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BY THE COMPTROLLER GENERAL

Report To The Chairman, Committee On The Judiciary House Of Representatives

OF THE UNITED STATES

Bankruptcy Reform Act Of 1978-- A Before And After Look

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-205847

The Honorable Peter W. Rodino, Jr.
Chairman, Committee on the Judiciary
House of Representatives

Dear Mr. Chairman:

This report is in response to your June 10, 1981, request to examine personal bankruptcies filed before and after the Bankruptcy Reform Act of 1978 went into effect on October 1, 1979. The report addresses the personal and financial characteristics of debtors filing personal bankruptcies before and after October 1, 1979, the relationship between personal bankruptcies and selected social and economic variables, and the potential impact of various modifications to the personal bankruptcy process.

As agreed with your office, unless you publicly announce the contents of the report earlier, we plan no further distribution until 30 days from the date of the report. At that time we will send copies to the Department of Justice; the Chief Justice of the United States; the Chairman of the Judicial Conference's Committee on Bankruptcy; the Director, Administrative Office of the U.S. Courts; congressional committees having a jurisdictional interest in bankruptcy matters; the chief judge and senior bankruptcy judge of each Federal district court; and other interested parties. Additionally, we will make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CHAIRMAN, COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

BANKRUPTCY REFORM ACT OF 1978--A BEFORE AND AFTER LOOK

D I G E S T

The Bankruptcy Reform Act of 1978, which became effective on October 1, 1979, was the first comprehensive revision of the Federal bankruptcy statutes since 1938. The revision was intended to make bankruptcy more efficient by consolidating procedures and balancing more equitably the interests of different classes of creditors. It also introduced Federal exemptions, which allow debtors to protect certain property from liquidation and distribution to creditors, and expanded the opportunity for debtors to repay debt out of future income.

The Chairman, Committee on the Judiciary, House of Representatives requested that GAO review the relationship between the number of personal bankruptcies and various social and economic variables and compare personal bankruptcy debtors who filed before and after the 1978 act was implemented.

This report statistically analyzes various social and economic variables and their impacts on the total bankruptcy filings. It also compares personal bankruptcies filed under chapters 7 and 13 before and after the implementation of the act in five bankruptcy court districts (eastern and southern New York, southern Ohio, eastern Kentucky, and central California).

Chapter 7 provides for the liquidation and distribution of the debtor's nonexempt assets, if any, to creditors. Both Federal and State bankruptcy exemptions allow a debtor to exempt certain property from liquidation and distribution to creditors. Chapter 13 differs from chapter 7 in that it does not require that property be surrendered for liquidation and distribution to creditors. Instead, it provides the debtor the opportunity to retain his/her assets when he/ she agrees to pay creditors over time.

IMPACT OF THE 1978 ACT ON PERSONAL BANKRUPTCY FILINGS

Many social and economic factors impact the number of bankruptcies filed. GAO's analysis of such factors as well as the impact of the code on personal bankruptcy filings, exclusive of unquantifiable factors such as the influence of attorney advertising, showed that the code may have impacted the total number of adjusted bankruptcy filings in fiscal year 1982 by as much as 6 percent. The code's actual impact may have proven to be less if the unquantifiable factors had been measurable. (See pp. 19 and 20.)

FACTORS THAT LED TO FILING BANKRUPTCY

On the basis of a GAO questionnaire sent to nationwide samples of debtors who filed under chapter 7 and chapter 13 in October 1981, GAO found that

--some of the factors which contributed to chapters 7 and 13 debtors' financial difficulties included increases in the cost of living (67 percent for chapter 7 debtors and 72 percent for chapter 13 debtors), and periods of unemployment (36 percent for chapter 7 debtors and 34 percent for chapter 13 debtors), and

--seventy-three percent of the chapter 7 debtors and 78 percent of the chapter 13 debtors who had been notified by creditors of possible legal actions indicated that such actions taken or threatened to be taken by their creditors greatly influenced their decisions to file bankruptcy. (See pp. 15 and 16.)

PERSONAL AND FINANCIAL CHARACTERISTICS OF DEBTORS

GAO's analysis of personal bankruptcy cases for pre- and post-act chapter 7 debtors showed similar personal characteristics such as employment and occupation. Also, chapter 13 pre- and post-act debtors showed similar characteristics. One major difference, however, was that under both chapters 7 and 13, a higher proportion of debtors who filed after October 1, 1979, were homeowners, compared to those who filed before. Financially, debtors in either group (chapters 7 or 13) who filed after the implementation of the code had higher levels of income, assets, and debts than their counterparts who filed prior to October 1, 1979.

Pre- and post-act debtors share similar personal characteristics

Chapter 7 pre- and post-act debtors had several characteristics in common as did pre- and post-act chapter 13 debtors. As the table below illustrates, similarities for both groups centered on employment status and occupation while the most notable difference was in homeownership. (See pp. 21, 24, 36, and 37.)

	Chapter 7 cases		Chapter 13 cases	
	Before	After	Before	After
	--(percent)--		--(percent)--	
Employed	80	83	96	93
White-collar occupation	44	49	37	44
Blue-collar occupation	38	31	47	38
Homeownership	14	25	37	50

Pre- and post-act debtors' levels of income, assets, and debts differed

Post-act debtors filing chapter 7 or chapter 13 bankruptcies reported in their bankruptcy petitions higher levels of income, assets, and debts than did the pre-act debtors filing under comparable chapters. The mean value (average) of financial factors for the pre- and post-act debtors in both groups follows. 1/

Financial factors	Chapter 7 Before	Chapter 7 After	Chapter 13 Before	Chapter 13 After
Income	$10,656	$13,497	$12,272	$17,250
Assets	$ 7,560	$17,593	$18,532	$28,475
Debts	$21,797	$31,674	$18,596	$30,659

Note: Income data represents debtors' gross income.

Even though the mean value of income increased for post-act debtors filing chapters 7 and 13, their income levels remained below the national average. (See pp. 23 and 39.)

INDIVIDUALLY, MANY POST-ACT CHAPTERS 7 AND 13 DEBTORS HAD SIMILAR INCOME, ASSET, AND DEBT LEVELS

Even though post-act chapters 7 and 13 debtors, as groups, differed in their average

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1/The mean values were not adjusted for inflation because bankruptcy court records did not provide the necessary detail data to make accurate adjustments. However, the difference in the general rate of inflation between the periods that GAO's samples were taken was approximately 21 percent, as measured by the Consumer Price Index.

income, asset, and debt levels, GAO's analysis by income ranges showed that on a one-for-one comparison many chapter 7 debtors were very similar to chapter 13 debtors when considering only income, assets, and debts. GAO projected that 6,760 chapter 7 debtors who filed in the five districts reviewed, or 42 percent, shared similar asset and debt characteristics with chapter 13 debtors who filed in the same bankruptcy court district and who had similar income levels. Even though this analysis provides insight into the degree to which chapters 7 and 13 debtors share similar income, asset, and debt characteristics, GAO cannot conclusively say that such chapter 7 debtors could repay their debts from future income. Before a conclusion could be made one would have to know the debtor's living expenses, family size, and other circumstances, which chapter 7 debtors are not required to report in their bankruptcy petitions. (See pp. 52 to 55.)

