

APPENDIX G-3.b

**Background on the Dallas-Fort Worth
Chapter 13 Debtor Education/Credit
Rehabilitation Program (Prepared by Tim
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13 Trustees)**

The purpose of the Dallas-Fort Worth Chapter 13 Debtor Education/Credit Rehabilitation Program is to identify and address the needs of former Chapter 13 debtors and prospective creditors. It is designed to successfully rehabilitate/re-establish the credit of debtors subsequent to completion of high dividend Chapter 13 bankruptcy plans.

There are two components of the program. One involves education of debtors who have filed a Chapter 13 bankruptcy in the Dallas and Fort Worth Divisions of the Northern District of Texas. The other involves a systematized approach to communicating with local debtor bars, the credit community, and Chapter 13 debtors about the advantages of completing high payback Chapter 13 plans. The program offers the incentive of help in re-establishing or rehabilitating credit upon successful completion of a 85-100% Chapter 13 plan.

The Chapter 13 Debtor Seminar, a personal and family resource management course, is the educational component for debtors. Since November of 1984, all Chapter 13 debtors in Dallas and Fort Worth have been required to attend eight hours of class on the day scheduled for the 341 meeting on their Chapter 13 case. Until 1992, there was a second day of required class and three optional days of classes offered. These classes were eliminated due to budget cuts in 1993. The current curriculum has several purposes. These include:

To provide advice, counsel, and assistance to the debtors in performance under their Chapter 13 plan.

To increase the completion rate of debtors in the Chapter 13 program.

To improve the personal and financial skills of the debtors in order to avoid future bankruptcy proceedings.

The **instructional goals** for the course center on planning skills, financial skills, communication skills, management skills, self-image and psychological support, and guidelines for the Chapter 13 legal and administrative process.

The planning skills covered include career planning as well as financial planning. Students are encouraged to assess strengths and weaknesses; set financial, family, and career goals; prioritize these goals; develop a plan to accomplish their goals; and implement that plan.

Financial skills, such as ways to improve spending habits, set up family budgets, re-establish and use credit after the Chapter 13 plan, reinforce sales resistance, and establish the habits of saving and investing, are emphasized. This portion of the class also highlights the true cost of credit, the dangers of impulse buying, planning for taxes and big purchases, taking advantage of seasonal buying, adjusting to seasonal income patterns, and evaluating insurance needs. Debtors learn of the advantage of completing a 85-100% payment plan if they plan to re-establish their credit, emphasizing the help available through the credit rehabilitation program for those who complete such high dividend plans.

To improve communication skills, students learn to identify barriers to good communication and are encouraged to develop skills to help them communicate within the family and on the job.

The management skills introduced include techniques to manage time and money, solve personal, family, and career problems, make decisions, manage stress, and handle crises and emergencies.

In the areas of self-image and psychological support, students examine techniques for identifying their own values, dealing with their feelings, and improving their self-image. They discuss the fact that change is a natural fact of life, and that they can learn to anticipate some of these changes that result from the natural ages and stages of human development as well as serve as a support group for each other.

To gain assurance and confidence in surviving the Chapter 13 legal and administrative process, students learn in greater detail what to expect during the three to five years that they are in their Chapter 13 bankruptcy and to understand better its legal and financial implications.

The Credit Rehabilitation Program is the second component of the Debtor Education/Credit Rehabilitation Program. Prior to establishing a formalized system to address the credit challenges and needs of completed Chapter 13 debtors, the staff of the trustee's office helped debtors on an individual basis by writing letters, making phone calls, supplying information of public record, and generally communicating with credit grantors as time permitted. Historically, this help for those who had successfully completed their Chapter 13 plans and wanted to re-establish their credit was severely limited by lack of resources in the trustee's office and little creditor involvement. Increasing requests for this type of service and the need for a more formalized system to help completed Chapter 13 debtors acquire necessary credit culminated in a creditor liaison position within the offices of Frank Pees, the Chapter 13 Trustee in Columbus, Ohio, in 1986 and of Al Olson, the Chapter 13 Trustee in San Antonio, Texas, in 1989. In October of 1990, this creditor liaison position was incorporated into a Credit Rehabilitation Department in the office of Tim Truman, Chapter 13 Trustee in Dallas and Fort Worth, Texas, as an enhancement to the debtor seminar and as an incentive to debtors to complete their Chapter 13 plans and to repay as much as possible to unsecured creditors through their Chapter 13.

