Sarah Rosen
04/30/98 05:18:26 PM

Record Type: Record

To: Christine N. Macy/WHO/EOP

cc: Sally Katzen/OPD/EOP, Jake Siewert/OPD/EOP, Melissa G. Green/OPD/EOP
Subject: Bankruptcy

Attached is the draft letter FYI. bankrupt.a30
The two paragraphs that might change are Principle #1 and the last paragraph. However, other parts of the letter are new. For example, we haven't yet said we're open to "responsible consumer bankruptcy reform." So, to ensure that the news produced is on the child support issue that she is targeting, I would suggest that the First Lady say something like:

Congress is currently considering various proposals to change our consumer bankruptcy laws. While it is a bit early to comment on these proposals, we are sure today that the Administration will not support any proposal that impairs the ability of bankrupt debtors to meet their child support and alimony obligations. Today, the bankruptcy system protects the payment of child support or alimony, Proposals that could put some credit card bills on an equal footing with child support or alimony are wrongheaded.

DRAFT
April 30, 1998

Senator Orrin Hatch
Chairman
Senate Judiciary Committee
U.S. Senate
Washington, DC

Dear Mr. Chairman,

I am writing to express the Administration's general views on consumer bankruptcy reform proposals currently under consideration in the Congress.

Over the past two decades, consumer bankruptcy filings have risen sharply. While there are many contending theories on the cause of that increase, it is clear that there is no single explanation. Nonetheless, the growing number of filings, examples of abuse of Chapter 7 and state exemptions, and evidence of imprudent extensions of credit suggest some changes to the consumer bankruptcy laws are appropriate. The lack of definitive evidence about the reasons for the rise in bankruptcies means that it is difficult to predict the effect of reform efforts. The Administration, therefore, has developed the following set of principles to guide its review of changes to the consumer bankruptcy laws.

1. **Access to Chapter 7 should not be governed by an arbitrary means test; the court must have discretion to fairly account for the great variations in circumstances that bring debtors into bankruptcy (including medical expenses, unemployment, divorce, responsibility for the care of others, etc.) . To promote more uniform application of bankruptcy standards, this determination should take place within indicative or presumptive guidelines established by Congress that take into account factors such as the debtor's income and ability to repay a portion of the debt.**

2. **National bankruptcy policy can respect state variation in exemption levels without allowing state exemptions to be used to shield luxury assets from creditors.**

3. **It is appropriate to expect debtors who can afford to repay a portion of their debts (taking into account all relevant circumstances) to act responsibly; but the bankruptcy and credit reporting system should reward those who complete a Chapter 13 plan.**

4. **Bankruptcy reform should not create opportunities for creditors to coerce debtors to forgo bona fide rights in bankruptcy.**

5. **Bankruptcy rules should discourage bad faith repeat filings and other attempts to abuse the privilege accorded by access to bankruptcy.**

6. **Child support and alimony payments should be carefully protected.**

   - We must ensure that reforms have no unintended adverse impact on debtors' ability to meet these, and other, priority payments.

7. **Bankruptcy data collection and accuracy must be improved.**

   - Analysis and understanding of the forces affecting bankruptcy filings are impeded by the lack of high-quality, nationally uniform data. Better data collection and verification procedures should be incorporated in any reform proposals. Such data can be used to assess and monitor the impact of reform legislation.

8. **Scrutiny must also be given to credit industry practices that have led some borrowers to overextend themselves.**

   - While some of these issues may fall outside of the Judiciary Committee's jurisdiction, Congress and the Administration should consider proposals to ensure that consumers are well informed about the dangers of excessive debt accumulation and understand the implications of their credit agreements.

The Clinton Administration is open to responsible consumer bankruptcy reform that meets these principles. We have reluctantly concluded that we cannot support H.R. 3150 in its present form. We would look forward to working with Congress toward legislation more similar to the approach of S. 1301 -- with modifications necessary to meet the principles articulated above.

Sincerely,

Audrey T. Haynes 04/30/98 03:40:49 PM

Record Type: Record

To: Christine N. Macy/WHO/EOP

cc:

Subject: Draft Principles Letter on S1301 Consumer Bankruptcy Reform Act of 1997

--------------------- Forwarded by Audrey T. Haynes/WHO/EOP on 04/30/98 03:42 PM ---------------------------

Ronald E. Jones
04/30/98 01:41:45 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: James J. Jukes/OMB/EOP

Subject: Draft Principles Letter on S1301 Consumer Bankruptcy Reform Act of 1997

The following letter was prepared following meetings involving NEC Principals and Deputies. Discussions continue on who will sign the letter. Please provide comments to me ASAP, but no later than 10:00 AM, tomorrow, Fraidy, 5/1.

You will receive a hard copy of this request also.

DRAFT

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Chairman
Senate Judiciary Committee
U.S. Senate
Washington, DC

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Sincerely,

Message Sent To: ______________________________

[redacted]

Record Type: Record

To: Christine N. Macy/WHO/EOP

cc:
Subject:

BODY:

Opposition is building to bills in Congress that could make it harder for women to collect child support and alimony from ex-husbands who file for bankruptcy.

"The current proposals would make hard-working women with children more vulnerable," says Sen. Edward Kennedy, D-Mass.

Critics are especially concerned that Congress is rushing the GOP-sponsored bankruptcy reform bills to a vote.

"It will be shockingly irresponsible if the House and the Senate don't give the impact of what they are doing on child support the consideration it deserves," says Donna Lenhoff, general counsel to the National Partnership for Women and Families.

Current bankruptcy law makes child support and alimony a priority. So even though bankruptcy under federal Chapter 7 wipes out most debts, it doesn't absolve debtors from paying child support and alimony they owe.

The pending bills don't change that. But proposed changes could make it harder for bankrupt men to make support payments. Both House and Senate bills would force debtors to repay more unsecured debts, such as credit card debt.

That means a bankrupt ex-husband could still be saddled with big credit-card bills, plus child support and alimony. "MasterCard and the ex-wife will be competing for same limited dollars," says Harvard law professor Elizabeth Warren. "It's hardly a fair fight."

Bills sponsored by Rep. George Gekas, R-Pa., and Sen. Charles Grassley, R-Iowa, are awaiting committee action. Representatives for both lawmakers insist the bills will protect child support and alimony.

And there are plenty of other safeguards to make sure child support gets paid, says C. Bruce Allen, a Gekas spokesman. But Lenhoff is skeptical. "It's not true that the state child support enforcement apparatus can or will ensure that all child support debts are paid."

Says Kenneth Klee of the National Bankruptcy Conference, a non-partisan group that advises Congress, "The credit industry will be taking money out of the pockets of women and children."

Brady C. Williamson
LA FOLLETTE & SINYKIN
One East Main Street
Post Office Box 2719
Madison, Wisconsin 53701-2719
Telephone: (608) 257-3911
Fax: (608) 283-2524

TELEFAX TRANSMITTAL COVER PAGE

DATE: **April 30, 1998** *TIME:* **11:16 AM**

TO: **Melanne Verveer**
Chief of Staff/The First Lady
(202) 456-6244

FROM: **Brady C. Williamson**

NUMBER OF PAGES TRANSMITTED (INCLUDING THIS COVER SHEET): **2**

MESSAGE:

If you have any problems with this transmission or do not receive all of the pages, please call Ann V. at (608) 257-3911 as soon as possible.

MEMORANDUM

TO: Melanne Verveer
Chief of Staff/The First Lady

FROM: Brady - (608) 284-2636

DATE: April 30, 1998

SUBJECT: Bankruptcy/Boston/China/Milwaukee Follow-Up

On bankruptcy, today's *USA Today* has a front-page article, which is enclosed, on the pending bankruptcy legislation and women and children. The subject probably will come up tomorrow with Cong. Meehan and his forum, and I do hope you can spare a few moments for Prof. Warren, who essentially instigated the *USA Today* story. If you're interested, just have the advance person call, and Liz will do hand springs to get to visit with you and hand you our draft column.

Dan Rosenthal called yesterday and asked me to do Shanghai. I agreed. It's probably not my place to discuss Bob B. with him. How do we proceed on that score? I'd gladly have him on my team and will do whatever you think I can/should do to make that happen.

By now, you should have received the news clips from Milwaukee. Everyone's very happy with the events, and the news coverage did not become sensational on the political front. Talk with you soon.

TELEFAX TRANSMITTAL
(202) 456-6244

av:34192 v1
4/30/98

USA Today
Thursday, April 30, 1998
Page 1A

Critics say bankruptcy bills threaten child support

By Christine Dugas
USA TODAY

Opposition is building to bills in Congress that could make it harder for women to collect child support and alimony from ex-husbands who file for bankruptcy.

