



Honorable Nancy Pelosi
Speaker
House of Representatives
1236 Longworth House Office Building
Washington, DC 20515

Honorable Mitch McConnell
Senate Majority Leader
United States Senate
317 Russell Senate Office Building
Washington DC 20510

Honorable Kevin McCarthy
House Minority Leader
House of Representatives
2468 Rayburn House Office Building
Washington, DC 20515

Honorable Charles Schumer
Senate Minority Leader
United States Senate
322 Hart Senate Office Building
Washington DC 20510

March 24, 2020

Re: Joint Statement, Bankruptcy relief required to address economic crisis caused by COVID-19
Virus

Dear Speaker Pelosi, Rep. McCarthy and Sens. McConnell and Schumer:

The unprecedented pandemic we are now experiencing will without doubt cause financial hardship to millions of Americans who had no hint that their otherwise stable economic situations would be disrupted so completely. Even with payment moratoria and temporary bans on foreclosures and evictions, their bills will eventually come due and in many cases, without income that is lost forever, those debts will be insurmountable. Absent permanent relief, families will face wage garnishments, evictions and foreclosures.

Bankruptcy will be the only real solution to these problems for large numbers of families who never dreamed they would need it. However, there are significant barriers that will make a prompt and effective fresh start unavailable to many families.

1. *Protecting homes.* Currently, in most states, a debtor who has more than \$50,000 in home equity will lose the family home if a chapter 7 bankruptcy is filed because the available homestead exemption is lower than that amount. In many states, the exemption is far below \$50,000, in some cases below \$10,000. While these low homestead amounts were problematic even when families had eaten up home equity through a long period of borrowing in attempts to avoid bankruptcy, in the current crisis they will have the effect of deterring huge numbers of people who desperately need bankruptcy relief from filing bankruptcy cases.

A \$100,000 floor for the homestead exemption would allow the large majority of these families to file chapter 7 bankruptcy cases to obtain permanent relief from debts they will never be able to pay. These bankruptcy cases will still be subject to the strict means test enacted in 2005, and the many other safeguards against debtor misconduct, so there is no danger of abuse. But where bankruptcy is warranted, it will contribute greatly to deleveraging the large amounts of debt that will be a drag on any economic recovery.

2. *Increase debt limits for Chapter 13.* Another barrier, especially for small businesses and in places with high real estate values, is posed by the debt limits for chapter 13 eligibility. Chapter 13 can be used by small proprietors, as well as owners of corporations and partners in partnerships, to provide relief from debts accrued during the time their businesses are shut down. Chapter 13 is much less expensive for these small businesses than any form of chapter 11, including the newly enacted small business subchapter. Doubling the debt limits for chapter 13 would allow many small business owners to reorganize without the large expenses of chapter 11, which are often in the tens of thousands of dollars.

3. *Extend the time to complete existing Chapter 13's for debtors who need it.* In addition, relief is necessary to prevent tens of thousands of current chapter 13 plans from failing because debtors have lost income during the crisis. Debtors who need more time to make required payments to secured creditors or other debts like alimony and support must be allowed to extend their plans.

4. *Preserve the Chapter 13 discharge for debtors who have made significant payments.* And if debtors who have lost income due to the pandemic do not need more time and have made their chapter 13 plan payments for a significant period of time, they should be allowed to conclude their chapter 13 cases and receive their discharges.

5. *Protect Covid-19 benefits.* Finally, it should go without saying that Covid-19 emergency payments and other benefits received by bankruptcy debtors should be used for the purpose intended for them – providing support to families who sorely need them. They should not be considered assets or disposable income available to creditors in bankruptcy cases.

There are many other ways to facilitate the filing of needed bankruptcy cases by newly debt-burdened households as this crisis progresses and hopefully ends. We look forward to working with you to help families who are in desperate situations.

Sincerely,

Center for Community Progress
Center for NYC Neighborhoods
Community Legal Services of Philadelphia
Connecticut Fair Housing Center
Empire Justice Center
Jackie & Michael Pearce, Small Business Owner
Mobilization for Justice
NAACP
National Association of Consumer Advocates
National Association of Consumer Bankruptcy Attorneys (NACBA)
National Community Reinvestment Coalition (NCRC)
National Consumer Law Center (on behalf of its low-income clients)
National Military Family Association
Temple Law School
Tzedek DC
Woodstock Institute

Cc: Chair Honorable Jerrold Nadler
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