



DCUC
DEFENSE CREDIT UNION COUNCIL

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July 14, 2025

The Honorable Scott Fitzgerald
Chairman, House Judiciary Subcommittee on the Administrative State, Regulatory Reform, and Antitrust
U.S. House of Representatives

The Honorable Jerrold Nadler
Ranking Member, House Judiciary Subcommittee on the Administrative State, Regulatory Reform, and Antitrust
U.S. House of Representatives

Re: Bankruptcy Reform and Credit Union Concerns (hearing on July 15, 2025)

Dear Chairman Fitzgerald and Ranking Member Nadler:

I write on behalf of the Defense Credit Union Council (DCUC), the trade association representing more than 200 credit unions serving over 40 million military and veteran members. DCUC credit unions operate on military installations and in surrounding communities, providing affordable financial services to servicemembers, veterans, and their families. We appreciate the opportunity to submit this letter in advance of the upcoming House Judiciary hearing on bankruptcy law and its implications. In this letter, we highlight key bankruptcy-related issues affecting credit unions – including *reaffirmation agreements*, treatment of secured debts, and the lack of credit-union-specific protections – and explain how these issues uniquely impact defense credit unions and their members. We also suggest legislative reforms to address these challenges so that credit unions can continue serving the military community effectively.

Reaffirmation Agreements: Credit unions frequently rely on reaffirmation agreements to preserve recoveries on secured loans that would otherwise be discharged in Chapter 7 bankruptcies. A reaffirmation agreement allows a debtor to agree to repay a debt that would have been discharged, typically for a car loan or mortgage, so the credit union can continue enforcing its lien. If a member does *not* reaffirm, the credit union loses its right to collect beyond enforcing the lien; if the collateral is surrendered (e.g. a vehicle), even that loss is often sizable. However, encouraging a member to reaffirm is difficult. By law, debtors must file an intention to reaffirm early in the case and negotiate the terms, but the process is complex and varies by jurisdiction. Courts in different states require different forms or hearings, and creditors cannot compel a debtor to reaffirm. Indeed, bankruptcy officials advise that “don’t expect the debtor to reach out, even if they would like to reaffirm”. In practice, many struggling members choose discharge over reaffirmation, leaving the credit union with a total loss on that loan.

Credit unions strongly believe reaffirmation benefits both parties. Indeed, reaffirmed members often remain in good standing and may re-borrow on reasonable terms after discharge. But making reaffirmation work requires significant effort. Credit union staff often attend §341 meetings and offer debtor-friendly loan terms, yet in many cases members do not voluntarily reaffirm all of their debts; as one credit union observed, “we continue to see more surprise bankruptcies, where the member is a long-time member and is current on his or her debt at the time the bankruptcy petition is received”. In short, the current rules make it hard for credit unions to facilitate reaffirmation agreements – even when doing so would clearly serve both the lender and the borrower.

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Treatment of Secured Debts and Lender Disparity: Credit unions often hold security interests in collateral (e.g. vehicles or homes) for their loans, and they use practices (such as cross-collateralization and set-off rights) that can complicate bankruptcies. For example, many credit unions tie unsecured loans (like credit cards) to secured loans (like auto loans) under cross-collateral provisions. In effect, a credit union will secure what would otherwise be unsecured debt by attaching it to a vehicle. In such cases, a debtor who wants to keep the car must reaffirm **both** the auto loan and the credit card debt or else surrender the vehicle. While banks generally hold separate liens for each loan, credit unions' cross-collateralization forces debtors into reaffirming multiple obligations simultaneously (sometimes without realizing it). Congress should consider clarifying or limiting this practice (for example, requiring explicit borrower consent), to protect members from inadvertently giving up broad rights in order to keep their property.

Likewise, credit unions can exercise set-off rights against a member's share (deposit) accounts to cover discharged debts. Under standard credit union bylaws, once a member's account goes delinquent or is discharged in bankruptcy, the credit union can freeze or sweep funds from that member's checking/savings accounts to offset the loss. This is a power unique to credit unions (banks cannot similarly tap deposit insurance funds for post-bankruptcy set-offs), and it often leaves bankrupt members without any liquid funds. We respectfully urge Congress to consider limiting the ability of credit unions to wipe out deposit accounts after a discharge so that members retain some access to their funds.