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TELEFAX TRANSMITTAL COVER PAGE

DATE: **April 30, 1998** *TIME:* **1:29 PM**

TO: **Melanne Verveer**
Chief of Staff/The First Lady
(202) 456-6244

FROM: **Brady C. Williamson**

NUMBER OF PAGES TRANSMITTED (INCLUDING THIS COVER SHEET): **12**

MESSAGE: **Melanne: Some Boston-specific bankruptcy articles.**

Brady

If you have any problems with this transmission or do not receive all of the pages, please call Ann V. at (608) 257-3911 as soon as possible.

6/30/97

Citation
6/6/97 BOSTONG A1
6/6/97 Boston Globe A1
1997 WL 6256506

Found Document

Rank 6 of 133

Database
BOSTONG

Friday, June 6, 1997

METRO/REGION

Sears may pay $265m for card-debt tactics
Bruce Mohl, Globe Staff

A chain of events that began eight months ago when a Somerville man pleaded for relief from his $1,161 Sears card debt culminated yesterday with the giant retailer agreeing to pay up to $265 million to settle charges that it systematically broke bankruptcy laws in collecting debts.

The nation's No. 2 retailer admitted it pressured hundreds of thousands of bankrupt customers to reaffirm their debts and then failed to disclose the agreements to bankruptcy courts as required by law. As a result, customers ended up paying debts that had legally been erased.

The Sears case blew the lid off what appears to be a widespread illegal practice by some major retailers. Similar class-action lawsuits are now pending against Filene's and Lechmere and their parent companies.

The settlement proposed yesterday was described by the attorneys involved as unprecedented in size and scope for a retailer. It would have Sears pay its victims all the money it had tried to collect from them plus interest at 10 percent a year, an amount it estimated could total between $113 million and $200 million. The chain also agreed to split an extra $25 million among the victims and give $40 million to state attorneys general for consumer education programs.

The cost to the company, based in Hoffman Estates, Ill., will probably go even higher if, as expected, additional sanctions are imposed by US Bankruptcy Judge Carol J. Kenner or by a federal judge, based on a complaint filed by the US attorney's office in Boston.

Arthur Martinez, Sears chairman and chief executive officer, said in a telephone interview that the company will take a charge against earnings in its second quarter. He described the settlement as a "black eye" and a "heavy burden," but the company's stock dropped only 1/8 yesterday, to 48 7/8.

Martinez indicated Sears is not backing away from its aggressive pursuit of those who fail to pay their credit card debts. He said the company will continue to seek reaffirmation agreements with bankrupt customers to the extent the law allows.

"We have this old-fashioned view," he said. "If you take the goods, we think the customer should pay for them."

Sears apparently didn't file the reaffirmation agreements with the bankruptcy courts out of fear that they would be rejected. The practice began in 1985 and probably would have remained undetected but for Francis Latanowich of Somerville.

Latanowich, who is unemployed and collects a $500 disability check each month, declared bankruptcy last year and, representing himself, won a discharge of $12,805 in mostly credit card debts. Yet even though his monthly expenses going forward were triple his income, Sears persuaded him to reaffirm his Sears debt of $1,161.

Latanowich said Sears officials told him they could reclaim his television set and his car battery if he didn't agree.

His case typified the Sears approach. While most credit card companies rarely contest bankruptcy filings, Sears sends representatives to practically every bankruptcy hearing around the country to protect its interests.

Sears also takes a secured interest in purchases made with its card, which carries a 21 percent interest rate. When a person defaults on a Sears credit card debt or tries to wipe it out with a bankruptcy filing, the secured interest gives Sears the right to reclaim the item. Although bankruptcy attorneys say it would be a waste of time and effort for Sears to reclaim used Walkmans, washing machines and hair dryers, Sears uses the threat to persuade debtors to reaffirm their debt.

Latanowich struggled to pay his $28 a month to Sears, but in a handwritten note to Judge Kenner in November 1996, he said the payment was "keeping food off the table for my kids." He asked Kenner if his bankruptcy case could be reopened and the Sears debt wiped out.

Kenner investigated and discovered that the agreement Sears negotiated with Latanowich had never been filed for her review. She said she would have rejected it out of hand, in part because it was too onerous but also because Sears overstated the amount Latanowich owed. She said Latanowich should have been given the option of paying the current market value of the TV set and battery -- about $450 -- and not the original purchase price.

Kenner's inquiries forced Sears to admit that it had not filed reaffirmation agreements in thousands of cases in Massachusetts. Yesterday, Sears said it had also failed to file the agreements in as many as 331,500 cases nationwide.

Kenner, who must approve the settlement agreement, said yesterday she was curious to know why Sears initiated the illegal practices. Sears' attorney promised answers after the US attorney's office completes its investigation.

Said Martinez: "It was a practice that escaped our detection in our normal checks and balances process. And it became internalized."

Martinez said an internal investigation had revealed that several lower level staff people involved with legal matters and debt collection had acted improperly and that they would be disciplined. He said senior management had no knowledge of the practice.

---- INDEX REFERENCES ----

EDITION: CITY EDITION

Word Count: 836
6/6/97 BOSTONG A1
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Mon

Associated Press

After successfully retooling Sears, Arthur C. Martinez found the company caught in a new scandal.

The Harder Side of Sears

Safeguards Didn't Stop Debt-Collection Scandal

By BARNABY J. FEDER

CHICAGO

BECAUSE a disabled, financially strapped Massachusetts father was desperate to keep a television set to entertain his children, Arthur C. Martinez faces a defining moment in his remarkable career as chairman and chief executive of Sears, Roebuck & Company.

The father, Francis M. Latanowich, overwhelmed by his monthly bills from Sears, turned for help last November to Carol Kenner, chief judge of the United States Bankruptcy Court in Boston. Judge Kenner wondered why Sears was in contact with Mr. Latanowich, who had gone through bankruptcy proceedings in 1996 that should have wiped clean his debts to the company

Siege a

Founder's Son Fights to Rule Humbled Chai

By CHARLES V. BAGLI

NASHVIL

RAYMOND D. SCHOENBAU dropped heavily into a boo at the Rio Bravo restaura on West End Avenue here, orderin chicken quesadillas, fresh tortilla and iced tea as he launched into passionate account of his marc across the South to recapture Shon ey's, the now-ailing restaurant chai founded by his father, Alex, 50 year ago.

Though he is one of the company' largest shareholders, Mr. Schoen baum is an outsider today who mus plot his takeover campaign from seat in the Rio Bravo chain he start ed, rather than at the Shoney's Inc headquarters about a mile away o Elm Hill Pike.

His plan to take over the company and management's attempt to fend him off have become the subject of much speculation on fiercely humid days at the country clubs, banks and law offices of Nashville and among a generation who grew up eating at Shoney's and buying stock in what was a hometown favorite and a Wall Street blockbuster. The battle pits Mr. Schoenbaum, a lifelong restaurateur with a family legacy against C. Stephen Lynn, chairman and chief

Raymond D. Schoenbaum wants to overthrow the Shoney's board and recapture the good old days for the business his father began.

Debt-Collection Scandal

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Her astonishing conclusion: Sears had talked Mr. Latanowich into signing a new debt-collection contract that used threatening wording that it had been told in court was illegal in Massachusetts, and then, to avoid having the contract thrown out, had ignored its obligation to file it with the bankruptcy court for review.

Further inquiries revealed that Sears had been doing much the same with other debtors. It had routinely skipped filing such contracts in some areas as far back as 1985, and since 1992 it had collected up to $160 million without judicial oversight.

"Sears looked the bankruptcy laws straight in the eye and defied them," said Jay Westbrook, an expert on bankruptcy law at the University of Texas.

For Mr. Martinez, who says he learned of the illegal activity in March, the revelations came as a bitter surprise. Nearly five years earlier, he had arrived at Sears headquarters in Hoffman Estates, Ill., with a mission to revive a corporate dinosaur. Sears's aging stores and beloved but outdated catalogue were performing so weakly that the retailer was getting nearly all of its profits from the finance charges paid by its 38 million credit-card customers. And, just months before he took the job, the company's reputation and sales had been battered by disclosures that some of its auto-service centers had routinely bilked customers by performing unnecessary repairs.

Mr. Martinez proceeded to pull off one of the great corporate turnarounds of modern history, through cost cutting, sharper marketing and improved efficiency. Profits soared, Sears's stock roughly quadrupled and he became a hero on Wall Street.

Through it all, Mr. Martinez was working hard to put his stamp on Sears's corporate culture, starting with a "zero tolerance" policy for ethical lapses. Now, figuring out why Sears went so wrong despite those efforts — and how to respond to the scandal — has emerged as the greatest challenge yet to his image as a leader.

There is no evidence that the vast majority of Sears customers care about what Mr. Martinez quickly branded "a black eye" and "a clear failure" growing out of bad advice from the company's own legal department.

Continued on Page 8

law offices of Nashville and among a generation who grew up eating at Shoney's and buying stock in what was a hometown favorite and a Wall Street blockbuster. The battle pits Mr. Schoenbaum, a lifelong restaurateur with a family legacy, against C. Stephen Lynn, chairman and chief

Raymond D. Schoenbaum wants to overthrow the Shoney's board and recapture the good old days for the business his father began.

