Supreme Court Reaches Decision on Debt Collection and Bankruptcy

May 18, 2017 - Each state has its own statute of limitations (SOL) for uncollected debts. Once a debt goes unpaid for longer that the SOL allows, it is deemed uncollectable. But federal circuit courts have been split on whether debt collectors could file to collect on old, uncollectable debts when bankruptcy has been filed. On Monday, the Supreme Court settled that question in a 5 to 3 decision by saying that they can.

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At question was whether or not it was illegal under the Fair Debt Collection Practices Act for debt collectors to attempt to collect on old debts after the debtor had filed for bankruptcy. The court determined that even though a debt may be legally uncollectible, that doesn't mean that it isn't legitimate or that debt collectors violated the law by attempting to collect on that debt.

In every bankruptcy, the bankruptcy court appoints a trustee to oversee assets and to make payments for debts. The ruling places the responsibility for determining whether or not debts that can't legally be enforced due to SOL limitations should be paid squarely on the shoulders of the trustee.

The ruling is limited to bankruptcy cases however it opens the door for future cases. Specifically, it could open the door to allowing debt collectors to sue debtors when their debts are time-barred by local SOLs.

byJim Malmberg

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