On a national level, debtors have generally had great difficulty obtaining credit upon completion of Chapter 13 bankruptcies. To increase recognition for Chapter 13 debtors, the credit community has to be aware of the sacrifices and discipline required to complete a three to five year Chapter 13 plan. When compared to a Chapter 7 bankruptcy, Chapter 13 is a voluntary remedy that is concerned with repaying all or a portion of a debtor's financial obligations. It is based on a debtor's ability to pay and requires the dedication of a debtor's future income. One purpose of this program is to communicate the virtues of completion of Chapter 13 plans to debtors and creditors.

The **philosophy** of the Credit Rehabilitation Program is **to provide for the diversified requirements of those persons who have successfully completed high dividend Chapter 13 plans and are in need of assistance in rehabilitating or re-establishing credit.** This help includes counseling, opening communication channels, and providing information about the completed Chapter 13. The program is a result of an evolutionary relationship between the Chapter 13 trustees and the credit community in terms of expectations, needs, resources, and personnel. It is also the result of shared mutual interests among creditors, debtors, and trustees in education and rehabilitation concepts.

In order for the program to be successful, the credit grantors and their staffs must be

recognized as professional lenders who are sensitive and competent and who represent organizations that work to promote the optimum conditions for debtor opportunities and rehabilitation. Mutual self-interest in all sides of the debtor/creditor relationships recognizes the needs of all parties in financial matters which affect them. The participating members of the credit community believe that the program should accept the debtor participants in their current financial situation, recognize the self-discipline it took to complete the Chapter 13 bankruptcy, and help the debtors in realizing realistic financial goals dependent on the debtor's financial needs and ability to repay debt.

The participants in Chapter 13 credit rehabilitation programs recognize the ongoing need for appropriate changes and modifications as circumstances may warrant. As the credit rehabilitation concept becomes more accepted, creditors and liaisons hope that more and more debtors faced with filing bankruptcy as their only alternative to try to survive economic disasters will choose Chapter 13 high dividend plans as a result of this program.

In order to fully understand the need for credit rehabilitation for completed Chapter 13 debtors, a few observations can be made:

1. **Unsecured creditors receive little or no dividend in nearly all Chapter 7 bankruptcies.** This is especially true in Chapter 7 consumer cases since virtually all of them are no asset cases.
2. **Consideration needs to be given as to how to reward, where appropriate, a debtor who completes a high dividend Chapter 13 plan as opposed to filing a Chapter 7 bankruptcy.**
3. **Although many debtors file Chapter 13 because they feel it is a responsible thing to do, the only way to ensure increased Chapter 13 filings over Chapter 7 filings is to provide a light at the end of the tunnel to encourage Chapter 13 plans with maximum payback to creditors.**
4. **There is a growing national concern in the credit industry about the increasing small percentage of return to unsecured creditors in Chapter 7 cases.** Likewise, there is a growing national effort to encourage Chapter 13 debtors to pay as high a percentage of their unsecured debt as they possibly can.
5. **Because of the obvious advantages of Chapter 13 over Chapter 7, Chapter 13 trustees and creditors across the country are discussing the realities of Life After 13 and a Fresh Start for Chapter 13 debtors.** National creditor groups focusing on this issue include the National Retail Federation and the International Credit Association.
6. **The main purpose of the Chapter 13 Credit Rehabilitation Program is to encourage creditors to participate and to develop with the trustee's offices ways of identifying debtors having completed qualifying plans and creditors willing to review these completed debtors plans for the possibility of extending reasonable amount of credit to those debtors.**
7. **Credit grantors and the trustee's offices must identify reasonable debts,** such as home repairs, car repairs, reasonable transportation purchases, school expenses, home real estate purchases, medical bills/problems, major appliance replacement or repairs, new or replacement tools of trade, and basic furniture needs.