POTENTIAL MODIFICATIONS TO THE PERSONAL BANKRUPTCY PROCESS

GAO analyzed the impact various potential modifications to the act would have had on the chapters 7 and 13 post-act cases reviewed. These modifications included (1) revising Federal exemption provisions by placing a $3,000 limit ($6,000 for a joint petition) on the household goods exemption (currently, there is no total dollar limit on the household goods exemption), (2) revising chapter 13 provisions by extending the normal payment period from 3 to 5 years, and (3) establishing a total dollar limit on the value of property exempted when using Federal exemptions and allowing chapter 7 debtors to apply the limit to the property of their choice.

GAO projected that a $3,000 limit on household goods for single petitions would have affected an estimated 464 of the 12,365 chapter 7 cases filed in the three districts reviewed that allowed the use of Federal exemptions, and could have provided about $653,000 of property for liquidation and distribution to creditors. (See pp. 62 to 65.)

GAO's analysis of chapter 13 cases showed that extending the length of chapter 13 repayment plans up to 5 years could benefit debtors by reducing their monthly payments if their total debt to be repaid remained constant. This also assumed that the debtors' income levels remained constant. As a result debtors would have had more monthly income to meet unexpected expenses. One disadvantage of increasing the length of chapter 13 repayment plans is that it would delay debtors' fresh starts after bankruptcy. This disadvantage would be overcome if the length of the repayment period was left to the discretion of the debtor. (See pp. 69 to 71.)

GAO found that an additional amount of property could be made available for liquidation and distribution to creditors if a total dollar limit on the value of property exempted, when using Federal exemptions, was established. In three of the five districts GAO visited, debtors were permitted by their States to use either Federal or State exemptions. On the basis of 12,365 cases filed in the three districts, GAO estimated that more property would have been subject to liquidation resulting in additional money being available for repayment to creditors, as follows.

Federal exemption dollar limit	Cases affected	Potential dollars available to creditors (millions)
$ 1,000	6,498	$21.2
$ 3,000	3,144	$11.3
$ 5,000	1,543	$ 6.5
$10,000	338	$ 1.6

Current bankruptcy law allows each State to establish its own exemption levels, which vary considerably from State to State. The law also allows States to prohibit their residents from using Federal exemptions. (As of September 2, 1982, 33 States had such a prohibition.) Thus, establishing a specific Federal exemption dollar limit would not affect debtors who, either by choice or as required by State law, claim State exemptions unless the States revised their exemptions and established a similar dollar limit. GAO estimated that if the States established a total dollar limit on their exemptions, additional property would have been available for liquidation and distribution to creditors. For example, if a $10,000 limit had been in effect in the five districts visited, GAO projected that 958 cases that claimed State exemptions would have been impacted resulting in about $13.5 million of property available for liquidation and distribution to creditors. (See pp. 67 and 68.)

Contents

ABBREVIATIONS

GAO	General Accounting Office
U.S.C.	United States Code

CHAPTER 1

INTRODUCTION

The Bankruptcy Reform Act of 1978, Public Law 95-598, (referred to as the code) was enacted on November 6, 1978, and became effective on October 1, 1979. This act was the first comprehensive revision to the bankruptcy statutes since 1938 and was intended to make bankruptcy more efficient by consolidating procedures and balancing more equitably the interests of different classes of creditors. It also introduced Federal exemptions which allow debtors to protect certain property from liquidation and distribution to creditors and expanded the opportunities for debtors to repay debt out of future income.

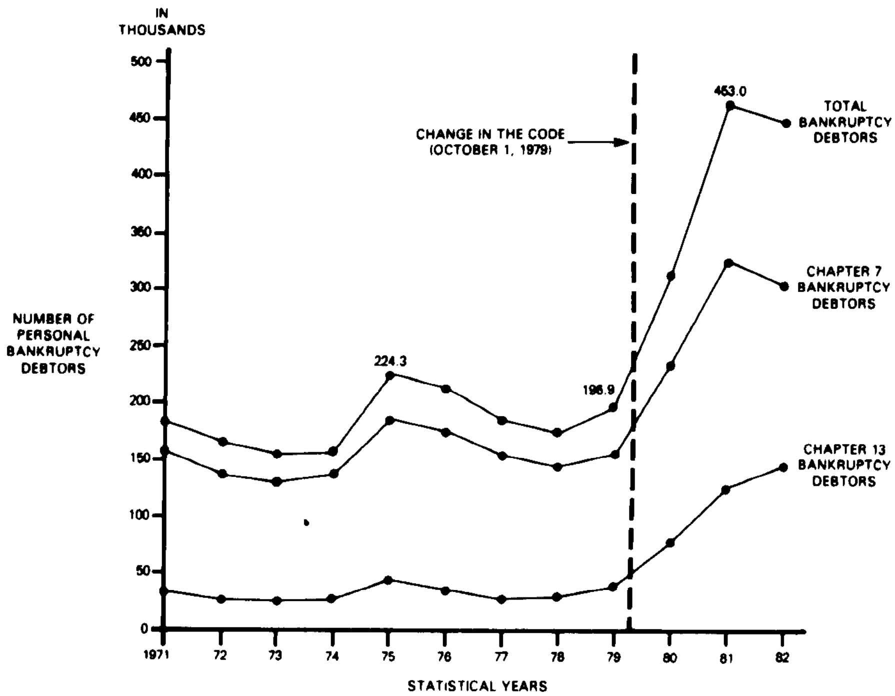
Our review was requested by the Chairman, House Committee on the Judiciary. The Chairman requested that we study personal bankruptcies filed before and after the changes in the bankruptcy process became effective on October 1, 1979, and ascertain the conditions that contributed to the increase in personal bankruptcies. (See p. 80.) Prior to the 1978 act, the law governing bankruptcy had not been codified, however, the 1978 act extensively amended the earlier law and codified it. Bankruptcy cases filed prior to the effective date of the act are commonly referred to as act cases, whereas cases filed after this date are commonly referred to as code cases. Throughout this report, we used this terminology when discussing the cases filed before and after October 1, 1979.

We performed detailed audit work in five Federal bankruptcy court districts--southern and eastern districts of New York, southern district of Ohio, eastern district of Kentucky, and central district of California--to obtain financial and demographic information on debtors filing before and after the code became effective. We also sent a questionnaire to a nationwide sample of individuals who filed bankruptcy under the code to obtain a profile of bankruptcy debtors and the reasons why they filed bankruptcy. (See pages 8 and 75 for a more detailed discussion of our scope and methodology.)

