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## **Oppose the Abusive Bankruptcy Bill, S 256 Bill Hurts Responsible Working Families But Rewards Irresponsible Credit Card Companies**

28 February 2005

Dear Senator,

We are writing on behalf of the members of the non-profit, non-partisan state Public Interest Research Groups (PIRGs) to urge your opposition to the bankruptcy proposal, S. 256, now on the Senate floor.

The bankruptcy bill's proponents, the powerful and extremely profitable financial industry, would have you believe their slick public relations campaign instead of the facts. The facts are simple: consumers are responsible and do not abuse the bankruptcy safety net. The increase in bankruptcies is not evidence of abuse, it is a symptom of growing financial problems affecting working families. The recession, the terrorist attacks and corporate scandals of the last few years have led to high long-term unemployment and an increase in the number of Americans without health insurance. This is a very bad time to place severe new restrictions on personal bankruptcy.

**Bankruptcies are due to the lack of adequate health care, not abuse:** A Harvard University study released in February 2005 shows that half of all personal bankruptcies result from families being unable to pay their medical bills, even though they often have health insurance when they first get sick. Most disturbingly, the majority of medical debtors had some form of health insurance at the onset of their bankrupting illness. Families incur medical debt as a result of costly medical care, expensive prescription drugs and lost wages. In many cases, families lose their primary source of income at the same time they are facing ever-increasing medical bills. S. 256 would place additional hardships on millions of families that are struggling to care for a sick or injured loved one. Until affordable health care is available for all that need it, we should not pass bankruptcy legislation that treats families in crisis as if they are somehow abusing the system. It is especially hypocritical that the same bill that hurts victims of medical debt would expand loopholes protecting mansions belonging to millionaire deadbeats.

**The Bill Does Nothing To Curb Irresponsible Credit Card Practices:** In the last five years, state Attorneys General, major media outlets and, incredibly, even the generally-permissive federal banking regulators have increased their criticism of unfair and deceptive credit card company practices that lead consumers into high cost credit card debt. These

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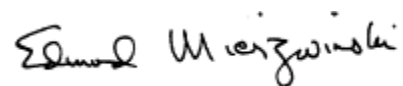
practices range from deceptive use of fixed rates that are not fixed and high interest rates that result in negative amortization (an increase in principal owed even when minimum payments are made each month) to aggressive on-campus solicitation of students without adequate ability to repay and the increasing use of so-called "universal default" systems where customers with perfect payment histories to the company face increases to penalty interest rates of 25-30% APR due to an alleged decline in their credit scores. Extremely profitable credit card companies already cover their losses to default and bankruptcy by charging punitive late fees on top of these extremely high rates. Often, their vulnerable customers end up owing them much more in interest, fees and interest piled on top of interest than what they owe in purchases. The credit card companies and their perpetual debt trap have increased revolving consumer debt in 25 years, from 1980-2004, from \$54 billion to a staggering \$791 billion.

Instead of enacting a one-sided bill that benefits the credit card industry, at the expense of consumers who are already victims of their unfair practices, Congress should conduct immediate oversight hearings of the credit card industry and rein in its unfair practices that have led to staggering increases in debts owed by American families. The bill's so-called credit card disclosure provision is a cruel hoax that will not benefit consumers.

We urge you to review S. 256. Find out about its so-called "means-test," which says that a family member cannot take public transportation if the family owns a car. Find out about the bill's provisions that increase the likelihood of eviction, even if you pay your rent. Find out how it will make it harder for single parents to collect child support. Then, we urge you to vote no on S. 256. This bill doesn't target bankruptcy abuse with a narrow-rifle shot, it blows a hole in the bankruptcy safety net needed by hard-working American families.

Please contact if you have any questions at 202-546-9707x314. Thank you for your consideration of our views.

Very truly yours,



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