The **broad program objectives** of the parties involved in the Credit Rehabilitation Program,

whether they be former debtors, prospective credit grantors, debtor attorneys, or members of the trustee's staff, are to help each debtor participant re-establish appropriate credit upon completion of a high dividend Chapter 13 plan. Assistance and information will be available in the following areas:

1. The Role of Credit Bureaus

To develop among former debtors and debtor attorneys an appreciation for the necessity of accurate credit reports.

To develop communication between the Chapter 13 offices and the credit bureau reporting service network.

2. Completed Debtors

To develop an appreciation for and use of a budget.

To develop the ability to distinguish between credit needs and desires.

To develop an appreciation for the position of creditors.

To develop the self-confidence to explore various avenues of reasonable potential credit.

3. Credit Grantors

To develop an appreciation for the unique qualities of those who have successfully completed high dividend Chapter 13 bankruptcy plans.

To develop communication between the credit grantor and the Chapter 13 office.

To develop an increasing understanding of causes of debtors' past financial problems and failures.

To develop an equitable process of review on a case-by case basis.

To develop a centralized location for debtor contact upon completion of a plan in order to expedite the review of a credit application and the decision of whether or not credit will be approved and extended.

To develop, when appropriate, programs, procedures, and perhaps financial products that directly or indirectly relate to debtors' attempts to financially rehabilitate themselves.

The **specific objectives** of the parties involved in this program are to help each participant in the following areas:

1. The debtor participants shall be able to:

Set up a budget, detailing monthly receipts and expenditures.

Acquire a copy of their credit bureau report and check it for accuracy.

Determine the amount available (budget excess) for additional expenses.

Analyze needs versus desires and be aware of ability to repay any new debts.

Fill out an application for reasonable credit.

Distinguish between different types of credit.

2. The credit grantor participants shall be able to:

Acquire from the trustee documents and/or information of public record concerning qualifying debtors.

Communicate any special concerns or requirements to the trustees and to the debtors.

Communicate information concerning individual debtor participants to the trustee.

Communicate various financial products available as those products may or may not relate to a particular debtor's situation.

Communicate any additional information needed from the debtor, such as current job status,

change in circumstances, etc.

Provide trustee periodically with overall experiences credit grantor has had as a result of debtor contacts.

Interview debtor applicants.

Share the basis upon which turn downs are decided.

The **methods** used in credit rehabilitation are designed to motivate the debtor participants to successfully complete the credit application process while gaining respect for the entire credit process and the value of rebuilding a good credit history after the Chapter 13 bankruptcy.

1. The possible **sources of new or renewed credit** are identified by:

The participants themselves.

Creditors enrolled in the Chapter 13 Credit Rehabilitation Program.

Creditors participating in advisory board meetings and/or Chapter 13 bankruptcy seminars.

Contacts with creditors filing Chapter 13 claims.

Contacts with the general credit community, mainly through newsletter articles and speeches to creditor groups.

Solicitation/contact by creditor liaisons in local Chapter 13 offices.

2. The **general information supplied to creditors** considering debtor participants for credit approval will include as much as possible of the following:

Completed credit applications.

Copies of trustee's final report on the debtor's completed plan.

Copies of debtor's payment history to the Chapter 13 trustee over the life of the plan.

Referrals to Chapter 13 trustees in other parts of the country, if needed.

Any additional information needed that is a part of the public record.

3. The **creditor liaisons in Chapter 13 trustee's offices will solicit from potential credit grantors** the following information:

Any general limitation placed on the amount of credit the credit grantors may offer.

Any limitations the credit grantor may apply to the participants' discharged Chapter 13 plan, such as dividend paid to unsecured creditor, length of plan, number of unsecured creditors paid, etc. The general program only restricts debtor participants to those completing plans paying 85-100% to timely filed unsecured claims, but individual participating creditors may set up limitations within that range of cases. However, most have not imposed other restrictions.