PERSONAL BANKRUPTCIES

Personal bankruptcies are filed under chapter 7 (11 U.S.C. 701) and chapter 13 (11 U.S.C. 1301) of the Bankruptcy Code. Chapter 7 bankruptcy provides for a liquidation whereby the debtor surrenders his/her nonexempt assets for liquidation and distribution to creditors. Chapter 13 bankruptcy provides for a repayment plan whereby the debtor, with the court's approval, agrees to repay a portion of his/her debts out of future income while retaining all assets.

Personal bankruptcy filings have increased dramatically since October 1, 1979. The graph below illustrates the trend in total personal bankruptcies as well as the trends for chapter 7 and chapter 13 for the statistical years 1971 through 1982.1/



For the statistical year ended June 30, 1979, about 197,000 debtors filed personal bankruptcy. For the year ended June 30, 1980, about 315,000 debtors filed personal bankruptcies, an increase of 60 percent over the previous year. A similar increase

1/The Administrative Office of the U.S. Courts maintains data on a statistical year basis covering the period from July 1 to June 30.

occurred during statistical year 1981 when about 453,000 debtors filed bankruptcy, an increase of 44 percent over 1980. During 1982, a slight decrease occurred when about 450,000 debtors filed bankruptcy, or a decrease of 0.7 percent. These trends in personal bankruptcy filings have created controversy over whether the increases were caused by changes made in the code or whether the increases represent the result of the general downturn in the Nation's economy, high inflation and unemployment, recession, and an over-extension of consumer credit.

STRUCTURE OF THE FEDERAL BANKRUPTCY COURT SYSTEM

The code revised the structure of bankruptcy courts within the judicial branch of the Government. The "courts of bankruptcy" created under the previous law were the district courts. The code provided for a new bankruptcy court system which was to become effective on April 1, 1984, after a transition period which began October 1, 1979, the effective date of the code. Under this system, Federal bankruptcy courts are to be established in the judicial districts as adjuncts to the U.S. district courts. In addition, the Administrative Office of the U.S. Courts, which provides administrative services to the Federal judiciary, is required to determine and recommend to the Congress the number of bankruptcy judges needed to serve in the bankruptcy court system after the transition period is completed. The bankruptcy judges will be appointed by the President for 14-year terms. There were 222 authorized bankruptcy judge positions for fiscal year 1983 in 91 Federal bankruptcy courts administering the Federal bankruptcy law in the 94 Federal judicial districts throughout the United States and its territories.

PERSONAL BANKRUPTCY PROCESS

Chapters 7 and 13 of the code provide the framework for personal bankruptcy. Chapter 7, titled "Liquidation," is the "straight bankruptcy" chapter and provides for the liquidation and distribution of the debtor's nonexempt 2/ assets, if any,

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2/Both Federal and State bankruptcy laws allow a debtor to exempt certain property from liquidation and distribution to creditors.

to creditors. Chapter 13, titled "Adjustment of Debts of an Individual with Regular Income," differs from chapter 7 in that it does not require that property be surrendered for liquidation and distribution to creditors. Instead, it provides the debtor the opportunity to retain his/her assets when he/she agrees to pay creditors over time, usually not more than 36 months. Under a chapter 13, a proposed repayment plan is prepared and must be approved by the bankruptcy court. A chapter 7 bankruptcy filing does not require court approval as long as procedural requirements are met. Both chapters 7 and 13 bankruptcy cases can be filed by debtors regardless of whether or not they are financially insolvent; that is, their debts do not have to exceed their assets.

A bankruptcy proceeding begins with the filing of a petition in the bankruptcy court. The debtor must also file a schedule of all debts, creditors, assets, and in the case of chapter 13, a proposed repayment plan which generally shows (1) monthly income, (2) monthly expenses, and (3) the amount which the debtor proposes to repay his/her creditors. After the petition is filed, the court appoints an interim trustee under chapter 7 or a trustee under a chapter 13 to oversee the case. The trustee is the representative of the debtor's estate and is required to (1) recover and liquidate assets not exempt under law for the benefit of the debtor's creditors in chapter 7 cases and (2) review and oversee the fulfillment of the debtor's chapter 13 repayment plan. This responsibility includes receiving the debtor's monthly payments and making payments to the debtor's creditors.

Within 20 to 40 days after a bankruptcy petition is filed, the court notifies all creditors listed by the debtor that a creditors' meeting will be held. A purpose of the meeting is to provide the creditors with an opportunity to examine the debtor while he/she is under oath. In chapters 7 and 13 cases, creditors generally must file a proof of claim with the bankruptcy court to substantiate the debts owed by the debtor. Generally, if proofs of claims are not filed, the creditors are barred from participating in any distributions made by the trustee of (1) assets liquidated under a chapter 7 proceeding or (2) payments made by the debtor pursuant to a chapter 13 repayment plan. In chapter 7 cases, the creditors may elect a trustee of their choice during the creditors' meeting. When the creditors do not elect a permanent trustee, the interim trustee becomes the permanent trustee. In chapter 13 cases, the creditors do not have the right to elect a trustee of their choice.

After completion of the chapter 7 or chapter 13 proceedings, the debtor generally receives a discharge from the bankruptcy court. The discharge relieves the debtor from legal liability for the payment of all provable debts owed at the time of bankruptcy and listed by the debtor with certain exceptions such as taxes, alimony, and child support. After a chapter 7 discharge has been granted, the debtor cannot file under chapter 7 for 6 years, but can file under chapter 13 at any time. After a chapter 13 discharge has been granted, the debtor can file another chapter 13 at any time. However, the chapter 13 debtor can file under chapter 7 within 6 years only if the payments under the chapter 13 plan totaled at least an amount of the unsecured claims as provided for in the code.

CHANGES IN THE BANKRUPTCY CODE AFFECTING PERSONAL BANKRUPTCIES

The Bankruptcy Reform Act altered the structure of the prior law by consolidating several chapters. The code contains eight chapters. The first three chapters (1, 3, 5) apply generally to all kinds of bankruptcies regardless of what type of relief a debtor or a creditor opts for. The next four chapters (7, 9, 11, and 13) offer a debtor or creditor specific kinds of relief. The last chapter (15) implements the pilot United States Trustee system, an experimental program established in 18 bankruptcy court districts, in which a U.S. Trustee is appointed by the Attorney General to supervise the duties of a panel of private trustees. The code also contains several reforms which were designed to relieve overburdened debtors of the substantial economic hardships resulting from illness, loss of employment, unexpected emergencies or overreaching creditors. Reforms affecting personal bankruptcies are summarized below and discussed in detail on the following pages. The code

--established Federal exemptions and provided debtors the opportunity to use Federal or State exemptions, however, States may require their residents to use only State exemptions;

--changed chapter 13 repayment requirements; and

--changed filing procedures to allow spouses to file joint bankruptcy petitions and pay only one filing fee.

Development of Federal exemptions

A notable change under the code dealt with the authority under which property would be exempted from the bankruptcy estate subject to liquidation under chapter 7. Upon commencement of a chapter 7 bankruptcy case, all property of the debtor becomes part of the bankruptcy estate and is subject to the control of the trustee, unless exempted. Under a chapter 13 case the debtor's property is not subject to liquidation and distribution to creditors because the debtor plans to repay debt out of future income. Thus, chapter 13 debtors are less directly affected by exemption provisions.

