US Senate bill tightens screws on debtors

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The 97-1 Senate vote September 23, approving a bankruptcy bill which will compel debt-ridden families to pay more money to banks and credit card companies, is a textbook illustration of the way the American political system serves the interests of corporate wealth. The near-unanimous vote approved a bill which would result in an estimated saving of $4 billion a year for credit card issuers, who have bombarded working class and middle class families with solicitations to go deeper and deeper into debt.

Nearly 1.4 million people filed for bankruptcy last year, one out of every 70 households, despite the booming economy. The figure was up 19 percent over the previous year, and up 300 percent since 1980. Bankruptcy filings have set a new record every year of the 1990s, while total consumer debt has soared to $1.27 trillion.

The Senate bill would make it harder for debtors to file for bankruptcy under Chapter 7, which allows them to default on unsecured debts such as those owed on credit cards. The bill would force more families to file under Chapter 13, which requires the establishment of a court-supervised repayment plan.

A similar bill passed the House of Representatives in June by a bipartisan 306-118 margin. The main difference between the two bills is that the House version makes a Chapter 13 filing mandatory for a large category of debtors: any family which makes above the US median income, now about $51,000 a year, and which can pay 20 percent of its total debt over the next five years. The Senate bill gives the bankruptcy court discretion over whether to require a Chapter 13 filing, and narrows the class of debtors to those who can afford to pay 30 percent of their total debt over five years.

Either version of the bill would lead to a substantial shift from the present situation, in which 79 percent of bankruptcy filings are under Chapter 7, and only 21 percent under Chapter 13. Lobbyists for the credit card industry estimated that the Senate version would increase repayments on the $40 billion in annual defaults by about 10 percent, yielding the $4 billion windfall for the card companies.

The Senate bill would also require credit card companies to provide consumers with more information about how long they will need to pay off their bills and how much total interest they will pay--requirements similar to those now in effect for mortgage loans, but strongly resisted by the industry.

The Senate rejected an amendment to require a parent's signature or proof of income for credit cards issued to young people under age 21. Issuing credit cards to college students has become one of the most lucrative ways for creditors to hook young people on debt, with their parents frequently obliged to assume the burden of repayment.

Whether the Senate version--which has received White House backing--or the even more draconian House version become law, the bankruptcy bill is a piece of naked class legislation. The chief Senate Republican sponsor, Charles Grassley of Iowa, hailed its approval with the words, 'The free ride is over.' There has been no such language from Grassley or other senators for corporations which default on their pension obligations or wealthy individuals who evade paying taxes through the generous loopholes legislated by both parties.

The Senate bill passed after a multimillion lobbying campaign by creditor interests. It was opposed by the Consumers Union, the Consumer Federation of America, and the National Consumer Law Center (NCLC). Gary Klein, director of the NCLC, said, 'The big corporate lenders are trying to make the bankruptcy court another forum where debt collectors always come out on top, even at the expense of families in trouble.'

Another facet of the mounting debt crisis for working class and middle class families is the flood of advertisements for home equity loans to consolidate credit card and other debts. While such loans have been sought by debt-ridden families as a way of reducing monthly payments, they serve the interests of creditors because unsecured credit card debt is transformed into second mortgages on homes, which cannot be wiped out by a bankruptcy filing.

Personal bankruptcies are already at record levels, despite relatively low unemployment figures. The creditors are seeking to tighten the legal requirements on bankruptcy filings because they anticipate that with the turn of the US economy towards recession, the stratospheric levels of credit card debt and other consumer lending will result in far more frequent defaults.