

Consumer Bankruptcy Reform Act of 2020

The COVID-19 pandemic has ravaged the United States economy, leaving millions of Americans out of work, drowning in debt, and struggling under the weight of medical bills, student loans, mortgages, and car loans. Even before the pandemic hit, Americans were already hanging on by their fingernails. In the last 40 years, consumer credit skyrocketed as Americans, faced with stagnant wages, took on more debt to deal with the increasing costs of housing, education, medical care, and child care. For millions of households, a shock like a job loss or a family illness can send them tumbling over a financial cliff. Experts warn that a wave of bankruptcies is on the horizon.

The bankruptcy system is supposed to be a lifeline of last resort; instead, individuals and families forced into bankruptcy will encounter a broken system that too often fails to provide them with the financial relief they seek and benefits big corporate creditors. Bankruptcy rules are complex and burdensome, requiring significant time and money to navigate. The rules also make it difficult for filers to stay afloat while they regain their financial footing, jeopardizing their ability to pay their mortgages or rent, maintain their car, or otherwise care for themselves or their families. Many who file for bankruptcy will find that the system cannot resolve their biggest debts—student loans and home mortgages. And while racial and gender disparities in our economy and society can present additional barriers for people of color and women who file for bankruptcy, loopholes allow the wealthy to sidestep their repayment obligations.

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

- **Make it easier and less expensive for financially-strapped families and individuals to obtain financial relief** by replacing the two separate consumer bankruptcy chapters with a single system available to all consumers, streamlining the filing process, and reducing filing fees.
- **Ensure that filers can care for themselves and their families during the bankruptcy process** by helping renters with back rent avoid eviction and continue to make payments, making student loan debt dischargeable in bankruptcy, and allowing people to protect their homes and cars during the bankruptcy process.
- **Help address racial and gender disparities in the bankruptcy system** by ending the special privilege that prevents people from discharging local government fines in bankruptcy; preventing individuals from obtaining relief from debts arising from civil rights violations; and exempting sources of income and assets traceable to alimony, child support income, the child tax credit, and the Earned Income Tax Credit (EITC).
- **Close loopholes that allow the wealthy to exploit the bankruptcy system**, including the “Millionaire’s Loophole” and “spendthrift clause loophole.”
- **Crack down on predatory practices and hold corporate wrongdoers accountable** by banning collection of debts that violate consumer protection laws, allowing lawsuits against creditors that attempt to collect previously discharged debt, and preventing creditors from pursuing consumers in mandatory arbitration.