BANKRUPTCY BY THE NUMBERS

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HOW FRESH IS THE FRESH START?

In this article we take a broad look at the circumstances of chapter 7 debtors to estimate their net worth, both at the time of bankruptcy and after they have received their discharge. We obtained a rough estimate of the net worth of debtors at the time of filing by subtracting the total debts they list on Schedule D (secured), Schedule E (priority), and Schedule F (general unsecured), from the assets they list on Schedule A (real property) and Schedule B (personal property). Of course, this presumes that the schedules are all filled out completely and accurately. For our sample we used data from 1,269 cases recently closed as no asset chapter 7 cases in about 60 judicial districts.[2/] Most of these cases had been filed in early to mid 2000. The following chart shows the results.

		BEFORE BANKRUPTCY		AFTER BANKRUPTCY	
CATEGORY	# OF CASES	MEDIAN NET WORTH	% WITH NET WORTH > $0	MEDIAN NET WORTH	% WITH NET WORTH > $0
ALL DEBTORS	1269	[-$20,951]	10.2%	$2,972	72.7%
HOMEOWNERS	531	[-$21,745]	19.8%	$7,625	67.0%
RENTERS	738	[-$20,733]	3.3%	$2,100	76.8%
JOINT FILERS	441	[-$24,199]	13.2%	$4,282	67.3%
MALE	359*	[-$21,262]	9.7%	$2,638	76.6%
FEMALE	456*	[-$17,888]	7.7%	$2,520	74.6%

* 13 of the debtors in our sample were of undetermined gender

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[1/] All views expressed in this article are those of the authors, and do not necessarily represent the views of the Executive Office for United States Trustees or the Department of Justice.

[2/] These cases were collected from UST offices between May and October 2000. We selected these cases for this review because we have recorded more detailed data from each of these cases than we obtained from the 4,000 petitions we collected in 1998 and 1999, which enables us to do a more complete analysis.

NET WORTH AT FILING: By our measure of net worth, nearly 90% of all chapter 7 no asset debtors had a negative net worth at the time of bankruptcy. The average net worth was [-$36,623], and the net worth for the median debtor was [-$20,951]. Clearly, most debtors are in poor financial shape at the time they file for bankruptcy.

Seven of the debtors in our sample had a net worth of over $100,000, either due to high home equity or large retirement funds. Upon closer examination this group included two retired widows, a permanently disabled debtor, a separated couple who filed jointly, and a separated male and a separated female. The remaining case involved a low-income working married couple who had $218,000 in their retirement accounts.

NET WORTH AFTER BANKRUPTCY: Next, we tried to estimate the debtor's net worth after bankruptcy. To do this we assumed that all general unsecured debt reported on Schedule F had been discharged, but that everything else remained the same. (We recognize that this analysis ignores such factors as reaffirmations, surrendered property, and it presumes that all general unsecured debt is dischargeable and that all priority debt is non-dischargeable.) By this measure chapter 7 bankruptcy had greatly improved the financial condition of most of the debtors. Nearly three-quarters now had a positive net worth, although for most it was rather small.

Although bankruptcy may have put them in the black, they hardly had opulent lifestyles. For example,85.7% of the debtors in our sample were either renters, or owned a home worth less than $100,000. The average age of their cars was about 8 years old. Further, they may face financial troubles in the future, since nearly 70% reported that their monthly expenses exceeded their net income.

HOMEOWNERS COMPARED TO RENTERS: Homeowners were six times as likely to have a positive net worth at filing (19.8%) compared to renters (3.6%). After bankruptcy the renters were far more likely to have a positive net worth than the homeowners. This is because, as a group, homeowners have more assets and higher total debts than renters. Some chapter 7 homeowners have substantial negative equity in their homes while others have substantial positive equity. Since we are assuming that the major asset and source of debt (their home) is not affected by bankruptcy, their overall financial status would be less affected by bankruptcy than renters. Even after wiping out their unsecured debt, about one-third of homeowners still have a negative net worth.

GENDER: Joint debtors are more likely to have a positive net worth at filing than either males or females filing alone, but are less likely to have a positive net worth after discharge. This is probably largely due to the fact that a higher proportion of joint filers own homes than renters. The median net worth for males was lower than that of females before bankruptcy, but about the same as females post-bankruptcy.

CONCLUSION: There has been much commentary in recent years to the effect that the bankruptcy laws are “broken” and that numerous affluent people are using chapter 7 as a refuge from paying their debts. While exceptions exist, it is encouraging to see that chapter 7 is giving a fresh start to the people for whom it was intended. Most chapter 7 debtors have a substantial negative net worth at filing, but have a small positive net worth after discharge. Based on the information in their schedules, it appears that few affluent people file for chapter 7 bankruptcy, and few are made affluent by filing for bankruptcy.