MARKET WATCH

FLOYD NORRIS

Who Says Microsoft

Mr. Maffei said in an interview on Friday.

Mr. Maffei is not a money manager. He is the treasurer and incoming chief financial officer of Microsoft, a company that heretofore has bought back stock almost every quarter, seeking to avoid dilution from the company's huge stock option program.

If $120 — about the price at which Microsoft could have bought in the quarter, given its policy of avoiding trades until after investors have digested the previous quarter's earnings — seemed rich to Microsoft

record high when it posted profits last week, although they were well below what Wall Street had been forecasting before the company toned down expectations in May.

Intel would have done worse than it did but for discovering what the company is calling an "accounting error." It seems that it had overestimated its depreciation expense for this year by $300 million. Reversing that error would, in the absence of other changes, raise expected pre-tax profits by that amount. But not with chip prices evi-

In a Scandal, The Harder Side of Sears

Continued From Page 1

One survey showed that fewer than 2 percent were even vaguely aware of the scandal. In sharp contrast to the aftermath of the auto-service fraud, sales have continued to climb steadily since the news broke, rising 7.1 percent in the second quarter of this year at domestic stores.

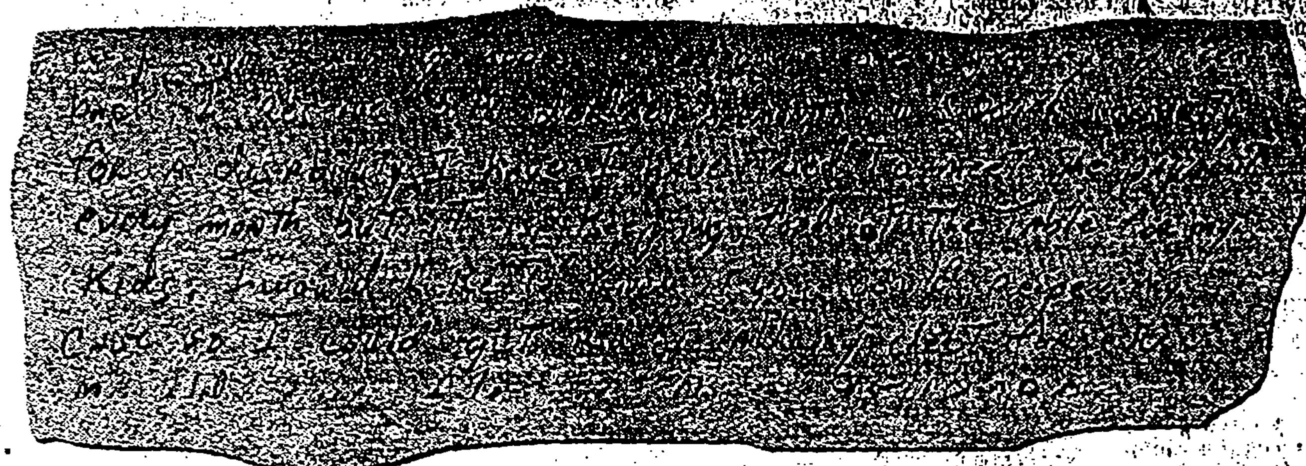
Even so, Mr. Martinez resisted any temptation to play down his employees' behavior or to stonewall potential adversaries. Sears moved quickly this spring to research and expose the scope of the transgressions to government and private lawyers investigating or suing the company. Sears also retained two respected bankruptcy lawyers, Prof. Lawrence King of New York University Law School and Richardo I. Kilpatrick, who has a private practice in Michigan, to review and overhaul the company's collection practices.

Even though Mr. Martinez did not agree with critics that Sears had been systematically overaggressive in pursuing or threatening creditors, he quickly offered an unexpectedly generous settlement plan for potential claims. Tens of thousands of formerly bankrupt consumers were promised not just debt relief and cash repayments with interest but also $100 certificates toward new Sears merchandise, a sweetener later replaced with a cash bonus. That pre-empted potentially drawn-out confrontations with the Federal Trade Commission, state attorneys general and plaintiffs' lawyers.

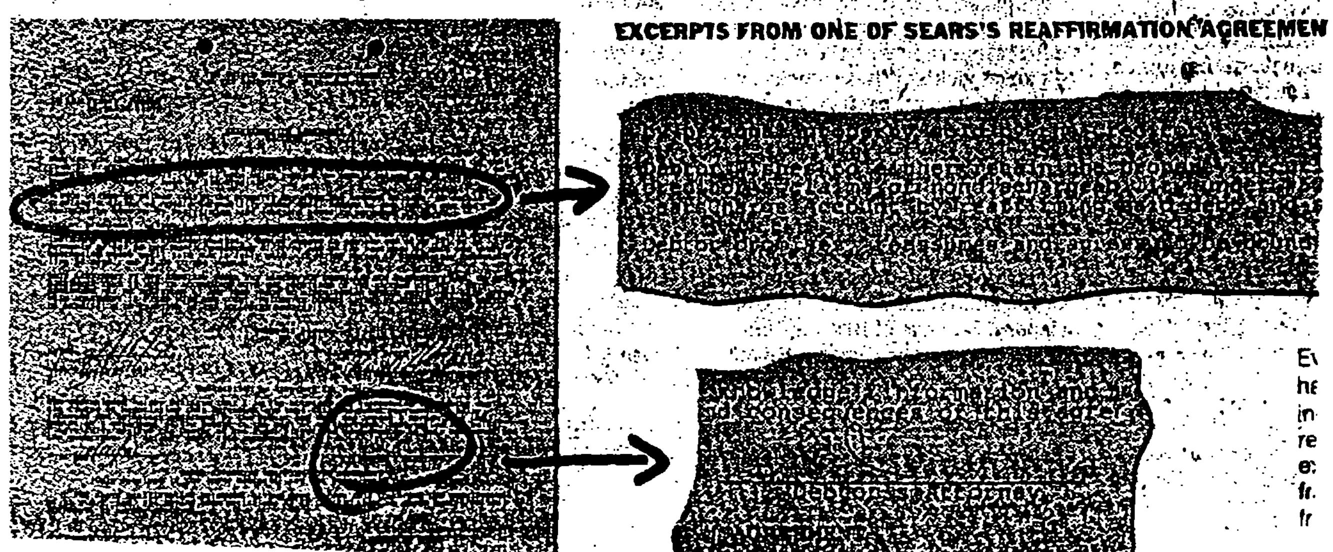
... Sears took a $475 million

How a Scandal Came to Light

Last Nov. 10, Francis M. Latanowich of Somerville, Mass., wrote a letter to Judge Carol Kenner, right, asking her to reopen his bankruptcy case. He had promised Sears that he would continue making payments on a television set and a car battery, but the reaffirmation agreement was illegal because Sears never sought Judge Kenner's approval.



EXCERPTS FROM ONE OF SEARS'S REAFFIRMATION AGREEMEN



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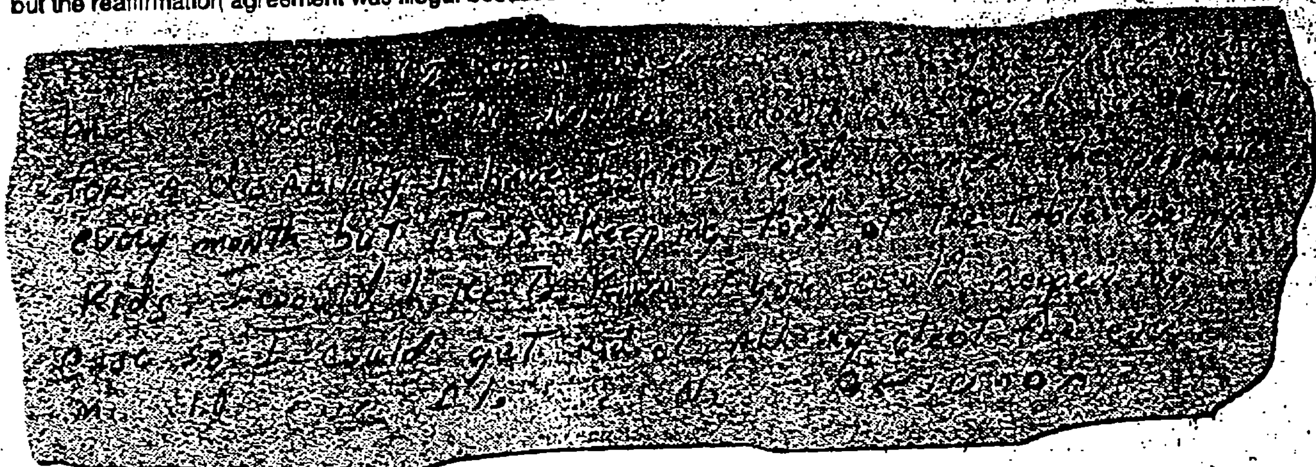

