During the course of that time I have been consulted by a number of persons whose personal debts exceeded their ability to pay them, or who faced an uncertain employment future because of the threat of garnishment or creditor pressure upon their employer. Some had gone to local debt-consolidators whose advertising had caught their attention, others sought to deal directly with several creditors to compose or extend their indebtedness, still others had made up their mind to declare themselves as bankrupts. In a half dozen or so cases I felt that an effective and equitable solution to their problem could be achieved through filing a "Wage Earner's Plan" under Chapter XIII, of the Federal Bankruptcy Act, and I counselled these clients to do this.

My purpose in appearing before this subcommittee, thus, is simply to detail and explain a little, the kinds of debtor relief presently available under Chapter XIII and how it operated in certain examples drawn from my own experience.

Basically, Chapter XIII was added to the existing bankruptcy laws in 1938 to provide for satisfaction of creditors' claims out of future earnings of a debtor under a Court approved plan of composition or extension of the debts. The debtor must merely show that his principal income is derived from wages, salary or commissions, and the size of his income does not affect eligibility. Upon filing his petition and paying Court costs of $31.00, the Court will issue an order restraining the creditors from interfering with his property or earnings, and directing them to submit proofs of their claims and acceptances of the debtor's proposed plan. The "plan" is simply that part of the petition which states how much the debtor proposes to allocate from his earnings to pay his creditors, the frequency of such payment, and other pertinent information. A first meeting of creditors is called, where the plan will be confirmed if approved by a majority in number and amount of all unsecured creditors whose claims have been proven and allowed. Now this coercion of the minority of disapproving unsecured creditors, as well as the exclusion of secured creditors who reject the plan, is one of the chief advantages of Chapter XIII over an individual attempt on part of the debtor to seek a modification of his indebtedness. The Court will confirm the plan when it appears that it is in the best interests of creditors and is feasible to carry out. It will appoint a trustee to receive payments from the debtor directly or wage deductions from the debtor's employer, and thereafter make disbursements quarterly to each creditor pro-rata, until the plan is completed or ended for other reasons. The trustee is allowed a fee of 5% of monies actually disbursed, plus actual expenses, usually totalling another 2½%. However, the debtor invariably saves a good deal more than this, since the accumulation of interest on his unsecured debt stops upon the filing of the plan. This often can be a substantial saving, especially if any of the creditors are lenders operating under small acts permitting interest in excess of 6% per annum.

The following are persons I have represented in Chapter XIII proceedings in Washington, D.C.:

1. Government employee, male, age 50, single, many years with his agency, very anxious over debts totalling $2,900. His personnel officer had received numerous creditor notices, and the employee had unsuccessfully sought help from a debt adjuster. A plan proposing monthly payments of $135 was confirmed, all creditors accepting, and fully carried out over four years, final disbursements being made this spring, with all creditors paid off in full.

2. Government employee, female, age 45, single, a number of years in her agency, but had lost her position at a substantial grade because of heavy indebtedness and some reckless financial dealings. She was in serious trouble over this, completely demoralized, had lost all her records, but was determined to pay back some forty creditors a total indebtedness of $8,000. Her plan, proposing monthly payments of $100 was deemed feasible in part because of her evident good intentions and perseverence. Four years later, this plan is still active, payments were increased to $150 monthly, and as result of relief from her creditors' pressures, the debtor has regained and even advanced above her former position in her agency.

3. Medical technician, now a hotel employee, 24 years old, single, who had written dishonored checks totalling $700 and faced serious consequences. His plan proposed to pay $60 monthly, was accepted by all creditors, and has permitted him to advance in his new employment without fear of garnishment or other penalties. This plan is current.

4. Construction company estimator, age 30, divorced, who had written dishonored checks and owed debts totalling $1850, was subject to penal action and creditor pressure that would disaffect any employer. His plan to pay $100 monthly