

# New Law Creates *Educational Opportunities* for CUs

by Darla Dernovsek

**The Bankruptcy Reform Act was designed to make it more difficult for debtors to file for bankruptcy under Chapter 7, which erases debt. New, tougher standards for bankruptcy steer consumers toward filing under Chapter 13, which requires repayment of some or all of the debt.**

Educational requirements built into the Bankruptcy Reform Act affect credit unions only if they want to gain approval from the U.S. Trustee's Office to provide courses that debtors must complete both before and after they file for bankruptcy, according to Mike McLain, CUNA assistant general counsel and senior compliance counsel. These courses are expected to help participants learn about alternatives to bankruptcy, how to reschedule debt for repayment, budgeting, and other financial issues.

McLain says about 30% of credit unions already cover these topics through informal, free counseling offered by loan officers, member service representatives, and other employees working one-on-one with members. Some credit unions also offer financial education classes. The Bankruptcy Reform Act

doesn't affect these activities—except as it provides incentive to be even more proactive in helping members avoid severe debt scenarios.

“Credit unions will be able to continue what they've been doing for years,” McLain says.

That will change, however, if a credit union seeks U.S. Trustee's Office approval to offer education and counseling courses that every debtor filing for bankruptcy on Oct. 17 or later will be required to complete. Agencies are allowed to charge a “reasonable course fee,”

but the U.S. Trustee's Office has not yet defined what “reasonable” means. McLain speculates it could be in the range of \$100 to \$200 per person. Debtors who cannot afford to pay must be admitted for free.

The prospect of earning a fee for educational services that are similar to those the credit union already provides is tempting, but there is a snag. To be approved by the U.S. Trustee's office, McLain says education programs must meet a long list of requirements. Credit unions will find it easy to meet some requirements, such as proving that educators have experience in debt education.

Others may be more troublesome. For example, employees who lead educational sessions or provide counseling must be certified by agencies specified by the U.S. Trustee's Office and document



Mike McLain



Franklin Drake

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their training and expertise in financial counseling. Participating credit unions must have provided credit-counseling services for at least two years or employ someone with that level of expertise.

“Credit unions are unlikely to find this worthwhile,” McLain predicts. “There are too many issues they probably haven’t faced before.” He adds that a CUNA task force is pursuing detailed information from the U.S. Trustee’s Office about consumer credit counseling and debtor education requirements.

Franklin Drake, an attorney with Smith Debnam Narron Wyche Saintsing & Myers, LLP, Raleigh, N.C., has an even stronger opinion about the odds of profiting from debtor education.

“If you think it’s going to be a moneymaker, you’re wrong,” Drake says. But he goes further: “If you think you’re going to accomplish good works, you’re wrong again.” Credit unions already active in credit counseling would strongly disagree (see p. 15A).

Drake points out that the Bankruptcy Reform Act allows education to be offered through the Internet or by telephone. The act is vague about how course completion will be measured, so Drake says simply signing in for an online class might suffice. That could make it difficult for standard classroom programs to compete with online and telephone courses.

“The chance of filling classrooms with the financially unfortunate is zero, in my opinion,” Drake says.

Instead of trying to educate peo-

ple who already intend to file for bankruptcy, credit unions can benefit by reaching out to more members in their role as trusted advisers offering informal, one-on-one information.

“When you realize members are

getting into trouble, sit down and talk with them about ways to deal with it,” McLain urges. That will help members change their financial habits before the prospect of bankruptcy permanently mars their financial future. ■

### Resources

- **“What Bankruptcy Reform Means to You”** statement staffer explains the consequences everyone pays with bankruptcy abuse, and how the new Bankruptcy Law will affect those who file for bankruptcy. Details of the law are explained in terms members can understand (Stock No. 25113-SUP).

- **CUNA Center for Professional Development “Certified Financial Counselor School”**

*Part 1: The Financial Counseling Process*

Dec. 4-9, 2005, San Diego, Calif.

March 12-17, 2006, Savannah, Ga.

*Part 2: Money Management Concepts and Skills*

Dec. 4-8, 2005, San Diego, Calif.

March 12-16, Savannah, Ga.

**For more information, contact Mike Meland, 800-356-9655, ext. 4248**

- **Credit Union Magazine Best Practices: Credit Counseling That Works.**

This new PDF report features eight case studies describing how leading-edge credit unions ensure members successfully manage their debts and make the



most of their assets. These credit unions make it their mission to help their members achieve financial freedom. (To order, visit [buy.cuna.org](http://buy.cuna.org) and enter 27054P into the product finder.)

- **“Credit Union Seminars in a Box™”** contain everything your credit union needs to give seminars for your members, including a PowerPoint presentation on CD-ROM. Topics include basic budgeting, wise use of credit, buying a house, purchasing a vehicle, and more

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