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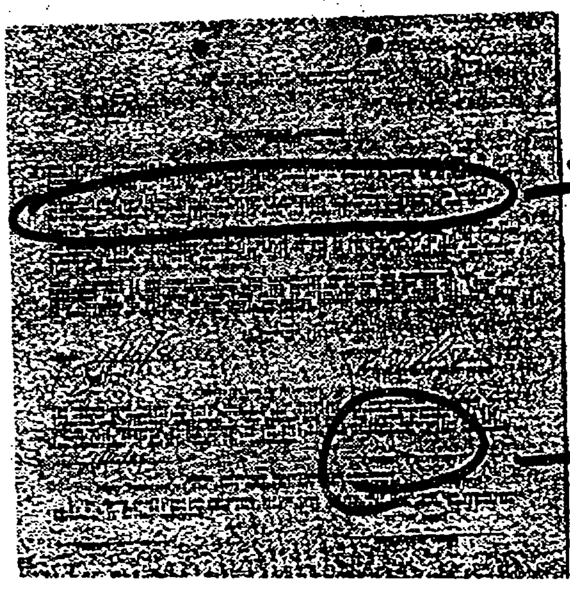

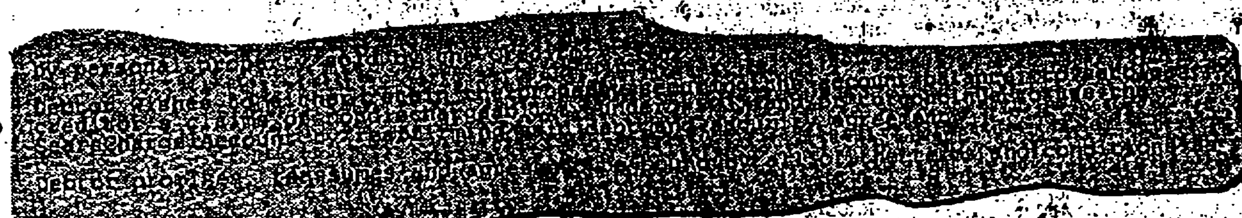

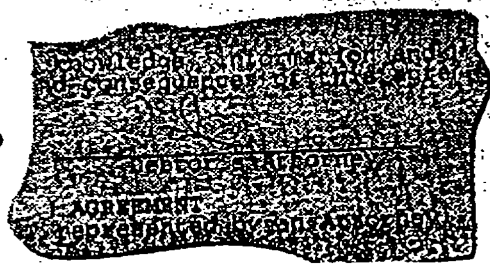

Even before Mr. Latanowich's Nov. 10 plea, Sears had been warned that its typical reaffirmation letter included inappropriate language. For instance, the reference to section 523 of the Bankruptcy Code, excerpted above, suggests that a debtor committed fraud or some other act that would prevent the debt from being wiped out in bankruptcy.

...conduct ...suspect.

"There's not a dollar's worth of profit worth having if it compromises your integrity," Mr. Martinez said.

Wall Street is taking all this as yet more evidence that Mr. Martinez deserves his executive stardom. "I give him an A-plus for how he's handled it," said Bernard Sosnick, a retail industry analyst at Genesis Merchant Group Securities in New York, who has followed Sears since the 1960's.

But for all the kudos he has won, the crisis is far from over. For while Mr. Martinez has reassured investors, he and his top managers have barely begun to assign responsibility and mete out discipline internally. The way that is done could affect the company's culture and morale for years to come.

The questions concern not just who gave faulty advice but which employees participated in illegal activity and which managers knew about the wrongdoing but failed to intervene — and for that matter, which managers should have known but didn't.

The final answers may not be comfortable for some of Sears's most senior executives, including Michael C. Levin, the chief corporate counsel since 1995, and Jane Thompson, a highly regarded protégé of Mr. Martinez who ran the credit operations from 1993 until early last year. So far, most of the blame seems to have landed on Emma G. Scott, a 44-year-old assistant general counsel, who had direct legal oversight of the collection system. She has been put on leave and has retained Joseph Duffy, a noted Chicago lawyer, as her private counsel, lawyers involved in the affair say.

But how central Ms. Scott was to the scandal is very much in doubt. She did not even join Sears until 1990, well after many of the questionable activities apparently began. An outgoing woman who appeared in many industry forums and joined the board of the American Bankruptcy Institute, the bankruptcy bar's equivalent of a trade group, Ms. Scott is widely seen in the bankruptcy bar as an unlikely mastermind.

"The whole idea that it was Emma Scott's flawed judgment is a joke," said one outside lawyer involved in the litigation, who spoke on the condition of anonymity. And some colleagues among the 53 lawyers at Sears headquarters also wonder whether Ms. Scott and their department in general may be made scapegoats.

"It is interesting how the company has shifted blame to the law department," one Sears lawyer said. "Jane Thompson headed the business."

Two missing pieces of the puzzle to outsiders are how Ms. Scott viewed Sears's credit-collection practices and whether she relayed her thoughts to her bosses. She has not appeared at any public legal functions since April and could not be reached for comment, despite various attempts. Mr. Duffy said he could not comment or even confirm that Ms. Scott is his client. Ms. Thompson, who now heads Sears's rapidly expanding home repair division, has declined through a company spokeswoman to comment on her former job.

In sorting out individual responsibility, Mr. Martinez will also have to confront the broader questions all companies face during corporate scandals. For instance, did Sears's corporate culture and compensation systems seduce loyal, well-intentioned employees into unwise or simply illegal behavior? And if so, what is to be done?

"It's a very complicated hand to play," said David Messick, an ethics professor at the Kellogg Graduate School of Management at Northwestern, who uses the way that Sears handled the auto-fraud scandal as a case study on how not to respond to a public-relations crisis. "My guess is that they are facing the gamut from technical mistakes that did not really hurt anybody to clear ethical abuses in how they treated some debtors. There is an important issue of how much forgiveness is built into a corporate culture. You want to root out immoral activity because it's wrong and it's bad for business. On the other hand, you need room for honest errors. It often hinges on making very subtle judgments about the state [of] people's minds."

In the end, Mr. Martinez will have [to] choose between unpalatable alternativ[es]. Either publicly identify and punish all t[he] people responsible, and risk the appearan[ce] of vindictiveness — and worse, the possibi[li]ty of lawsuits — or take action privately a[nd] risk creating suspicions of a whitewash [or] favoritism. So far, he has said, Sears w[ill] keep to its traditional course of keeping [its] disciplinary actions as private as possibl[e].

SEARS says its leeway to go public [is] constrained not only by its intern[al] policies but also by a Department [of] Justice investigation into whether its de[bt-]collection activities violated criminal law. (Its proposed settlement is aimed at satisf[y]ing claims that it violated civil laws.) Wh[en] Judge Kenner asked a Sears lawyer at [a] settlement hearing in June why Sears ev[er] began its illegal activity, she was told th[at] any public comment could interfere wi[th] negotiations with the Justice Department.

And on Thursday, Mr. Martinez said th[at] although Sears had already interview[ed] more than 110 employees in its intern[al] investigation, disciplinary actions would n[ot] be taken until the Department of Justi[ce] finished its work because the compa[ny] wanted to be sure it had "all the facts."

"It's clear, though, that there are multip[le] individuals that will be affected by this," [he] said. "There's shared responsibility."

Mr. Martinez has had plenty of he[lp] weighing the issues, including a corpora[te] ethics office he established in 1994. There [is] also a monthly policy committee, esta[b]lished in 1995 with members from eve[ry] business unit, including the law departme[nt], that reviews the ethical implications [of] Sears's policies and procedures. Mr. Mar[ti]nez is also chairman of a quarterly busin[ess] practices meeting.

With so many forums for identifying m[is]conduct, the obvious question is why [the] debt-collection abuses festered undetec[ted] until this year. To be sure, Mr. Martinez h[ad] so much to fix when he took over Sears th[at] he may well have had neither the time n[or] the incentive to probe deeply into the cre[dit] operations that appeared to be a jewel. T[he] average balance of the company's 38 milli[on] credit customers topped $800, roughly qui[ad]ruple that of rivals like J. C. Penney, a[nd] though bad debt write-offs ran to hundre[ds] of millions of dollars annually, the ope[ra]tion's profits were far higher.

Things seemed only to get better after M[r.] Martinez gave the job of running the cre[dit] business in early 1993 to Ms. Thompson, [an] ambitious former McKinsey & Compa[ny]

Bankruptcy Courts Perform a Deli[cate ...]

The main goal of bankruptcy law is to give debtors a chance to get back on their feet, but other considerations guarantee that the process will never be easy. The law also tries, for instance, to make sure that debtors cannot escape their liabilities for assets they pile up through fraud. And it is intended to take make sure that whatever wealth the debtor must surrender is fairly distributed among creditors.