Any additional information the credit grantor desires forwarded to the qualifying debtor.

Procedures the creditor wants the debtor participant to follow pursuant to that credit grantor's guidelines. Some participating creditors request that the trustee's liaison keep the applications on hand with mailing instructions; others provide instructions for contacting specific people within the company.

Both formal and informal methods of **evaluation** will be used in assessing the progress of the Credit Rehabilitation Program. The **Chapter 13 Credit Rehabilitation Advisory Board** will meet annually with the trustees and the program director to review the program and to offer advice or suggestions. Agenda items will include a survey of general acceptance of the

programs methods and objectives and a consideration of new ideas to enhance the program.

1. **Formal evaluation** will include:

Records kept by credit grantors with regard to approved and/or disapproved loans.

Payment history on loans granted program participants subsequent to completed plans through reports to the trustee's office.

Types of loans granted.

Tracking the ratio of Chapter 13 filings as compared to Chapter 7 filings within a given period.

Tracking the percentage of total cases that are cases proposing and paying 85-100% to unsecured creditors.

2. **Informal evaluation** will include:

Contact by qualifying debtor with the creditor liaison in the Chapter 13 Trustee's offices prior to formally requesting credit from creditor participants. Once the creditor liaison notifies the qualifying debtors and they respond with a request for help in re-establishing credit, the creditor liaison will:

1. Review the completed plan with the debtor.

2. Ask about their perceived needs for credit.

3. Review their family budget based on current income and current debts.

4. Identify any credit outstanding.

5. Identify any credit requests refused.

6. Evaluate debtor's need for credit and feasibility of obtaining such credit.

7. Discuss with the debtor preferences as to applying to any particular lender for extension of credit.

8. Identify participating creditors whose guidelines coincide with the debtor's need for credit and his/her current financial status.

9. Send information needed for the debtor interview with a given creditor or creditors by creating a portfolio for the debtor to take to the interview, if a personal interview is requested by the participating creditor. (Only information that is of public record is used.)

10. Ask debtor to notify creditor liaison if credit request is approved. If the credit is not approved, the process may begin again. The creditor liaison may rely on telephone and or written requests on behalf of a debtor in establishing creditor contact.

After a qualified debtor contacts a participating creditor and makes formal application for credit, the credit grantor will:

1. Review the credit application.

2. Review the information provided by the trustee's office.

3. Evaluate debtor's income versus expenses, including new debt requested.

4. Verify employment information.

5. Contact applicant with decision and/or conditions.

6. Respond to periodic requests from the trustee's office as to debtor's payments on any newly approved credit.

The Dallas-Fort Worth Chapter 13 Credit Rehabilitation Program is only available to those consumers who find it necessary to file bankruptcy and have the ability to repay at least 85% of their timely filed unsecured claims along with 100% of their secured and

priority claims. They must complete their Chapter 13 plan in order to qualify. It is not in competition with Consumer Credit Counseling but is an alternative for those who are not eligible for a CCCS Debt Management Plan and who, upon advice of legal counsel, decide to file bankruptcy. It benefits from cooperation with Consumer Credit Counseling officers and educational professionals as well as with representatives from all major credit reporting agencies. It has received strong support from the local chapter of the International Credit Association and the local debtor attorney organizations. As a means of publicizing these efforts, the trustees publish a quarterly newsletter, *The Thirteen Connection*, with a mailing list of over 2400 creditors and attorneys. To foster better communication among all members of the bankruptcy and credit communities, the trustees and the DFW Chapter of the International Credit Association sponsor annual bankruptcy seminars, presenting outstanding speakers on topics relevant to Chapter 13 in the Northern District of Texas, bankruptcy in general, and the importance of using credit wisely. This educational aspect of the Credit Rehabilitation Program goes hand in hand with other efforts in debtor education to rehabilitate consumers who have been through financial disaster into responsible members of the financial community.