Prior to enactment of the code, exemptions were controlled entirely by State law. One of the changes under the code was the establishment of Federal exemptions and the provision which allows debtors to claim either Federal or State exemptions. However, the code provides that a debtor may not exempt property under a Federal exemption if State law does not so authorize. As of September 2, 1982, 33 States had "opted out" of Federal exemptions by enacting legislation which prohibited the use of Federal exemptions.

Some of the Federal exemptions follow.

--Homestead not to exceed $7,500 for residential property.

--One motor vehicle not to exceed $1,200.

--Personal property not to exceed $200 per item for household furnishings and goods.

--Jewelry not to exceed a total of $500.

--Professional tools not to exceed a total of $750.

--A standard exemption not to exceed $400 plus any unused portion of the homestead exemption for any property not already specifically exempted.

The last exemption, also known as the "wild card exemption," was included to provide fairness to non-homeowners as well as homeowners whose equity in the home is less than $7,500. In cases where a husband and wife file jointly, each spouse may claim the above exemptions. For example, a motor vehicle exemption on a joint filing would be limited to $2,400. In claiming exemptions, debtors are limited to the amount of their monetary interest or equity in the property.

Changes in chapter 13 repayment plans

Repayment plans were provided for in chapter 13, entitled "Wage Earners' Plans," of the prior bankruptcy law. The Congress was concerned that the use of chapter 13 was limited and varied widely throughout the United States and therefore made changes to expand its use and ease the requirements for approval of the repayment plans.

Under the prior law, repayment plans were restricted to individuals whose primary income was derived from wages, salary, or commissions. This limitation excluded small businessmen from the remedy of a wage earner plan. One of the primary objectives of the reform of chapter 13 was to make it easier for a debtor to repay from future income at least part of the debt owed to his/her creditors and to expand the number of debtors who may choose to attempt repayment rather than opting for a chapter 7 liquidation. Thus, chapter 13 of the code was expanded to allow debtors who have regular income regardless of the source of that income to file under this chapter. Therefore, debtors who are proprietors and individuals with income from pensions, securities, or welfare now are permitted to enter into a repayment plan whereby all or part of their future income will be used to repay creditors, in whole or in part. In expanding the applicability of repayment plans to sole proprietors, there was concern that creditors might be abused by sole proprietors with large businesses who use chapter 13 rather than chapter 11 which provides for business reorganizations. Consequently, the code contains dollar limitations on the amount of debts of the proprietor who may use chapter 13.

Also, under the previous law, a repayment plan could be confirmed by the court only if accepted by the secured creditors and by a majority of the unsecured creditors affected by the plan. The code changed the treatment of secured creditors by providing them a secured claim on the debtors' property only to the extent of the value of their security interest, based on the proposed disposition or use of such property. To the extent the secured creditor's claim exceeds the security interest, the excess is treated as an unsecured claim. The code now allows confirmation of the plan if (1) the secured creditor accepts the plan, (2) the plan provides for the secured creditor to receive the value of the security interest, or (3) the debtor surrenders the property securing such claim to the secured creditor. The code eliminated the requirement for consent by unsecured creditors and provides only that the chapter 13 plan must provide for unsecured creditors to receive no less than what would be received if the estate of the debtor was liquidated under chapter 7. This latter change was also part of the congressional effort to encourage more debtors to file under chapter 13.

Changes in filing procedures

The code modified the filing procedure for personal bankruptcies by allowing spouses to file a bankruptcy petition jointly and pay only one filing fee. The prior law had no provision for joint cases; therefore, each spouse had to file a separate petition and pay a filing fee. This change was made to facilitate consolidation of estates. Because very often a husband and wife are jointly liable for their debts and jointly hold most of their property, it was believed that allowing a joint filing would be beneficial to debtors and facilitate the administration of personal bankruptcy cases.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was conducted at the request of the Chairman, House Committee on the Judiciary, who asked us to examine personal bankruptcies filed before and after implementation of the code on October 1, 1979. Specifically, we

--compared the economic and demographic characteristics of debtors filing bankruptcy before and after October 1, 1979,

--examined the factors that led to personal bankruptcy and the relationship between bankruptcy filings and social and economic variables, and

--compared the number of personal bankruptcies filed in States that did not allow their citizens to claim Federal exemptions with personal bankruptcies filed in States where citizens had the choice of claiming either Federal or State exemptions.

To allow us to make a comparison of the economic and demographic characteristics of debtors filing before and after the implementation of the code, we reviewed personal bankruptcy case files in five Federal bankruptcy court districts--southern and eastern New York, southern Ohio, eastern Kentucky and central California. We reviewed a total of 2,256 randomly sampled personal bankruptcy cases from a total universe of 31,739 cases in these districts. Our sample included 1,339 chapter 7 cases randomly selected from a universe of 26,135 and 917 chapter 13 cases randomly selected from a universe of 5,604. The five districts visited accounted for 12.9 percent of the 246,717 bankruptcies filed nationwide during our two sample periods of October 1978 through March 1979, and April through September 1980. All numbers cited in the report are universe projections for the five districts reviewed except where otherwise noted. We also made appropriate tests to determine the statistical reliability of the differences between act and code cases and between code chapter 7 cases and code chapter 13 cases. These differences are listed on pages 99 to 104.

To determine the factors that led to personal bankruptcy and obtain additional information on the personal characteristics of bankruptcy debtors, we mailed questionnaires to randomly selected nationwide samples of individuals who filed chapter 7 and chapter 13 personal bankruptcies during October 1981. Our samples included 399 chapter 7 debtors and 405 chapter 13 debtors out of a total of 18,855 and 8,124, respectively. However, we received 415 responses--215 responses from chapter 7 debtors for a 54 percent response rate and 200 from chapter 13 debtors for a 49 percent response rate. All numbers cited in the report are universe projections for chapter 7 and chapter 13 debtors. We made appropriate tests to determine the statistical reliability of the differences between chapters 7 and 13 debtors and the national population. These are listed on page 98.

To determine the social and economic factors which are most commonly related to the number of personal bankruptcies, we conducted a literature search, reviewed the legislative history of the Bankruptcy Code and various studies relating to bankruptcy issues, and consulted with experts on statistical modeling. We developed a list of 22 different social and economic variables (see p. 90) which are closely associated with the number of personal bankruptcy filings. We used statistical analysis techniques to test the relationship between the number of filings and our social and economic variables and to test whether the change in the Bankruptcy Code had impacted the number of personal bankruptcy filings and debtors.

To compare the number of bankruptcy filings in States which had opted out of the Federal exemptions to those States and the District of Columbia which had not opted out, we analyzed statistical data prepared by the Administrative Office of the U.S.