Debt-ridden consumers can file under either Chapter 7 or Chapter 13 of the law. The former provides for a complete discharge [of] most debts. (One must still pay back ... among other things.) It bars the debtor from refiling for six years, and asset... certain limits — they vary among the st[ates] — must be made available to creditors.

Under Chapter 13, obligations to credit[ors] are based on the debtor's income level. Se[]cured debts, like a mortgage or car loan, ... rescheduled over three to five years. The[re] ...

The Retailer's Terms of Settlement

SEARS'S proposed settlement of class-action lawsuits was announced early last month. It covers contracts the company made from 1979 to April 1 of this year with bankrupt customers to renew their debts, but only if such reaffirmation agreements were not filed with a bankruptcy court.

Customers whose reaffirmations Sears, Roebuck filed with bankruptcy courts are not covered, even if the agreements include language that may be illegal.

Under the settlement, Sears would try to identify and repay all customers with unfiled agreements who made payments to it ... 199[.] ... restitution would ... group whom the company cannot find in its records. But the burden would be on those customers to produce evidence of their eligibility.

In addition, the proposed settlement includes a $25 million pot, to be distributed among all those receiving restitution. Each participant's share of this bonus would be proportional to the other restitution. Thus, if Sears ends up paying back a total of $100 million, each participant would get $1 from the bonus pot for every $4 of this basic compensation.

Sears has also proposed paying a total of $40 million to support consumer-education pter 7 or Chapter 13 of the law. The law ...rovides for a complete discharge of ...ots. (One must still pay back taxes, ...ther things.) It bars the debtor ...ling for six years, and assets over ...imits — they vary among the states ...be made available to creditors.

...Chapter 13, obligations to creditors ...ed on the debtor's income level. Se...ebts, like a mortgage or car loan, are ...uled over three to five years. There is no time limit on refiling.

Nearly two-thirds of bankrupt consumers use Chapter 7. The law requires them to list their debts and what they plan to do about them. Consumers who owe money for items purchased on credit can redeem them — that is, buy them outright at their current market value. They can also surrender them and be rid of the debt. Or they can reaffirm the debt, agreeing to be liable for payments as if they had never filed for

Courts are most likely to approve reaffirmations for assets, like cars, that can be crucial to holding a job. But judges are supposed to review reaffirmation agreements to make sure the debtors can afford them and that they were accurately informed about their options. If the debtor has a lawyer, the judge may decide simply by looking at affidavits. If the debtor has no legal help, the law requires a hearing.

BARNABY J. FEDER

...btle judgments about the state of ...s minds."

...e end, Mr. Martinez will have to ...between unpalatable alternatives: ...publicly identify and punish all the ...responsible, and risk the appearance ...ectiveness — and worse, the possibili...wsuits — or take action privately and ...eating suspicions of a whitewash or ...ism. So far, he has said, Sears will ...its traditional course of keeping all ...inary actions as private as possible.

...ARS says its leeway to go public is ...constrained not only by its internal ...policies but also by a Department of ...e investigation into whether its debt...tion activities violated criminal laws. ...oposed settlement is aimed at satisfy...ims that it violated civil laws.) When ...Kenner asked a Sears lawyer at a ...ment hearing in June why Sears ever ...its illegal activity, she was told that ...ublic comment could interfere with ...lations with the Justice Department.

...on Thursday, Mr. Martinez said that ...gh Sears had already interviewed ...than 110 employees in its internal ...tigation, disciplinary actions would not ...ken until the Department of Justice ...ed its work because the company ...ed to be sure it had "all the facts." ...'s clear, though, that there are multiple ...iduals that will be affected by this," he ..."There's shared responsibility."

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...hings seemed only to get better after Mr. ...rtinez gave the job of running the credit ...siness in early 1993 to Ms. Thompson, an ...bitious former McKinsey & Company ...sultant. She had joined Sears as vice ...esident for planning in 1988 and had be...me one of Mr. Martinez's inner circle of ... while working ...

lowering credit standards, adding more than 17 million new customers by the end of 1995 and bolstering the credit group's net income by 45 percent, to an estimated $593 million, according to Edward Weller, a retail industry analyst at Robertson Stephens & Company. And that strong performance continued under Steven Goldstein, a former American Express Company executive recruited to succeed Ms. Thompson after she moved to head Sears's new home-repair division early last year.

The company's credit operations were so huge that Sears could afford to pay much closer attention than other retailers to the small but growing percentage of consumers who were going bankrupt each year. Unlike any other retailer, Sears routinely appeared in virtually every bankruptcy affecting it. Typically, it sought to negotiate new credit agreements, known as reaffirmations, so that debtors would continue to hold active Sears accounts and make payments for goods bought prior to bankruptcy — including accumulated interest and late-payment penalties.

Without such an agreement, Sears's only recourse for nonpayment would be to go to court to try to repossess the goods — and even that is allowed only for appliances and other substantial items in which retailers are allowed to retain a "secured" interest when they sell them on credit. With reaffirmation, a debtor becomes personally liable just as if he had never been through bankruptcy, and Sears or any other creditor with such a contract can go after other sources of wealth, like wages, to get payment.

In retrospect, Sears's reaffirmation rate of nearly 40 percent — far higher than that of any other large retail credit issuer — should have had senior officials at headquarters on edge. It had raised eyebrows elsewhere in the credit industry, where criticism had been growing about reaffirmation practices from judges and bankruptcy lawyers on both sides of the fence.

"Sears always beat its chest about being the leader in reaffirmation," said William Weinstein, a Seattle lawyer who said he feared that a few "bad actors" would rob other creditors of the reaffirmation tool. Reaffirmation critics have attacked not just the aggressive pursuit of debtors but also the willingness of many debtors' lawyers and lax judges to allow or even encourage consumers to sign burdensome reaffirmations rather than invite confrontations that would drag out the bankruptcy case.

Sears's credit jewel began cracking in Massachusetts in 1995, when Judge William C. Hillman of Federal Bankruptcy Court ruled that the reaffirmation letter Sears was using included illegally threatening language. Sears continued to use the form, however, but stopped filing agreements with Judge Hillman and his colleagues in Boston.

ville living on a monthly Social Security check of $518, complained to Judge Kenner in a hand-scrawled note that his payments to Sears to keep his television and car battery were making it impossible for him to feed his children.

THE subsequent debt-collection scandal at Sears, the nation's largest retail credit card issuer, immediately focused attention on the credit practices of other retailers. Two, May Department Stores and Montgomery Ward, have recently been hit with class action lawsuits over their reaffirmation practices.

Federated Department Stores, realizing that it, too, had a problem, mounted a preemptive strike. "Immediately after hearing about Sears, we investigated our practices," said Carol Sanger, a Federated spokeswoman. It discovered that 17 percent of the 17,000 reaffirmations collected since 1990 had not been filed with courts, she said, so it devised a plan to send refunds totaling $4.3 million to the 3,000 people affected. "The checks are going out this month," Ms. Sanger said.

There is also likely to be fallout this fall in Washington when Congress is scheduled to consider possible amendments to the bankruptcy law. This harder side of Sears has become Exhibit A for critics who say it is too easy for creditors to bully debtors — especially those without legal help — into giving up their right to a fresh start.

Leading credit-card issuers like Visa International and lawyers who work with them respond that Sears is an aberration. They say current bankruptcy law already makes it too easy for some 1.1 million Americans a year to declare bankruptcy. Fraud is on the rise, they contend, and any new curbs on their ability to bargain with debtors would only make things worse.

Lawyers involved in the Sears case say the violations varied by region. The most flagrant — failing to file affirmation agreements for court review — appear to have become most common in areas like Massachusetts, California and other states where bankruptcy judges had become vocal about the abuse of reaffirmation agreements and were likely to throw out a high proportion of those brought to them.

"But there's no place where every agreement got filed or none got filed," said John Roddy, a Massachusetts lawyer who is rep...resenting consumers in class actions against Sears and other retailers.

The more contentious issue is that where agreements were filed, Sears's methods fo... obtaining them have often been questioned. Critics say Sears sometimes threatened to repossess items like trash cans and used sporting equipment, even though it knew that recovering and re-selling such item... was not worth the cost. It is illegal for... creditor to make threats it has no intentio...

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California Attorney General's ...geles who has been involved ... settlement. "Virtually every ...d to felt terrible about being ...und a moral obligation to pay ... Sears counted on that."

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A key question is how much tainted money Sears actually received from debtors who signed the hundreds of thousands of agreements it entered into since 1985. Sears's initial and only public estimate was that it had collected no more than $160 million of the $400 million covered by about 500,000 reaffirmations from 1992 to 1997.

It made no estimate of the years before 1992 because of the difficulty of sifting through several generations of record-keeping technology, each less automated than the system that replaced it. And Sears has reduced the number of credit-control offices to 9 today, from 81 in 1986, as part of its cost-cutting efforts, further scrambling the records.

