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Filing Chapter 7 bankruptcy will get tougher soon

By Sandra Block, USA TODAY

President Bush signed legislation Wednesday that will make it more difficult for Americans with large credit card and medical bills to erase their obligations.

The bill, which represents the most significant change to the nation's bankruptcy laws in 25 years, will make it harder for individuals to file Chapter 7 bankruptcy, which eliminates most debts. Individuals whose earnings exceed their state's median income will be required to file Chapter 13, which sets up a court-ordered repayment plan.

Banks and credit card companies have been lobbying for the change for eight years. In a statement, Bush said the law will prevent abuses by people who can afford to pay their debts.

"This practical reform will help ensure that debtors make a good-faith effort to repay as much as they can afford," Bush said. "This new law will help make credit more affordable, because when bankruptcy is less common, credit can be extended to more people at better rates."

Critics of the law say it will hurt individuals whose financial problems were caused by illness or unemployment. And consumer groups charge that banks and credit card companies have contributed to the problem by extending credit to vulnerable consumers.

The law is scheduled to take effect in six months. In the interim, bankruptcy analysts expect a sharp increase in bankruptcy filings as individuals rush to file Chapter 7 bankruptcy before the deadline. Bankruptcy attorneys are expected to take out advertisements urging individuals to file before the law changes. Other possible consequences:

• **Higher costs.** The means test won't disqualify most debt-ridden individuals from seeking Chapter 7 protection, says Henry Sommer, president of the National Association of Consumer Bankruptcy Attorneys. He predicts only 1% to 2% of Chapter 7 filers will fail the means test.

A higher deterrent will be the cost of filing for bankruptcy protection, Sommer says. Now, the costs of filing for Chapter 7 bankruptcy range from \$500 to \$1,500. The new



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law requires more paperwork and filing, which will result in higher legal fees, he says.

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Some studies have estimated that the law will increase the cost of filing by up to 50%, says Samuel Gerdano, executive director of the American Bankruptcy Institute.

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•A boom in the credit-counseling business. The law requires individuals who seek bankruptcy protection to obtain credit counseling at their own expense.

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The National Consumer Law Center says the provision could encourage unscrupulous credit-counseling companies to target consumers seeking to fulfill that provision in the law.

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In recent weeks, the Federal Trade Commission has brought several credit-counseling agencies, charging they have swindled consumers dollars. The IRS is investigating whether some credit counselors are status.

The law directs a unit of the Justice Department to certify the credit-c but critics say it doesn't provide the resources to carry out that task.

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