Courts for statistical years 1979 through 1982. We also examined the exemption levels for all States and the District of Columbia for selected items and the comparable Federal exemptions to determine the extent exemptions differed among States and with Federal exemptions.

We held discussions with bankruptcy court officials and attended a bankruptcy judges' conference. Our fieldwork was completed in November 1982. Additional detailed information on the scope and methodology of this review appears on pages 75 to 79. Our review work was performed in accordance with generally accepted Government auditing standards.

CHAPTER 2

PERSONAL BANKRUPTCY DEBTORS--

WHO ARE THEY AND WHY DID THEY FILE?

On the basis of a questionnaire sent to nationwide samples of debtors who filed under chapter 7 and chapter 13 in October 1981, we found similarities and differences between chapters 7 and 13 debtors' personal characteristics as well as differences in their characteristics when compared to national population characteristics. [3/] The major factors that influenced bankruptcy included increases in the cost of living, too many debts, easy credit availability, unemployment, unusual medical bills, and threats of creditor actions.

Statistical analyses of quarterly data from January 1958 through September 1982 showed that personal bankruptcies have historically been closely related to certain social and economic variables. In addition, the analyses, exclusive of unquantifiable variables such as the influence of attorney advertising, showed that in fiscal year 1982 the implementation of the code may have contributed no more than 6 percent of the total adjusted filings. However, it is possible that the actual impact of the code could have been less if the impact of the unquantifiable factors could have been estimated.

PERSONAL BANKRUPTCY DEBTOR PROFILE

Questionnaire responses from both chapter 7 and chapter 13 debtors provided detailed information on the debtors' personal backgrounds. Chapters 7 and 13 debtors demonstrated similar characteristics with one major difference being that 66 percent of the chapter 13 debtors owned homes compared to 32 percent of the chapter 7 debtors. Also, more chapter 7 debtors were employed in white-collar occupations, while slightly more chapter 13 debtors were employed in blue-collar occupations. When

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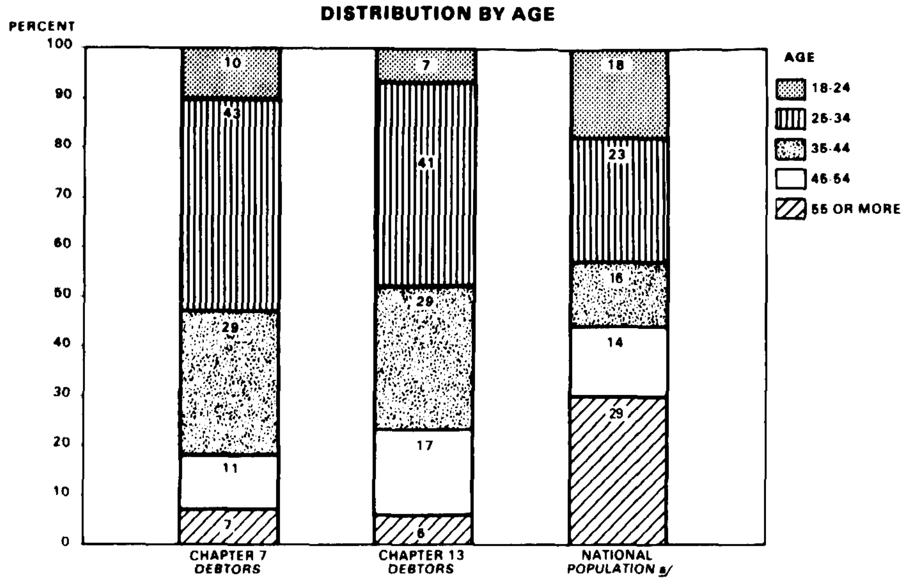
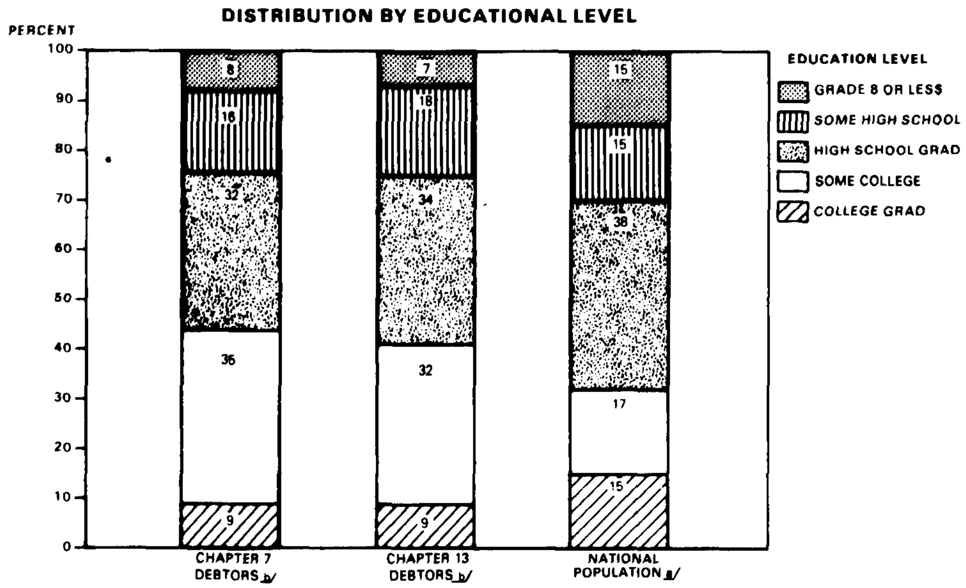
3/Our chapter 7 sample included 399 debtors from which we received 215 responses for a 54 percent response rate. Our chapter 13 sample included 405 debtors from which we received 200 responses for a 49 percent response rate.

