

Exhibit B - *Bankruptcy Reform Act of 1998 (Part III)*, Hearing on H.R. 3150 before House Judiciary Comm., 105 Cong., 2d Session 90-92 (1998)

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**BANKRUPTCY REFORM ACT OF 1998;
RESPONSIBLE BORROWER PROTECTION ACT; AND
CONSUMER LENDERS AND BORROWERS
BANKRUPTCY ACCOUNTABILITY ACT OF 1998
PART III**

HEARING

BEFORE THE

SUBCOMMITTEE ON

COMMERCIAL AND ADMINISTRATIVE LAW

OF THE

COMMITTEE ON THE JUDICIARY

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

H.R. 3150, H.R. 2500, and H.R. 3146

PART III

MARCH 18, 1998

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UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

FOR YOUR INFORMATION.....MARCH 26, 1997

Debt-burdened consumers who answer ads that offer to "consolidate bills" or "stop credit harassment" may be the targets of bankruptcy mills, according to a new publication from the Federal Trade Commission. "Advertisements Promising Debt Relief May Be Offering Bankruptcy," the FTC Consumer Alert warns.

A record one million consumers filed for bankruptcy in 1996, according to the Alert. But bankruptcy can have a long-term negative impact on creditworthiness; stays on your credit report for 10 years, and can hinder a consumer's ability to get credit, a job, insurance or even a place to live. "Although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort," the publication says.

The Alert says that some newspaper, magazine and telephone directory ads give tip-offs that their "debt consolidation" ads are really touting bankruptcy mills. Ads that make claims such as:

"Consolidate your bills into one monthly payment *without borrowing*,"

"Wipe out your debts! Consolidate your bills! How? *By using the protection and assistance provided by federal law*;" and,

"Stop credit harassment, foreclosures, repossessions" . . . "*Keep Your Property*," may be touting bankruptcy services which can hurt consumers' credit and cost attorneys' fees, the Alert says.

The FTC advises that before considering bankruptcy, consumers having trouble paying their bills should:

- Talk with their creditors who may be willing to work out a modified payment plan;
- Contact a credit counseling service. Some nonprofit organizations charge little or nothing for these services;
- Consider a second mortgage or home equity line of credit.

- more -

(debt-3/26/97)

The FTC Consumer Alert was developed in conjunction with the American Financial Services Association which will distribute copies to consumers through its nearly 400 member companies.

Copies of the consumer alert, "Advertisements Promising Debt Relief May Be Offering Bankruptcy" and other consumer publications are available on the Internet at the FTC's World Wide Web site at: <http://www.ftc.gov> (no period). Copies also are available from the FTC's Public Reference Branch, Room 130, 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580; 202-326-2222; TTY for the hearing impaired 202-326-2502. To find out the latest news as it is announced, call the FTC NewsPhone recording at 202-326-2710.

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(DEBT)

Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Advertisements Promising Debt Relief May Be Offering Bankruptcy

Washington, D.C. -- Debt got you down? You're not alone. Consumer debt is at an all-time high. What's more, record numbers of consumers — more than 1 million in 1996 — are filing for bankruptcy. Whether your debt dilemma is the result of an illness, unemployment, or simply overspending, it can seem overwhelming. In your effort to get solvent, be on the alert for advertisements that offer seemingly quick fixes. While the ads pitch the promise of debt relief, they rarely say relief may be spelled b-a-n-k-r-u-p-t-c-y. And although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort. The reason: its long-term negative impact on your creditworthiness. A bankruptcy stays on your credit report for 10 years, and can hinder your ability to get credit, a job, insurance, or even a place to live.

The Federal Trade Commission cautions consumers to read between the lines when faced with ads in newspapers, magazines or even telephone directories that say:

"Consolidate your bills into one monthly payment without borrowing."

"STOP credit harassment, foreclosures, repossessions, tax levies and garnishments." "Keep Your Property."

"Wipe out your debts! Consolidate your bills! How? By using the protection and assistance provided by federal law. For once, let the law work for you!"

You'll find out later that such phrases often involve bankruptcy proceedings, which can hurt your credit and cost you attorneys' fees.

If you're having trouble paying your bills, consider these possibilities *before* considering filing for bankruptcy:

- *Talk with your creditors.* They may be willing to work out a modified payment plan.
- *Contact a credit counseling service.* These organizations work with you and your creditors to develop debt repayment plans. Such plans require you to deposit money each month with the counseling service. The service then pays your creditors. Some nonprofit organizations charge little or nothing for their services.
- *Carefully consider a second mortgage or home equity line of credit.* While these loans may allow you to consolidate your debt, they also require your home as collateral.

If none of these options is possible, bankruptcy may be the likely alternative. There are two kinds of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal court. The current filing fee is \$160. Attorney fees are additional and can vary widely. The consequences of bankruptcy are significant and require careful consideration.

Chapter 13, also known as a reorganization, allows you to keep property, such as a mortgaged house or car, that you otherwise might lose. Reorganization may allow you to pay off a default during a period of three to five years, rather than surrender any property.

Chapter 7, known as a straight bankruptcy, involves liquidating all assets that are not exempt in your state. Exempt property may include work-related tools and basic household furnishings. Some property may be sold by a court-appointed official or turned over to creditors. You can file for Chapter 7 only once every six years. Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary among states. Personal bankruptcy usually *does not* erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

Visit the FTC web site at www.ftc.gov, or contact the AFSA's Education Foundation at 1-888-400-2233 for more credit/money management information.

Produced in cooperation with the American Financial Services Association

March 1997