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PERSONAL BANKRUPTCIES FALL FOR SEVENTH CONSECUTIVE QUARTER

Metzenbaum Questions Need for Sweeping Bankruptcy Barriers Calls for Open Conference Process

Washington, D.C. – The Consumer Federation of America today released information showing that personal bankruptcies continued their sharp decline into the first quarter of this year. The data, which were compiled by economist Lawrence M. Ausubel, show a drop in the per capita bankruptcy rate of 8.4% since the first quarter of 1999 and of 14.7% in the last two years. With an estimated 291,435 Americans declaring personal bankruptcies in the first quarter, the bankruptcy rate is now lower than it has been since before bankruptcy legislation was introduced in early 1997.

“Like the Energizer Bunny, the credit card industry campaign for severe restrictions just keeps going, despite the fact that bankruptcies are plunging,” said retired Senator Howard M. Metzenbaum, the Chairman of the Consumer Federation of America (CFA). “The House and Senate bankruptcy bills will deny many families in financial crisis a fresh start while spurring more reckless and irresponsible lending by credit card issuers.”

In order to circumvent procedural hurdles, Senate leaders have indicated their intent to bypass a normal conference that is open to the public and the media.

“I thought I’d seen every trick in the book, but attaching a secretly negotiated bankruptcy bill to completely unrelated legislation already in conference is unbelievable,” said Senator Metzenbaum. “It’s the wrong way to move the bill and a bad precedent for the future. It will almost certainly lead to a bankruptcy bill that is even harsher than those already passed.”

Senate Bill Jeopardizes Retirement Savings

CFA also released data about the potential impact of an obscure provision of the Senate bankruptcy bill (Subsection 303-c) on the retirement savings of Americans who declare bankruptcy.

“Our data shows that the Senate bankruptcy bill would allow credit card companies to literally wipe out the meager savings that middle-income Americans have in many retirement plans, such as IRAs,” said CFA legislative director Travis Plunkett.

The provision would allow credit card companies and other lenders to access some retirement assets to pay off debts if the borrower files for bankruptcy. Lenders would be allowed to write waivers into the “fine print” of credit card agreements and loan contracts, allowing them to tap into non-employer retirement plans, such as IRAs. Employer sponsored defined contribution programs, such as 401k plans, would also be vulnerable if the employee rolled over these assets into an IRA after a job change or retirement.

As the following table shows, middle income Americans have very small, if any, non-pension retirement assets.

<u>Total Household Annual Income</u>	Americans with Non-Employer Retirement Plan (IRA/Keogh)		Americans with Employer-Sponsored Defined Contribution Plans (401k, 403b)	
	<u>Percent with Asset</u>	<u>Median Value</u>	<u>Percent with Asset</u>	<u>Median Value</u>
\$10,000 to \$24,999	14.7%	\$11,000	12.3%	\$2,100
\$25,000 to \$49,999	26.9%	\$12,000	37.1%	\$8,000

[Source: Retirement Savings of American Households: Asset Levels and Adequacy, Report to the Consumer Federation of America and DirectAdvice.com; Catherine P. Montalto, Ph.D.; Ohio State University; April 26, 2000; Table 2.]

At the same time, the average amount of credit card debt held by Americans who declared Chapter 7 bankruptcy in 1996 was \$17, 544. *[Source: Professor Michael E. Staten, Georgetown University, Credit Research Center; October 1997.]* In many cases, therefore, the Senate bill would allow creditors access to the entire amount held in IRAs by middle-income Americans. Creditors would also be able to claim the total amount of employer-sponsored defined contribution plans as well, when the employee rolls over these savings into an IRA or similar plan.

“Congress should not be a party to backhanded legislative maneuvers to pass a harmful and one-sided bankruptcy bill,” said Metzenbaum. “It looks like it may be up to the President to send Congress back to the drawing board to come up with a bankruptcy bill that meets the basic test of fairness and balance.”

CFA is a non-profit association of more than 250 groups, which, since 1968, has sought to advance the consumer interest through advocacy and education.