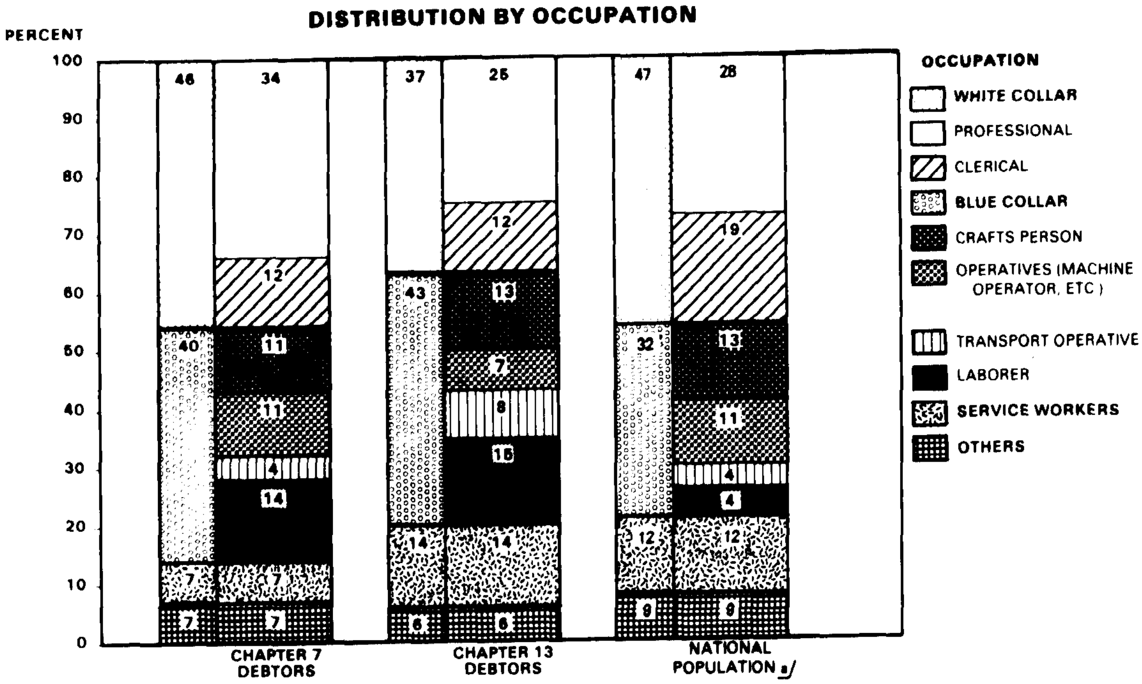
bankruptcy debtors were compared to national population characteristics (based on the most current data from the U.S. Bureau of the Census and Bureau of Labor Statistics), differences in age, education, household size, and income levels were evident. In addition, while chapter 13 debtors were similar to the national population in the percentage of homeowners and renters, chapter 7 debtors differed from national data in that fewer reported homeownership. The following graphs show the distribution of chapters 7 and 13 bankruptcy debtors and the national population for several personal attributes.

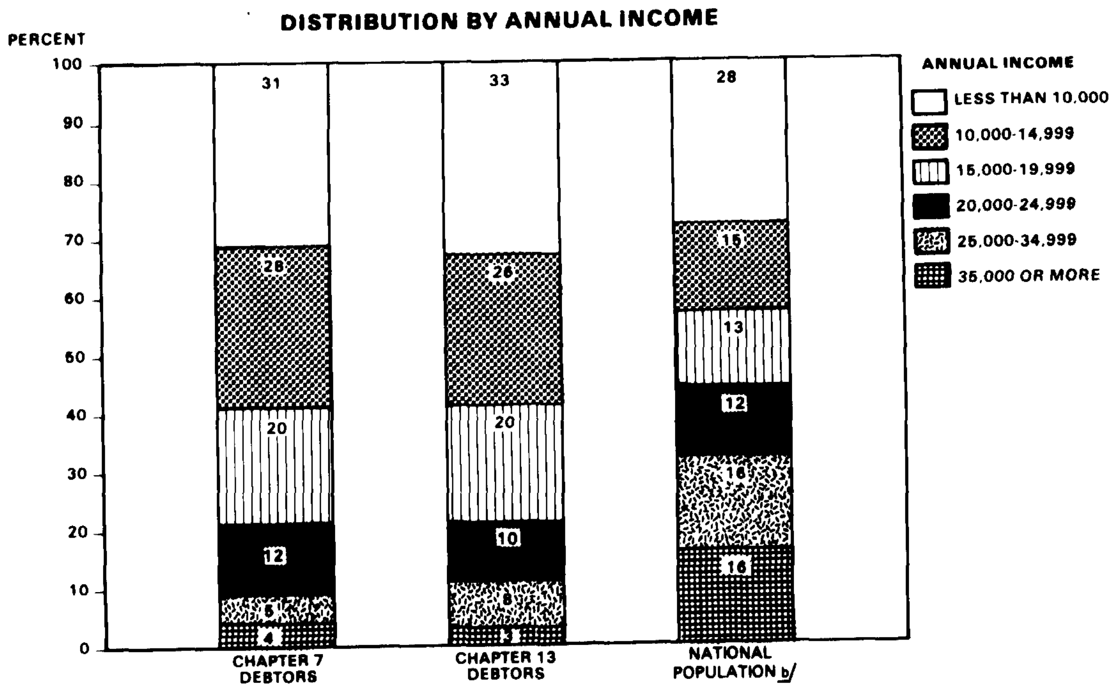




a/National population statistics are based on 1980 data from the U.S. Bureau of the Census.

b/Data on chapter 7 and chapter 13 debtors excludes those who reported vocational training. This data was omitted in order to correspond to Bureau of the Census data which does not include vocational training as a separate education level.