Each constituent of the credit rehabilitation process has definite **responsibilities**. They can be divided into three broad groups:

1. Creditor Participants

Advisory Board Members

Members of this board are responsible for expanding the nucleus of creditors interested in the program, providing suggestions as to the content of the creditor handbook, and advising the trustees as to the structure of the program. They are expected to support the program when called upon through attendance at meetings and seminars or through letters of support.

Participating Creditors

Participating creditors who enroll in the program are responsible for:

Sending in an enrollment sheet to the trustee.

Setting up guidelines for the types of credit available and any restrictions to be applied.

Designating a contact person within a specific office.

Agreeing to consider qualified debtor applicants without holding the filing of a Chapter 13 against them.

Supplying trustees with data concerning credit granted or denied as a program participant and repayment statistics to be used in evaluating the progress of the program.

2. Debtor Participants

Qualified debtors who complete a Chapter 13 bankruptcy plan repaying 85-100% of the timely filed unsecured claims in addition to 100% of filed secured and priority claims are notified upon the closing of their case of their eligibility for help in re-establishing credit.

Participating debtors are those who subsequently request help in acquiring new credit or in interpreting their credit reports. They are responsible for:

Attending an interview with the Chapter 13 trustee's creditor liaison (a telephone interview may be sufficient) and completing a budget and questionnaire to be returned to the trustee's office.

Providing accurate information to the Chapter 13 trustee's office and credit grantors, seriously and realistically considering wants versus needs.

Meeting with the credit grantor's designated representative at the appointed time or following the instructions provided for applying for credit by mail.

Repaying new credit according to agreed terms.

3. **Trustee Participants**

Representatives of the trustee are responsible for coordinating contacts between credit grantors, participating debtors, and other interested parties. They are also responsible for maintaining records and providing information about the program as requested.

Communication with credit grantors can be on an individual or group basis. It includes:

Forming an advisory board to the program and organizing annual meetings.

Preparing and printing a creditor handbook to be available to interested creditors and trustees.

Organizing meetings/seminars about bankruptcy for local credit grantors, their attorneys and staffs as well as debtor attorneys and paralegals.

Providing documents to creditors about debtor's completed Chapter 13 plan payment records, Chapter 13 final report, current job status, current address, and current budget.

Maintaining contact with potential credit grantors through participation in related activities and presenting programs to creditor groups upon request.

Communication with debtors who have completed 85-100% plans includes:

Notification of qualification for the credit rehabilitation program.

Help in setting up a new budget, comparing wants and needs versus ability to pay.

Identifying potential credit grantors to match debtors' needs.

Help in completing new credit applications.

Setting up interviews for debtors with appropriate credit grantors.

Acting as intermediary concerning credit grantor's credit restrictions and required procedures and debtor's perceived credit needs.

Offering advice on the importance of maintaining a good credit history from now on and on how to interpret credit reports dealing with the Chapter 13 bankruptcy.

Communication about the progress of the program requires the maintenance of statistics. The trustee keeps a record of the number of new credit applications approved, any defaults, the amounts of new money made available to program participants, the number of debtor and creditor participants, and effects on the trustee's case loads and disbursements. The effects on the trustee's cases includes the ratio of Chapter 13 filings as compared to Chapter 7's, the ratio of 85-100% plans to the overall number of plans at various times during the pendency of the Chapter 13 cases, and the amount of money disbursed to creditors.

Communication about the status of the program and the results of the statistical reports is through the publication of the newsletter, *The Thirteen Connection*, which is sent to over 2400 debtor attorneys, credit grantors, trustees, paralegals, and other interested parties. The annual Dallas-Fort Worth bankruptcy seminar co-sponsored by the Chapter 13 Trustees, the DFW Chapter of the International Credit Association, and the Tarrant County and Dallas Debtor Bars also focuses on providing information about the program to the audience and speakers. The trustees and staff members are available to speak to creditor, debtor attorney, or trustee groups on request and to cooperate with other trustees and credit grantors in the establishment of additional programs of debtor education and credit rehabilitation.