Critically, the Bankruptcy Code currently does not give any special priority or protection to credit unions as cooperatives. Credit unions are **not-for-profit, member-owned** financial cooperatives – there are no shareholders to absorb losses. As one credit union official explained, “because we are not-for-profit financial cooperatives, losses to the credit union have a direct impact on the entire membership” through higher loan rates or lower dividends. Yet in the bankruptcy system, credit unions receive no elevated status or additional remedies. For example, all creditors' claims are treated under the same rules regardless of the institution's structure. By contrast, if a bank fails, depositors are protected by the FDIC, whereas a closed credit union's limited NCUSIF coverage provides only member share insurance – which offers no recourse for losses on loans or lost member relationships.

In light of these differences, DCUC urges Congress to recognize the cooperative character of credit unions in bankruptcy reform. Possible reforms might include treating credit unions' secured claims differently (for example, allowing payment plans rather than liquidation), providing a limited grace period for vehicle repossession, or creating a small-creditor relief carve-out for credit unions. At minimum, we urge Congress to avoid proposals that would further disadvantage credit unions (for example, by capping interest or imposing onerous costs on small cooperatives). Any reform should keep in mind that credit unions' “mission” is to serve members, not to generate profit, and that excessive losses inevitably raise costs for all members.

Unique Military Factors: Defense credit unions face additional challenges tied to military life. Frequent relocations and extended deployments can strain personal finances and lead to financial shocks. As DCUC has highlighted, military families regularly move every few years and may be deployed on short notice. Such moves can result in job interruptions, steep moving costs, and reduced continuity of care or childcare – all of which can push even prudent households toward financial distress. A deployment may also take a member out of the country, making it hard for the credit union to communicate or to pursue collections.

Moreover, legal constraints hamper collection from deployed servicemembers. Credit unions often cannot reach an overseas debtor to repossess collateral, and obtaining foreign judgments or assistance can be extremely difficult. In our annual DoD/NDAA priorities letter, DCUC noted that “credit unions face legal and logistical obstacles when recovering collateral from overseas defaults,” and urged Congress to help develop cooperative protocols with the military to reduce losses for deployed personnel. These international issues are unique to the military context and add to the difficulty of recouping losses when military families declare bankruptcy.

For servicemembers who do exit bankruptcy, preserving access to credit union services is especially important. A discharged member often must re-establish financial stability – access to a basic checking account and affordable loans is key to that process. As noted above, reaffirmation helps ensure that discharged members “continue to have access to financial services and reasonably priced credit”. Likewise, reassuming that a member remains in good standing after reaffirmation allowed them to obtain needed loans in the future. We are concerned that if a member walks away from all obligations, the credit union’s policy is typically to revoke other services (aside from maintaining a share account). This can leave discharged members without any banking relationship – at a time when they may need it most.

Conclusion and Recommendations: In summary, bankruptcy law can work against credit unions and their members in ways that are especially acute for those serving the military. To mitigate these problems, we respectfully suggest the following reforms:

- **Streamline reaffirmation:** Create a uniform federal reaffirmation form and extend filing deadlines for credit-union loans, and encourage debtor counseling so that members understand the benefits of reaffirming secured debts.
- **Protect collateralization practices:** Require explicit member consent and clearer disclosures for cross-collateralized lending, and consider limiting post-bankruptcy set-offs against share accounts.
- **Recognize credit union status:** Explore credit-union-specific provisions (such as adjusted claim priority or post-discharge payment options) that reflect their cooperative, not-for-profit nature.
- **Safeguard member accounts:** Ensure that members leaving bankruptcy retain at least basic access to a share account, so they are not left financially stranded.
- **Address military-specific issues:** Work with the Department of Defense to ease cross-border debt recovery, and consider the impacts of deployment (including any SCRA extensions) on credit union collateral enforcement.

We welcome the opportunity to assist the Committee in understanding the practical effects of bankruptcy law on credit unions and the military families they serve. DCUC and our member credit unions stand ready to work with Congress to find balanced solutions that protect members and preserve the viability of these critical community institutions. Thank you for your consideration of these important issues.

If you have any questions, please do not hesitate to email me at jstverak@dcuc.org or contact me via the phone at 202.557.8528.

Sincerely,



Jason Stverak
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DCUC

CC: Members of the United States House Judiciary Committee

