APPENDIX G-3.c

The Effect and Scope of Credit Rehabilitation Following the Successful Completion of a Chapter 13 Plan (Prepared by Frank M. Pees, Standing Chapter 13 Trustee)

THE EFFECT AND SCOPE OF CREDIT REHABILITATION FOLLOWING THE SUCCESSFUL COMPLETION OF A CHAPTER 13 PLAN

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Consumer Bankruptcy Working Group
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I. <u>HOW IT ALL BEGAN IN THE SOUTHERN DISTRICT OF OHIO, EASTERN DIVISION:</u>

"C.E.C. Debtor Rehabilitation/Credit Re-Establishment Program"

II. <u>FIRST THINGS FIRST - DEVELOPING A CREDIT REHABILITATION PROGRAM:</u>

A. Definition of Credit Rehabilitation:

1. Debtor perspective: improving upon consumer credit choices (obtaining too much credit and money mismanagement) by gaining a better understanding of the concepts and vocabulary of personal finance.

2. Credit grantor perspective: improving upon credit decisions by gaining a better understanding of circumstances that cause a consumer to file a Chapter 13 such as job loss, medical bills, divorce and misuse of credit.

B. Recognize and Identify the Demand for:

1. Former debtor and debtor assistance with re-establishing their creditworthiness. Successful credit re-establishment can cause a reduction in the rate of recidivism.

2. Credit grantor benefits:
   a. Profitable borrowers
   b. Reduction in risk management
   c. In the case of loan default, debtors can choose <u>the Chapter 13 payback process</u> over a quick Chapter 7 discharge.

C. Six Ways to Respond to the Demand for Credit Rehabilitation and How to Disseminate the Necessary Information:

1. Credit Re-Establishment Programs and the Practical Tasks Involved for the Credit Liaison and Credit Grantor
2. Consumer Education Forums:
3. Creditor Education Seminars:
4. Community Education Forums:
5. Publications:
6. Online Information System:

<u>First - Establishing a Credit Re-Establishment Program:</u>

The Credit Liaison person is familiar with the practical effect of the bankruptcy discharge and the consumer's ability to re-establish credit. The Credit Liaison person assists current and former debtors (collectively "consumer") and credit grantors to resolve issues and/or disputes through the rehabilitation process (as previously defined on page one).

Credit Liaison Tasks: the Credit Liaison person conducts an initial interview with the consumer to determine the issue(s), and recommends the appropriate action, including settling any disputed issue(s):

Did the creditor file a claim?

Is there a lien that survived the discharge?

Did the consumer receive the title?

Was the lien cancelled?

Treatment of certain debts can create a unique set of problems such as mortgage, taxes, automobiles/boats, student loans, judgment liens, co-signed debt and conduits.

Dividend to the Unsecured Creditors

Are there any post-petition late payments and/or collections or judgments?

Referral to the appropriate professional (i.e., credit grantor, attorney, tax authority, creditor and credit reporting agency).

Assist consumer with obtaining, interpreting and updating credit reports from certain credit reporting agencies.

Ascertain whether the consumer's loan request is a necessary item rather than a luxury item.

Based upon the credit grantor's criteria (market area, type of loan and dividend to unsecured creditors) and consumer's current banking institution; match the consumer and credit grantor through the loan application process.

Letters to credit grantors including Chapter 13 plan receipts and final report and account (other information as requested)

Financial counseling including the "Steps to Re-Establish Credit" (in-person review or mailing) and personal finance instruction.

Maintain program statistics relating to the participating consumer's ability to re-establish credit and update credit reports, and participating credit grantor's analysis of participating consumer's default rates.

Cultivating Credit Grantor participation:

Identify credit grantors whose market area coincides with the Standing Chapter 13 Trustee's region.

Contact the appropriate lender's department responsible for developing programs associated with the Community Reinvestment Act ("CRA") and Community Development - schedule a meeting to discuss the credit rehabilitation programs and credit grantor benefits.

Assist in developing a pilot program for each participating credit grantor.

Credit Grantor Tasks:

Consider the market for "non-conforming" loans or high risk loans such as discharged Chapter 13 debtors as potential full service customers. Apply broader tests of creditworthiness (i.e., make the loan at an unsecured interest rate and make loans for under collateral - entertain creative lending).

Develop guidelines to evaluate the program. Maintain statistics relating to participating consumer's default rates.

<u>Second - Consumer Education Classes</u>
<u>Four Sessions Relating to Bankruptcy and Personal Finance:</u>

Session I is designed as an overview of the Chapter 13 process with emphasis on reviewing the bankruptcy documents (petition, schedules of debt, plan, order of discharge and final report and account). Once the consumer becomes familiar with the debts and how they were treated under the plan, they will have an easier time of updating their credit reports. In addition, this session covers how to review and update credit reports, including resolving credit report disputes.

Session II addresses "What Can I Afford" - developing a budget and financial goals including the concepts and vocabulary of personal finance.

Session III emphases "Knowing Your Rights" - an overview of consumer laws, including the Fair Credit Reporting Act, Consumer Credit Protection Act, Fair Debt Collection Practices Act and Lemon Laws etc.