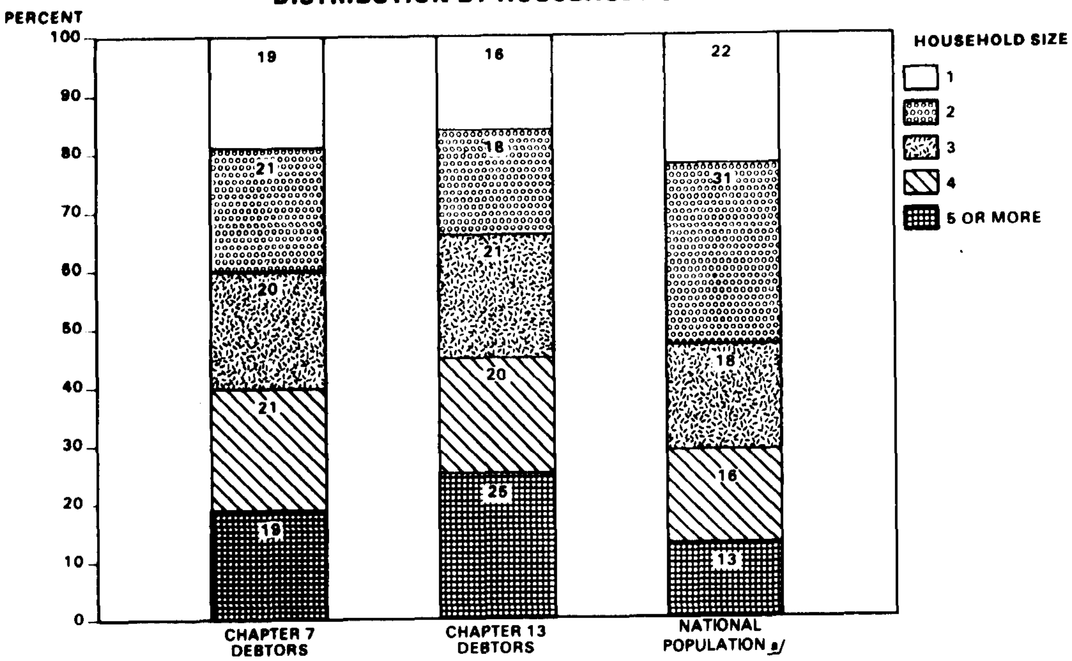




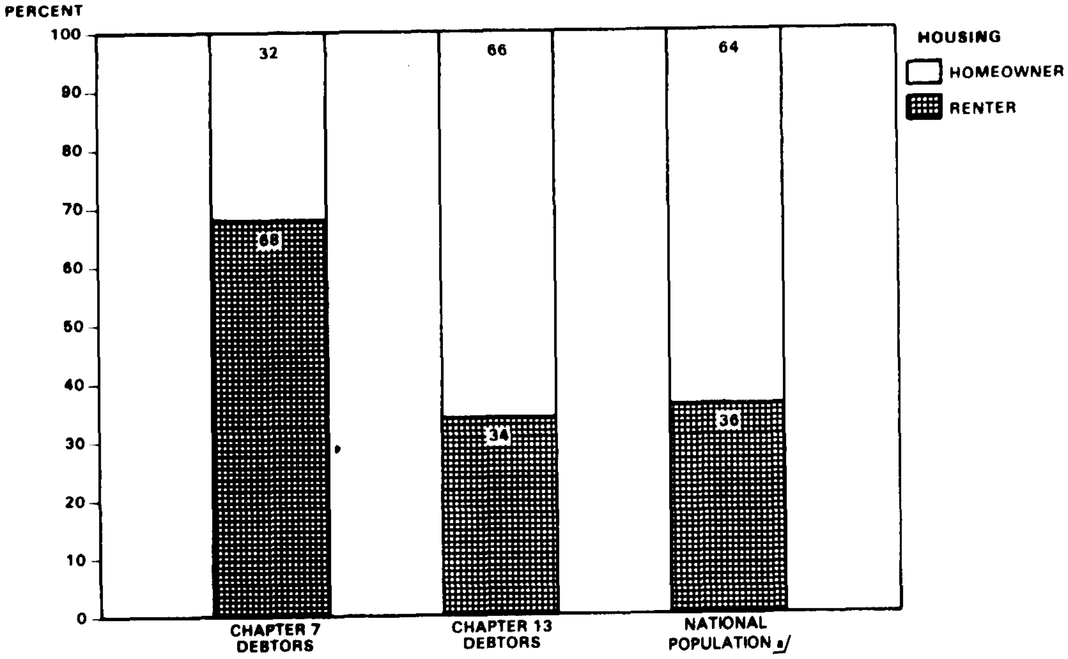
a/National population statistics are based on 1980 data from the Bureau of Labor Statistics. The data includes civilians 18 years old and over.

b/National population statistics are based on 1980 data from the U.S. Bureau of the Census.

DISTRIBUTION BY HOUSEHOLD SIZE



DISTRIBUTION BY TYPE OF HOUSING



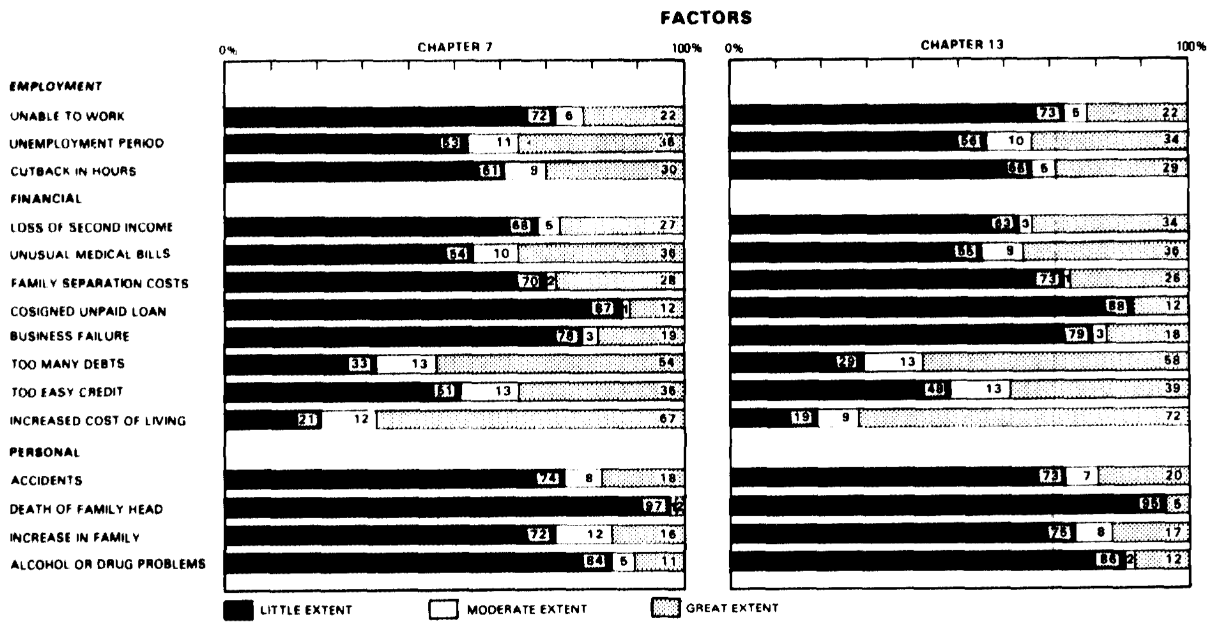
a/National population statistics are based on 1980 data from the U.S. Bureau of the Census.

The largest group of chapter 7 and chapter 13 debtors fell in the range between 25 to 34 years old (43 and 41 percent, respectively) compared to 23 percent for the national population. The educational levels attained by bankruptcy debtors are higher than the national population level--44 percent of chapter 7 debtors and 41 percent of chapter 13 debtors attended college after high school compared to 32 percent of the national population. However, the annual income level of bankruptcy debtors was less than that of the national population. For example, 59 percent of chapter 7 debtors and 59 percent of chapter 13 debtors earned less than $15,000 annually compared to 43 percent for the national population.

FACTORS THAT LED TO FILING BANKRUPTCY

According to both chapter 7 and chapter 13 questionnaire respondents, the most significant factors which contributed to their financial difficulties were increases in the cost of living, too many debts, easy credit availability, unemployment, and unusual medical bills. In addition, both chapters 7 and 13 debtors indicated that actions taken or planned to be taken by creditors also contributed to their decisions to file bankruptcy.

Specifically, problems such as: the increase in the cost of living were cited most frequently by 67 percent of chapter 7 debtors and by 72 percent of the chapter 13 debtors as contributing greatly to their financial problems; periods of unemployment contributed to a great extent according to 36 percent of chapter 7 debtors and 34 percent of chapter 13 debtors; and financial management problems such as acquiring too many debts, as well as too easy access to credit, were also rated as significant factors by both chapter 7 and chapter 13 debtors. In addition, personal factors such as accidents, increase in family size, or emotional problems related to drugs or alcohol were noted as problems in some instances; however, the percentage of debtors significantly affected by these factors was 20 percent or less. The graph on the following page details the extent to which each factor contributed to financial difficulties for chapters 7 and 13 debtors responding to the questionnaires.



