relationships between the elderly or individuals eligible for protective services and their caregivers.

Clarifications would also be made to the debtor notice and creditor investigation rules. First, the Corrective Legislation would allow 10 business days to pause collection activity upon receipt of a debtor coerced debt notice. The Corrective Legislation would clarify that sending notices required by applicable law would not constitute "collection activity" for purposes of the notice and investigation rules.

Additionally, the Corrective Legislation would revise the process governing debtor reconsideration requests. It would clarify that any reconsideration of the debt in question would be solely at the discretion of the creditor. This change interlocks with the revised debtor litigation rights.

Under the Corrective Legislation a reconsideration request from the debtor would become a prerequisite. A declaratory action would only be permissible following the debtor's request for reconsideration if the creditor either reaffirms its initial determination that the debt is not coerced debt or the debtor has not received a determination on reconsideration that the debt is coerced within 35 days of submitting the reconsideration request. The Corrective Legislation would also soften the declaratory judgment provisions, providing the creditor a defense that the coerced debt arose due to the creditor's bona fide error.

The Corrective Legislation would also reorganize the statute, moving the private right of action against the perpetrator, and the Attorney General's right to bring an action for injunctive relief, to new sections. Finally, the Corrective Legislation would modify the right of the debtor to bring suit against the creditor for violations of the notice and investigation rules. This private right of action would be preceded by an opportunity for the creditor to cure the alleged deficiency. If the creditor is unable to cure the error within 15 days, and the inability to effect a cure is not the result of a bona fide error, the debtor may proceed with their suit.

What to do in the Interim?

Certainly, there is a lot here. And given the direction from Governor Hochul's approval memorandum it is clear that the current form of the coerced debt statute will be revised. To what degree and when remains the big question, as there is no guarantee that the Corrective Legislation will be passed in its current form or at all. Given this uncertainty, creditors should consider planning for complying with the version of the coerced debt statute as passed in mid-December. Indeed, changes to this legislation would generally lighten the compliance load rather than make it more burdensome. From the perspective of this aging New Englander, counting on the Corrective Legislation to pass as currently drafted is like failing to study for a test because you hope tomorrow will be a snow day. Creditors should consider not getting caught flat-footed and unprepared.

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