Mr. Weller, the Robertson Stephens analyst, guesses that the final tab will show that Sears generated about $50 million in pretax profits annually in recent years from illegal reaffirmations. That translates into $30 million a year of net income, or a little over 2 percent of the $1.3 billion that Sears earned on revenues of $38.2 billion last year.

Mr. Weller said Sears realizes that if it had simply followed the rules, it probably could have persuaded many bankrupt debtors to sign reaffirmation agreements and probably could have received court approval for a large number of them. "Plus they would have more customers in the long run by not ticking people off," Mr. Weller said. "Sears's agenda in the collection process is not just to get the money but also to preserve the customer." □

LEGAL NOTICE

ATTENTION

...FBI), Washington, D.C. gives notice that the following properties were seized for various federal forfeiture violations which are mentioned below. Laws and procedures applicable to the ...1619 and Title 21, Code of Federal Regulations, (C.F.R.), Sections 1316.71 - 1316.81 (if drug related seizures) or Title 28, Code of Federal Regulations (C.F.R.), Section 8.1 - 8.10 (if ...strict Court by filing a claim of ownership and a bond in the form of cash (U.S. Currency), cashier's check or approved sureties, in the amount specified below for each seizure, or an ...y but, no more than $5,000 maximum and no less than $250 made payable to the U.S. Department of Justice. A sworn affidavit of indigency may be filed in lieu of the cost bond and a ...h an affidavit you must fully disclose your finances. If you want to request a pardon of the forfeited property, you may submit a petition for remission or mitigation. The petition must con... ...ou were a victim of the offense underlying the pending forfeiture, or a related offense, and the facts and circumstances which you believe justify a return of the property, a return of your ...egulations pertaining to remission or mitigation of the forfeiture, see Title 28, C.F.R., Sections 9.1 - 9.9, dated January 3, 1997, effective February 3, 1997. The criteria for requesting ...(a). The criteria for requesting mitigation of the forfeiture are found at 9.5(b). You should file the petition within thirty days (30) following receipt of the mailed notice of seizure. Submit all ...alegal Specialist. FBI locations and telephone numbers can be found in local telephone directories or through directory assistance with local telephone companies. When submitting any ...certain circumstances involving seizures based upon the possession of personal use quantities of a controlled substance or seizures of conveyances (aircraft, vessels or vehicles), expe... Act of 1988. See Title 21, C.F.R., Sections 1316.90 - 1316.99 (54 Register 37610-37613).

...olled Substances Act, Title 21, U.S.C., Section 881. CSA1 = The Controlled Substances Act, Title 21, U.S.C., Section 881 (Anti-Drug Abuse Act of 1988 Property seized for ...tances Act, Title 21, U.S.C., Section 881 (Anti-Drug Abuse Act of 1988 Conveyance seized for Drug-Related Offense). MVT = Motor Vehicle Theft Law Enforcement Act of ...e Goods Statute, Title 18, U.S.C., Section 1762. IGB = Prohibition of Illegal Gambling Businesses, Title 18, U.S.C., Section 1955. SEC = Sexual Exploitation of Children, Title ...nterception of Oral Communications Statute, Title 18, U.S.C., Section 2513. COP = Copyrights Act, Title 17, U.S.C., Section 509. TGD = Transportation of Gambling ...llegal Exportation of War Materials Statute, Title 22, U.S.C., Section 401. MLC = Money Laundering Control Act of 1986, Title 18, U.S.C., Section 981.

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$2,450.00 in U.S. Currency seized from the person of Billy Joe Church.

OHIO SOUTHERN
3160-97-F-0103; $5,300; $530; CSA; 02/21/97; Larry Caldwell, Jr., 2013 West Grand Avenue, Dayton, OH; Seized by Dayton Police Department. FBI Agents adopted the seizure on 05/22/97 at Cincinnati, OH.

CA; 1995 Buick Century VIN# 1G4AG55M9S6440433.
3410-97-F-0222; $800; $250; MLC; 03/08/97; San Jose St. & Markham Ave., Mission Hills, CA; 1984 Pontiac 6000 STE VIN# 2G2AH19Z7E1220688.
3410-97-F-0223; $6,500; $650; MLC; 03/08/97; 2650 Pepperdale Drive, Rowland Heights, CA; 1992 Mercury Grand Marquis ...

4101 East Charleston Boulevard, Las Vegas, NV; $1,433.63 in U.S. Currency.
3380-97-F-0016; $836; $250; MLC; 02/26/97; Lynn Dale Bogart, Carl Citarelli, 4101 East Charleston Boulevard, Las Vegas, NV; $836.63 in U.S. Currency.
3380-97-F-0017; $44,851; $4,485; MLC; 02/26/97; Lynn Dale Bogart, Carl Citarelli, ...

MARYLAND
3920-97-F-0138; $19,600; $1,960; CSA2; 04/20/97; 1307 Seven Locks Road, Rockville, MD 1995 Chevrolet Tahoe VIN# 1GNEK18K7SJ311487

MICHIGAN EASTERN
3220-97-F-0159; $5,000; $500; CSA; ...

Sears

Continued From Previous Page

sets, depriving debtors of a realistic choice when they were deciding whether to pay off the claim, do nothing and risk repossession, or reaffirm their debt and continue making payments.

"Unfortunately, the group most affected by these things was the poor and working poor, who don't understand their rights were being violated," said Ronald Reiter, a lawyer in the California Attorney General's office in Los Angeles who has been involved in the proposed settlement. "Virtually every victim we talked to felt terrible about being in bankruptcy and a moral obligation to pay for these things. Sears counted on that."

And still does. Mr. Martinez said Sears would continue to press for reaffirmation agreements as much as is legally possible. "We have an old-fashioned view," he said. "People should pay for what they take."

The full extent of Sears's profits from the illegal reaffirmations may never be known. The company told industry analysts when news of the scandal became public that it expected that 35 percent to 60 percent of all reaffirmations it received were flawed. But just reconstructing the paper trail is expected to cost the company $10 million, according to court documents.

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The U.S. Department of Justice, Federal Bureau of Investigation (FBI), Washington, D.C. gives notice that the following properties were seized for various federal forfeiture violations which are mentioned below. Lav forfeiture process can be found at Title 18, U.S.C., Sections 1602-1619 and Title 21, Code of Federal Regulations, (C.F.R.), Sections 1316.71 - 1316.81 (if drug related seizures) or Title 28, Code of Federal Regulat non-drug related seizure). You may contest the seizure in U.S. District Court by filing a claim of ownership and a bond in the form of cash (U.S. Currency), cashier's check or approved sureties, in the amount specifi amount equal to 10% of the appraised value of the seized property but, no more than $5,000 maximum and no less than $250 made payable to the U.S. Department of Justice. A sworn affidavit of indigency may be suitable form may be obtained from your nearest FBI office. In such an affidavit you must fully disclose your finances. If you want to request a pardon of the forfeited property, you may submit a petition for remission tain proof of your ownership interest in the property or proof that you were a victim of the offense underlying the pending forfeiture, or a related offense, and the facts and circumstances which you believe justify a rel interest in the property, or a return of part of the property. For the regulations pertaining to remission or mitigation of the forfeiture, see Title 28, C.F.R., Sections 9.1 - 9.9, dated January 3, 1997, effective February 3, remission of the forfeiture are found at Title 28, C.F.R., Section 9.5(a). The criteria for requesting mitigation of the forfeiture are found at 9.5(b). You should file the petition within thirty days (30) following receipt of th documents to the nearest FBI Field Office, Attention: Forfeiture Paralegal Specialist. FBI locations and telephone numbers can be found in local telephone directories or through directory assistance with local teleph documentation, please reference the FBI Seizure Number. Under certain circumstances involving seizures based upon the possession of personal use quantities of a controlled substance or seizures of conveyance dited release procedures are available under the Anti-Drug Abuse Act of 1988. See Title 21, C.F.R., Sections 1316.90-1316.99 (54 Register 37610-37613).

Legend of Federal Forfeiture Statutes: CSA = The Controlled Substances Act, Title 21, U.S.C., Section 881. CSA1 = The Controlled Substances Act Title 21, U.S.C., Section 881 (Anti-Drug Abuse Act of 1 Personal Use Quantities). CSA2 = The Controlled Substances Act, Title 21, U.S.C., Section 881 (Anti-Drug Abuse Act of 1988 Conveyance seized for Drug-Related Offense). MVT = Motor Vehicle Theft 1984, Title 18, U.S.C., Section 512. PMG = Prison-Made Goods Statute, Title 18, U.S.C., Section 1762. IGB = Prohibition of Illegal Gambling Businesses, Title 18, U.S.C., Section 1955. SEC = Sexual Ex 18, U.S.C., Section 2254. WIR = Wire Interception and Interception of Oral Communications Statute, Title 18, U.S.C., Section 2513. COP = Copyrights Act, Title 17, U.S.C., Section 509. TGD = Transpor Devices Statute, Title 15, U.S.C., Section 1177. IEW = Illegal Exportation of War Materials Statute, Title 22, U.S.C., Section 401. MLC = Money Laundering Control Act of 1986, Title 18, U.S.C., Section 9

FIRST NOTICE
DEADLINE TO FILE BOND 08/18/97.
SEIZURE NO., APPRAISED VALUE, BOND AMOUNT, STATUTE CODE, DATE SEIZED, SEIZED FROM, PLACE SEIZED

ARIZONA

3630-97-F-0004; $8,219; $821; IGB; 04/17/97; David Cullen, 1000 W. 9th Street, Tempe, AZ; $8,219.04 in personal checks.