Session IV deals with credit re-establishment and developing a relationship with credit grantors. The faculty members are credit grantors who participate in the Credit Re-Establishment program.

<u>"The Blue Book of Car-Buying Secrets" featuring Sky Stargel.</u> This session is for current and/or former Chapter 13 debtors who have attended Sessions I-IV. Proceeds from the C.E.C. annual fall consumer bankruptcy seminar have enabled C.E.C. to budget for quarterly honorarium fees and purchase Sky Stargel's book for each participant

Third - Creditor Education Seminars (i.e., The Creditor Education Coalition):

The Creditor Education Coalition ("C.E.C.") is a not for profit corporation in central Ohio founded by members of the local credit granting community, consumer debtor representatives and Frank M. Pees, the standing Chapter 13 Trustee. Its purpose is to conduct educational programs relating to consumer bankruptcy, as well as provide opportunities for the exchange of information and the enhancement of communications between debtor advocates and the credit community.

"C.E.C. 1996 Fall Consumer Bankruptcy Seminar"

Membership is unique in that it consists equally of creditors, bankruptcy professionals and attorneys.

Fees generated from seminar registrations and membership can fund credit rehabilitation programs.

Fourth - Community Education Forums:

"Nuts & Bolts" basic bankruptcy seminars for local community organizations and businesses such as Rotary Clubs, Retail Merchants Association, Federal Credit Union League, Mortgage Bankers Association and the American Institute of Banking.

Fifth - Publications:

Chapter 13 Newsletter - "Messenger"

"How Can Debtors Be Motivated to Complete 100% Chapter 13 Plans"

National Association of Chapter 13 Trustees - "NACTT Quarterly"

"Fact Sheet: Chapter 13 Bankruptcy Program"

Sixth - Online Information System

Creditors and debtor advocates can access Chapter 13 trustee's records through a computer dial-in-system.

System 530 -

III. <u>THE CYCLICAL NATURE OF CREDIT LENDING AND THE EFFECT OF CREDIT RE-ESTABLISHMENT:</u>

1995 and 1996 has taken "life after chapter 13" into a new facet of risk based lending and the ability to obtain new credit. Former debtors and current debtors are having an easier time obtaining post-confirmation and post-discharge credit, regardless of the dividend to unsecured creditors. This conclusion is based upon our program statistics and the opinions of participating credit grantors as follows:

A. The past two to three years has shown an all time low in credit loss. Accordingly, credit standards have been loosened; however, credit loss is once again on the rise. Accordingly, lenders predict to tighten up their credit standards to avoid credit loss.

B. In recent years, standard policy and underwriting has remained the same.

C. Many credit grantors interpreted the changes in the bankruptcy code in 1984 and 1986 as making the bankruptcy remedy a more viable option for consumers (local and national statistics reflect a steady increase in filings from 1986-1991). Accordingly, credit grantors rebelled against the bankruptcy remedy by making credit less available to former debtors. <u>Because the bankruptcy remedy has become more common and former debtors have proven their creditworthiness, credit grantors are more willing to assist consumers with re-establishing their credit</u>.

D. Competitive interest rates have been lowered across the board.

Competition between credit grantors:

A. Credit grantors trying to break into and/or expand upon a specific market area will temporarily loosen their credit standards to attract new customers.

B. In recent years credit grantors' attitudes concerning risk based lending have changed as bankruptcy filings and competition become more prevalent.

1. Marketing techniques that target <u>"Good People With Bad Credit"</u>

2. Credit Grantors backed by large manufacturers such as GMAC, GE CAPITAL AND SEARS.

3. Finance Companies

4. Credit Unions

Consumer profile has changed:

A. The dividend to unsecured creditors continues to fall below 70%, which may be due to an increase in consumer debt. The amendments to the bankruptcy code changed certain debt from dischargeable to not dischargeable (i.e., student loans). Therefore, reducing the amount of funds available to creditors and lowering the dividend to unsecured creditors.

B. Prior to the last two years, former debtors had very few credit grantor options with respect to re-establishing their credit. The credit rehabilitation program's eligibility requirement was a 100% dividend to unsecured creditors. Two years ago, certain lenders loosened their eligibility requirements to include a dividend of 70% or higher. Because of the aforementioned reasons, consumers are in a much better position to "shop" for credit.

IV. <u>WHERE ARE WE NOW - THE SUCCESS OF THE SOUTHERN DISTRICT OF OHIO, EASTERN DIVISION CREDIT REHABILITATION PROGRAMS:</u>

Consumer and creditor education:

A. Whatever the financial climate, at least one factor remains constant, both creditors and debtors continue to need education.

B. Our program statistics reveal that consumers rely upon us to assist them with interpreting and updating their credit reports.

C. Our consumer education and creditor education seminars continue to grow and develop each year.

D. Program Statistics:

1. Credit Re-Establishment Program
2. Consumer Education Classes
3. Creditor Education Coalition
    a. Winter Breakfast Seminar
    b. Fall Consumer Bankruptcy Seminar
    c. Quarterly Car Buying and Mortgage Lending Consumer Seminars
4. Community Education Forums
    a. American Bankers Association - Licking & Franklin County Chapters
    b. Ohio Mortgage Bankers Association