Consumer Bankruptcy Reform Act Summary

The *Consumer Bankruptcy Reform Act* will modernize the consumer bankruptcy system to make it easier for individuals and families forced into bankruptcy to get back on their feet.

I. Makes it easier and less expensive for financially-strapped families and individuals to get financial relief.

- Replaces chapter 7 and chapter 13 with chapter 10, a new consumer bankruptcy chapter, and provides two routes for individuals to file for bankruptcy:
  - **Route 1: No-payment discharge.** For low-income/low-asset filers with no minimum payment obligation, this option wipes out all unsecured debt except for certain categories of debt, such as child support or debts incurred by fraud. A minimum payment obligation arises for debtors with valuable assets available to pay creditors or with an annual income over 135% of the median income for the state and household size, with additional allowances for each dependent. Discharge has no impact on liens on property.
  - **Route 2: Debt-specific plans.** Creates bankruptcy plans that allow individuals to resolve the debts that are specific to them. Individuals can file one or more plans, and collection of debts are paused while the filer remains current on a plan.
    - **Repayment plan (for unsecured debt, like medical, credit card, and student loan debt)**: Provides for payment of the filer's minimum payment obligation. Plans are repaid over the course of 3 years through a trustee, with the repayment obligation secured by a lien on the debtor's nonexempt property. Individuals with a minimum payment obligation must file a repayment plan to receive a discharge.
    - **Residence plan (for home mortgages)**: Addresses mortgages on the individual's principal residence. Repaid directly by the debtor.
    - **Property plan (for secured debt other than home mortgages, like car loans)**: Addresses property secured by a lien other than the individual's principal residence. Repaid directly by the debtor.
- Waives filing and administrative fees if household income is at or below 150% of the poverty line.
- Ends the pre-credit counseling requirement and allows filers to pay attorney's fees through a repayment plan.

II. Ensures that filers can care for themselves and their families during the bankruptcy process.

- **For renters**: Allows renters to continue in the lease of their principal place of residence without curing monetary defaults of less than six times their monthly rent.
- **For homeowners**:
  - Eliminates the ability of states to opt-out of federal exemptions and creates a new federal floor keyed to 50% of the Federal Housing Finance Agency (FHFA) conforming loan limit for the debtor's county of residence or a similar leasehold (or 75% of the conforming loan limit for debtors aged 65 or older). Creates an additional set of federal exemptions, including a generous $35,000 wildcard exemption, which further protect debtors' key assets.
  - Allows filers with mortgages to sell encumbered property free and clear of any liens if the first lienholder refuses to take tender of the property, subject to junior liens.

    - Allows filers to modify their mortgages based on the market value of the property, with interest rates reduced to achieve a sustainable debt-to-income ratio.
  - **For car owners**: Ends the requirement that filers pay the full amount of the loan in order to keep their vehicle. Under the bill, individuals are required to pay only the liquidation value of secured claims like car loans (with an exception of cars purchased 90 days before bankruptcy).
  - **For individuals with student loan debt**: Removes the provision that makes private and federal student loans nondischargeable, allowing these loans to be treated like most forms of consumer debt.

III. Helps address racial and gender disparities in the bankruptcy system.

- **Racial disparities**:
    - Makes certain criminal justice fines and fees dischargeable while preventing the discharge of debts stemming from civil rights violations.
    - Requires the collection of data on race, gender, and age when individuals file for bankruptcy.
- **Gender disparities**:
    - Moves to an income- and asset-only based (as opposed to expense-based) calculation of repayment ability and replaces many line-item exemptions with one lump-sum personal property exemption adjusted by the number of dependents, rather than number of bankruptcy filers.
    - Protects certain sources of income and assets traceable to them in bankruptcy, including alimony, child support income, the child tax credit, and the Earned Income Tax Credit (EITC).

IV. Closes loopholes that allow the wealthy to exploit the bankruptcy system and prevents corporate misconduct.

- **Eliminates loopholes that benefit wealthy filers**: Permanently closes the Millionaire's Loophole by eliminating the intent requirement to show that a self-settled trust in which the settlor is a beneficiary is a fraudulent transfer, and closes the loophole for spendthrift trusts, with carve outs for bona fide disability trusts.
- **Cracks down on predatory practices and holds corporate wrongdoers accountable**:
    - Disallows all claims if the claimholder or its assignor has violated a federal consumer financial law in regard to the debtor.
    - Expands the *Fair Debt Collection Practices Act* (FDCPA) to make it an unfair practice for a debt collector to sue or file a bankruptcy claim without an actual, reasonable, good faith belief that the debt is within the applicable statutory limitations period.
    - Makes a knowing collection or attempt to collect on a debt discharged in bankruptcy an unfair practice under the FDCPA, unless the debtor has voluntarily chosen to repay the debt without pressure from the collector; allows lawsuits against creditors and collectors who collect debts discharged in bankruptcy, including in class action lawsuits; and prevents creditors from pursuing these consumers in mandatory arbitration in matters related to the bankruptcy case.
    - Establishes a new Consumer Bankruptcy Ombuds at the Consumer Financial Protection Bureau (CFPB) to handle consumer bankruptcy complaints; expands the CFPB's supervisory authority to all lenders that make loans at over a 36% military APR rate, irrespective of size; and gives the CFPB supervision and enforcement authority for title 11 consumer cases by making title 11 an "enumerated consumer law."