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## United States Senate

WASHINGTON, DC 20510-4903

### Closing A Glaring Loophole in Bankruptcy Law: The Homestead Exemption

Dear Colleague:

The bankruptcy conference may soon meet to resolve the differences between the House and Senate versions of the bill. When it meets, I hope it will address the single most offensive abuse in the bankruptcy system, the homestead exemption. This is the provision that allows debtors in five privileged states to declare bankruptcy but shield millions of dollars in their homes from their creditors.

When the bankruptcy bill was debated in the Senate earlier this year, 60 of our colleagues agreed that we needed to adopt a common sense solution to this inequity: limit the homestead exemption to a maximum of \$125,000 regardless of where the debtor lives. One of the central principles of the bankruptcy bill is that people who can pay part of their debts should be required to do so. In order to stay true to that principle, the conferees must insist on the Senate position.

Just last week, the Florida Supreme Court provided even more proof that this abuse must be ended. The Court decided a case involving Elmer Hill, a Tennessee debtor who lost a \$15 million judgement in a trial and then 10 days later purchased a \$650,000 Florida house in cash and \$75,000 worth of furniture in a blatant attempt to shield his assets from his creditors when he declared bankruptcy.

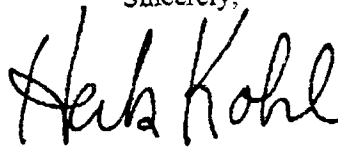
When his creditors attempted to get some of what was legally owed to them, Hill cited the homestead exemption. The Florida Supreme Court agreed with Hill, saying that he was protected from his creditors even when the "homestead [is] acquired by a debtor with the specific intent to hinder, delay or defraud creditors."

Hill's case is not an isolated example. Earlier this year, Wall Street financier and convicted felon Paul Bilzerian gave an object lesson in how this abuse can be accomplished and authorized by the law. When Bilzerian declared bankruptcy in January, he listed more than \$140 million in debts and only \$15,805 in assets. The one asset not itemized was his 37,000 square foot Florida mansion worth \$5 million.

Bilzerian and Hill are not alone in this legally sanctioned abuse. A U.S. General Accounting Office study of bankrupt debtors who take advantage of the homestead loophole in Florida and Texas found that each year more than 400 wealthy debtors are able to protect more than \$100,000 in equity in their home at a cost to creditors of \$120 million.

I hope that you will join with me in urging the conferees – when they are appointed – to insist on closing the homestead exemption loophole.

Sincerely,



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