

Beware your credit union when filing bankruptcy (#2)!

Do you think your credit union is your friend? You may get a big surprise if you have multiple loans with them and file bankruptcy.

In a recent bankruptcy case, the debtor (person who owed the loans) had a car loan and three other loans (including credit cards) not secured by any property with the same credit union. The debtor wanted to keep the car (making the payments on that loan) and discharge (get rid of) the other not-secured loans.



That would be fine in the normal situation where all those loans weren't with the same credit union. BUT, there was a clause in all those loan agreements that the car is security for all those loans, even the credit card accounts. It's called "cross collateralization" or a "dragnet" clause, and it's very common with credit unions.

What's the result of that? If the debtor doesn't "reaffirm" (promise to pay in full in spite of the bankruptcy) all those debts, the credit union will repossess the car. So the debtor has the choice of getting rid of all those debts and losing the car, or being responsible for paying all those debts even after receiving a discharge of debts in bankruptcy.

How friendly do you think that credit union is now?

Beware your credit union when filing bankruptcy (#1)!

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