3410-97-F-0273; $9,013; $901; MLC; 05/23/97; Abe Siffani, 6300 Sunset Boulevard, Hollywood, CA; $9,013.77 seized from account #03734-08939 in the name of Adolescent Aids Foundation at the Bank of America.

3410-97-F-0274; $2,299; $250; MLC; 05/23/97; Abe Siffani, 6300 Sunset Boulevard, Hollywood, CA; $2,299.93 seized from account #03736-06353 in the name of SCWBCA at the Bank of America.

$2,460.00 in U.S. Currency seized from the person of Billy Joe Church.

OHIO SOUTHERN

3160-97-F-0103; $5,300; $530; CSA; 02/21/97; Larry Caldwell, Jr., 2013 West Grand Avenue, Dayton, OH; Seized by Dayton Police Department. FBI Agents adopted the seizure on 05/22/97 at Cincinnati, OH. $5,300.48 in U.S. Currency.

3160-97-F-0106; $2,638; $263; CSA;

CA; 1995 Buick Century VIN# 1G4AG55M8S6440483.

3410-97-F-0222; $800; $250; MLC; 03/08/97; San Jose St. & Marklein Ave., Mission Hills, CA; 1984 Pontiac 6000 STE VIN# 2G2AH19Z7E1220689.

3410-97-F-0223; $6,500; $650; MLC; 03/08/97; 2650 Pepperdale Drive, Rowland Heights, CA; 1992 Mercury Grand Marquis VIN# 2MECM74W1NX724280.

3410-97-F-0224; $5,200; $520; MLC;

4101 East Charleston Boulevard, Las Vegas, NV; $1,433.63 in U.S. Currency.

3380-97-F-0016; $838; $250; MLC; 02/26/97; Lynn Dale Bogart, Carl Charelli, 4101 East Charleston Boulevard, Las Vegas, NV; $838.63 in U.S. Currency.

3380-97-F-0017; $44,851; $4,485; MLC; 02/26/97; Lynn Dale Bogart, Carl Charelli, 4101 East Charleston Boulevard, Las Vegas, NV; $44,851.85 in U.S. Currency.

NEW YORK NORTHERN

off when a family member is gravely ill. Most sons want to ensure that their elderly parents have health care coverage.

Instead of the "feminization of politics," I prefer to think of this phenomenon as the "humanization of politics." What we have seen being played out in the political arena is how people's personal concerns can become political if they use their voices - and their votes - to define them.

The gender gap we hear so much about is simply a measure of how women, who are experts on the hazards and vicissitudes of life, vote their self-interest and their values. In so doing, they deliver a clear message that the issues they care about deserve to be on the front burner of national politics.

While political scientists often discuss realpolitik, the balance of power among nations, working mothers are saying that national politics must also be about real-life politik - about how we live and work together and how we achieve balance in our lives.

Regardless of our political affiliation or where we stand on any particular issue, or even where we come down on the larger question of how we attain a balance of power in our own lives, we must acknowledge that much is at stake for women collectively in this debate.

Will public and private institutions help empower women with the tools they need to expand their choices and take responsibility for their lives? And by that, I mean, will businesses initiate policies that make work more family-friendly? Will employers value women by paying them equal pay for equal work?

Will individual women be respected for the choices they make about family, work and personal growth - and will they be able to make those choices free of the burden of other people's and society's expectations? Will we stop pigeonholing women and invoking stereotypes that limit their potential? Will we admit that there is no formula for being a successful or fulfilled woman in today's society - that one can choose full-time motherhood and homemaking or be committed to work outside the home without marriage or children or, like most of us today, balance work and family responsibilities?

Whether they are CEOs or minimum-wage workers, most women are doing everything they can to do right by their families and their jobs. Now it's time for society to let them know that their choices are supported and respected.

*****

A new contributor joins The Washington Times this morning. Hillary Rodham Clinton's syndicated column will appear as part of "Culture, et cetera" on Page 2 every Thursday.

She writes of the domestic details and life at the White House, larded with her opinions and views on politics and the passing parade of current events. The column, "Talking It Over," is modeled on the informality of Eleanor Roosevelt's "My Day," which appeared in hundreds of newspapers in an earlier era.

" 'Culture, et cetera' is meant to provide news and opinion at the intersection of politics and culture," says Wesley Pruden, editor-in-chief of The Times, "and Mrs. Clinton's column will provide insights on the view of that intersection from the White House.

"Our efforts to provide as much information as we can about as much of the nation's politics and culture as we can, taken from as many sources as we can find, has made The Times as necessary as the first cup of coffee every morning in the nation's capital, and we're delighted that Mrs. Clinton has become a contributor to the growing newspaper in town."

LANGUAGE: ENGLISH

LOAD-DATE: February 13, 1997

84TH STORY of Level 1 printed in FULL format.

The Washington Times

February 13, 1997, Thursday, Final Edition

SECTION: Part A; CULTURE, ET CETERA; TALKING IT OVER; Pg. A2

LENGTH: 964 words

HEADLINE: The 'real-life politik' at the White House

BYLINE: Hillary Rodham Clinton; SPECIAL TO THE WASHINGTON TIMES

BODY:

I always enjoy meeting other working mothers because I love to share stories about raising children while holding down jobs.

So I was delighted to host a luncheon at the White House this week honoring women who have successfully combined work and family life.

Some of our nation's most accomplished working women were there, including Deputy Attorney General Jamie Gorelick (who had to leave early to attend her daughter's ballet recital); Pat Summitt, head coach of the University of Tennessee Lady Volunteers basketball team; Jill Barad, the CEO of Mattel Inc.; Elaine Pagels, a renowned scholar and professor at Princeton University; and other leading women from the fields of law, entertainment, journalism, business and politics.

Also on hand were some working mothers whose names you wouldn't know. They aren't famous or well-to-do. And they aren't in positions of national influence. They represent the vast majority of women in America, who struggle every day to fulfill their obligations at home and on the job, often with meager resources and little help. I felt that women like Tina Garcia deserved to be honored, too.

Tina grew up on welfare and was a single mother for eight years. She couldn't afford child care, so she improvised by working during school hours or bringing her children to work. She also shared duties with another single mother, who didn't drive. Tina would run errands and do grocery shopping in exchange for baby-sitting. Today, this mother of four runs a thriving real estate company in Virginia.

In recent years, women such as Tina Garcia have become a driving force in our country - politically, socially and economically. That's because their concerns - finding affordable child care, spending more time with their children, being valued at work, being compensated fairly and having flexible leave time for family emergencies - are real-life issues confronting tens of millions of working mothers across our country.

You may remember that many of these were summed up during the presidential campaign as the "feminization of politics." I think that's an unfortunate term. After all, most fathers worry about whether their children are in safe, dependable and affordable child care. Most men want to be able to take time

3RD STORY of Level 1 printed in FULL format.

The New York Times

April 27, 1998, Monday, Late Edition - Final

SECTION: Section A; Page 15; Column 2; Editorial Desk

LENGTH: 390 words

HEADLINE: Bankrupt? Pay Your Child Support First

BYLINE: By Elizabeth Warren; Elizabeth Warren is a law professor at Harvard who specializes in bankruptcy.

DATELINE: CAMBRIDGE, Mass.

BODY:

The Senate and House are considering legislation to reform bankruptcy laws. The credit industry has lobbied aggressively for this legislation, complaining that it is difficult to collect from people hiding behind bankruptcy filings.

But it is important to recognize the unintended consequences of the changes the industry wants -- specifically, their devastating impact on the tens of thousands of women who turn to bankruptcy courts to collect alimony and child support from former husbands who have sought bankruptcy protection.

In 1903, Congress declared that child support and other marital obligations were "nondischargeable debts" -- meaning that no one who declares bankruptcy can escape liability for these obligations. Like taxes and student loans, these debts must be repaid in full both during and after a bankruptcy. Congress quite properly declared that child support and alimony were a priority and must be paid first and in full.

But some proposals before Congress would add to the list of nondischargeable debts. Credit card debt piled up in the 90 days before a bankruptcy filing or incurred when the person did not have "a reasonable expectation or ability to repay" would be included.

This means that even if a debtor declared bankruptcy, credit card bills, with their compounded interest, penalties and collection fees, would survive forever, and have just as much priority as child support payments.

This could be devastating to children. A system in which almost everyone must be paid could very well mean that no one is paid -- or, more likely, that only the most aggressive and powerful creditors are.

Last year, some 300,000 bankruptcy cases involved child support, alimony or another form of family maintenance. In about half of the cases, women were creditors trying to collect court-ordered support from their former spouses. Without such recourse, some families would have to turn to public assistance.

All creditors are victimized by fraudulent debtors. But bankruptcy law already gives creditors effective tools to root out such abuses. Modest changes to the bankruptcy laws, like authorizing routine audits of debtors' petitions, would give creditors even better protection. But one thing should not change:

when it comes to paying off debt, women and children should come first.

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Subject: Bankruptcy

Attached is the draft letter FYI. bankrupt.a30

The two paragraphs that might change are Principle #1 and the last paragraph. However, other parts of the letter are new. For example, we haven't yet said we're open to "responsible consumer bankruptcy reform." So, to ensure that the news produced is on the child support issue that she is targeting, I would suggest that the First Lady say something like:

Congress is currently considering various proposals to change our consumer bankruptcy laws. While it is a bit early to comment on these proposals, we are sure today that the Administration will not support any proposal that impairs the ability of bankrupt debtors to meet their child support and alimony obligations. Today, the bankruptcy system protects the payment of child support or alimony, Proposals that could put some credit card bills on an equal footing with child support or alimony are wrongheaded.

The Washington Times
★ THURSDAY, MAY 7, 1998

Pentagon asks Gulf cuts for morale, cost

By Rowan Scarborough
THE WASHINGTON TIMES

The Pentagon wants to significantly reduce ground and air forces in the Persian Gulf by midsummer and will submit options later this month to President Clinton, senior military officers said yesterday.

With Gulf tensions receding, one officer said the Defense Department may ask to shrink force levels from the 38,000 troops to 20,000 and one aircraft carrier — the Gulf deployment before Saddam Hussein began defying United Nations inspectors seven months ago.

Meanwhile, six senators yesterday put pressure on the White House to scale back, saying the increased deployment was draining defense dollars and morale.

"Clearly, I think it's time for us to reduce the deployment in the Persian Gulf and get it down to the point where people do not have to go back," said Sen. Ted Stevens, Alaska Republican and chairman of the Senate Appropriations subcommittee on defense. "I think this repeated deployment to the same locale under the same conditions — they cannot go off the bases, there's no towns for them to visit. . . . They really are very confined. And that's leading to a long-term loss of morale."

Sen. Kay Bailey Hutchison, Texas Republican and a member of the Senate Armed Services Committee, said: "I would describe the morale in the desert as adequate. There are very severe problems in that regard, and there's no question we're going to have to go through some kind of a deployment reduction here back to the


Sen. Ted Stevens


Sen. Kay Bailey Hutchison

precrisis levels."

One of two carriers in the Gulf, the USS Independence, is due to leave the region at month's end. Defense Secretary William S. Cohen on Tuesday ordered a possible replacement carrier, the USS Dwight D. Eisenhower, to depart the United States on June 10, as planned. The scheduling raises the prospect of leaving one carrier in the region as the first stage of a troop downturn.

At the White House, Mr. Clinton told reporters, "Secretary Cohen has not recommended a final decision to me on this, and I have certainly not made one, and we've done our best to keep all of our options open."

On the morale issue, the president said, "One of the things I recognize is that as we ask more and more and more of our men and women in uniform, and they have longer deployments, we're going to have to work harder to make sure they get adequate support."

A senior military officer said planners want a new Iraq policy that doesn't involve the costly, morale-draining deployment of troops everytime Saddam acts up.

With Saddam less bellicose in recent months, the administration has sent signals it was considering a drawdown.

The administration's dilemma is cost vs. iron-fisted diplomacy.

The buildup is projected to require $1.3 billion this year in extra defense spending. But withdrawing forces could wrongly signal Saddam that he again is free to defy U.N. weapons inspectors.

"We've got to get out of the mode that allows him to dictate what we do," said a senior military officer. "We're going to make it absolutely clear we're not going to react to his every whim."

The administration is discussing the option of coupling a withdrawal to precrisis levels with heightened U.S. warnings that defiance of U.N. weapons inspections would bring military strikes.

Another consideration is the weather: The region's intense summer heat is an unhospitable environment for soldiers housed in tents in Kuwait.

"Most of our troops stationed in Kuwait and Saudi Arabia are in tents," a military spokesman said.

John Hillen, a former Army officer and analyst at the Council on Foreign Relations, said the administration is mistaken if it believes it can influence Saddam's behavior without robust military forces.

"It will be difficult to deter Saddam on the cheap. I don't know what model they're going to use," Mr. Hillen said. "There's no free lunch. You have to be excessively creative to not wear out our forces by keeping them in the Persian Gulf, but at the same time to keep enough there to deter Saddam."

A senior officer at the Pentagon said the United States "lost the propaganda war" in the latest crisis with Saddam. Fewer nations now back continued economic sanctions as a lever to force Iraq to reveal its prohibited weapons of mass destruction.

"Saddam seems to gauge our threshold for tolerance, and he operates underneath that threshold," Mr. Hillen said. "He operates at just under the threshold where we would knock the crap out of him."

Talking It Over

By Hillary Rodham Clinton

Bankruptcy shouldn't let parents off the hook

Over the past weeks, I've learned about proposed bankruptcy-reform legislation in the House of Representatives that could undermine the ability of some parents to collect child support. I have no quarrel with responsible bankruptcy reform, but I do quarrel with aspects of the bill that would force single parents to compete for their child support payments with big banks trying to collect credit card debt. The welfare of our children must come first.

Let me tell you about a hypothetical family: Jan and Simon have three children, ages 1, 3 and 5. Simon is the manager of a small shoe store with an annual salary of $33,000. Jan is a full-time homemaker.

Sadly, they divorce, and Simon agrees to pay child support. Unfortunately, within a year, he's involved in a serious car accident and loses his job. Jan, struggling to raise their three children, stops receiving child support checks. Unable to find work, and behind on his bills, Simon files for bankruptcy protection. Jan is just one of his creditors.

Under current bankruptcy law, Simon is obligated to pay his taxes, his student loans and his child support and alimony. But under the legislation being considered by the House, certain of his credit card debts would also be mandatory. In Simon's case, as parties vie in the fierce competition for limited funds, child support payments and credit card obligations would be pitted against each other.

Unfortunately, Jan and Simon's story is all too common. This year alone, 1.4 million families will file for protection from unmanageable consumer debt under our bankruptcy laws. This represents an increase of about 400 percent since 1980. While some reform is in order, any accompanying threat to child support and alimony payments is not.

This administration has worked too long and too hard to improve child support collection to see it now threatened. The president has cracked down on nonpaying parents and strengthened enforcement. Since 1992, collections are up 68 percent.

Today, families that file under Chapter 7 are relieved of certain debts, but as in Simon's case, they must still repay others, including taxes, educational loans and family and child support obligations. Many also try to continue making home mortgage and car payments. They leave court relieved of some debt but certainly not debt-free.

The aspects of the House bill that concern me would elevate certain types of credit card debt to the same high priority as taxes, school loans and family support. The challenge for Congress is to pass a law that is balanced and fair to both the creditor and the debtor — protecting families and children while reducing abuse of the bankruptcy laws.

The challenge for our economy is to preserve access to credit while making sure that eligible consumers are educated, responsible and protected from unscrupulous practices. It wasn't too long ago that large segments of our society were denied credit. At the time, it was important to provide people with this valuable economic tool, but now, as we all know, credit is readily available.

How many times in the past few months has your phone rung during dinner? You excuse yourself, leave the table and pick up the receiver, only to be greeted by a cheery voice on the other end of the line happily offering you a "pre-approved credit card." Or how many times have you seen or heard advertisements encouraging people with bad credit to borrow more?

For many people in financial straits — for whatever reason — such offers may sound too good to be true. Unfortunately, down the line, too many people find they didn't comprehend how much they would owe and don't have the means to repay the additional debt.

The average bankruptcy filer in this country earns less than $18,000 a year after taxes. And, now, credit card companies even target college and high school students.

Most people use their credit cards responsibly and pay their bills reliably. But, for many Americans — like Jan and Simon — the difference between fiscal security and financial ruin is just one calamity away. A divorce, a lost job, an accident or a child's illness can rob a family of its financial security and eventually lead to bankruptcy court.

As members of Congress grapple with bankruptcy reform, they must deal with the problems that face both creditors and debtors. But one issue is clear. Any effort to reform the bankruptcy system must protect the obligations of parents to support their children.

• *To find out more about Hillary Rodham Clinton and read her past columns, visit the Creators Syndicate World Wide Web page (www.creators.com).*

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