In addition, creditors' threats or notification of legal action greatly influenced debtors' decisions to file bankruptcy. Eighty-seven percent of the chapter 7 debtors and 82 percent of the chapter 13 debtors reported that they were notified by their creditors that legal action might be taken or legal action actually was taken. Of these debtors, 73 percent of the chapter 7 debtors and 78 percent of the chapter 13 debtors noted that their creditors' actions influenced their decision to file bankruptcy to a great extent.

IMPACT OF THE REVISED BANKRUPTCY CODE ON PERSONAL BANKRUPTCY FILINGS

Our statistical analyses of quarterly data from January 1958 through September 1982 for selected economic and social variables showed that they have historically been associated with increases or decreases in personal bankruptcies. Our regression analysis, [4] exclusive of unquantifiable variables such as the influence of attorney advertising and the amount of social stigma associated with bankruptcy, showed that the implementation of the code may have contributed no more than 6 percent of the total adjusted filings and 12 percent of the number

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[4]/Regression analysis is a statistical technique used to determine the combined effect of several factors on one particular factor.

of debtors, who filed in fiscal year 1982. 5/ However, it is possible that the actual impact of the code could be less if the impact of the unquantifiable factors could be estimated.

The relationship of economic and social variables to personal bankruptcies

Our correlation analysis of the relationship between the level of bankruptcy filings and various economic and social variables demonstrated that there is a historical association between certain social and economic variables and the level of bankruptcies. Therefore, one would expect the number of bankruptcies to vary with changes in the business cycle as well as changes in other economic and social variables.

The table on the following page shows the degree of correlation between the number of debtors/adjusted filings and selected social and economic variables. A correlation close to 0 indicates a weak relationship while a correlation close to 1 (such as .8 or .9) indicates a strong relationship. A high correlation does not, however, demonstrate a cause-effect relationship.

5/We developed two data series to adjust the data recorded by the Administrative Office of the U.S. Courts on the volume of bankruptcies to account for differing filing requirements under the act and code. In one series we counted a joint filing (husband and wife) after the change in the code as two debtors. In the second data series we constructed the adjusted number of filings to make the filings before and after the code more comparable. See page 77 for a detailed discussion of the data series used in our analysis.

Social and economic variables	Correlation coefficients: Number of debtors	Correlation coefficients: Number of adjusted filings
1. Proxy for interest payment burden: ratio of total personal debt (mortgage and installment credit) times the prime interest rate to disposable personal income (lagged 6 months) (note a)	0.941	0.942
2. Financial problem index: ratio of personal financial liabilities to personal financial assets multiplied by the ratio of total personal debt (mortgage and installment credit) to disposable personal income (lagged 6 months) (note a)	0.786	0.813
3. Socio-economic index (note b)	0.888	0.867
Number of divorces in 1,000's	0.692	0.720
Number of lawyers in private practice in 1,000's	0.818	0.826
Number of households in millions	0.793	0.817
Unemployed people 20 years of age and older in 1,000's	0.711	0.702
Percent of home mortgages delinquent for more than 90 days	0.767	0.775
Consumer Price Index	0.875	0.877
4. Changes in the code (note c)	0.908	0.872

a/These variables were lagged 6 months because in many instances the effect of one factor on another is not expected to occur instantaneously. Therefore, waiting 6 months and then measuring the impact provides a better basis for analyzing these factors.

b/This variable is a multiplicative index composed of several social and economic variables as listed.

c/This variable represents the implementation of the Bankruptcy Reform Act on October 1, 1979, which resulted in several changes to the bankruptcy statutes.

The correlation analyses indicate the strength of the relationship between the number of debtors/adjusted bankruptcy filings and the various economic and social variables. For example, the relationship between unemployment and the number of adjusted filings has a correlation of 0.702, which is not as strong as the relationship demonstrated by the other variables, such as the Consumer Price Index correlation of 0.877. All correlation coefficients are statistically significant at the 95 percent confidence level.

Estimated impact of the code on personal bankruptcies

We also analyzed the impact of the implementation of the Bankruptcy Code on the number of debtors/adjusted bankruptcy filings by using regression analysis. In our analysis we measured the simultaneous effects of several economic and social variables to estimate the number of bankruptcies that may be attributable to the implementation of the code. Our analysis, exclusive of unquantifiable variables such as the influence of attorney advertising and the amount of social stigma associated with bankruptcy showed that the code may have contributed no more than an estimated 6 to 7 percent of the total adjusted filings and 12 to 14 percent of the total number of debtors for fiscal years 1980, 1981, and 1982. However, it is possible that the actual impact of the code could be less if the impact of the unquantifiable factors could be estimated.

Our regression analysis included the four selected social and economic variables used in the correlation analysis on the prior page. We measured the impact of these variables on the number of debtors and the number of adjusted filings. From this analysis we estimated the impact of the code on the number of personal bankruptcies (debtors and adjusted filings) for fiscal years 1980 through 1982. The estimated impact of the changes in the Bankruptcy Code is significant at a 99 percent confidence level for the number of debtors and a 91-percent level for the number of adjusted filings.

	Fiscal year		
	1980	1981	1982
Total number of debtors	368,000	457,000	449,000
Model impact on total number of debtors (percent)	14	12	12
Total number of adjusted filings	323,000	393,000	385,000
Model impact on total number of adjusted filings (percent)	7	6	6

While our regression analysis showed that the code contributed no more than an estimated 12 percent of the total number of debtors and no more than an estimated 6 percent of the number of adjusted filings during fiscal year 1982, other variables which we could not quantify, such as the influence of attorney advertising and the amount of social stigma associated with bankruptcy, may also have influenced personal bankruptcy filings. It is possible that the actual impact of the code on bankruptcy filings could have been less if the impact of these unquantifiable factors could have been estimated.

CONCLUSIONS

Responses to nationwide questionnaires of chapters 7 and 13 bankruptcy debtors revealed little difference in the personal characteristics of chapters 7 and 13 debtors. The similarities between chapters 7 and 13 debtors appeared in age, education, and income levels. The major difference between the two groups was that 66 percent of the chapter 13 debtors owned a home compared to 32 percent of the chapter 7 debtors. Also, more chapter 7 debtors were employed in white-collar occupations, while more chapter 13 debtors were employed in blue-collar occupations.

When the characteristics of bankruptcy debtors were compared to those of the national population, differences in education, income levels, and age were most apparent. Bankruptcy debtors were more educated than the national population, but their annual income level was lower. According to the questionnaire respondents, the most significant factors which led to the financial difficulties of both chapters 7 and 13 debtors included increases in the cost of living, too many debts, easy credit availability, unemployment, and unusual medical bills. In addition, creditors' threats or notification of legal action greatly influenced debtors' decisions to file bankruptcy.

Social and economic factors have impacted upon the number of bankruptcy filings which have increased substantially since the revision of the Bankruptcy Code. Our regression analysis, exclusive of unquantifiable variables such as the influence of attorney advertising and the amount of social stigma associated with bankruptcy, showed that in fiscal year 1982 the implementation of the code may have contributed no more than 6 percent of the total adjusted filings. However, it is possible that the actual impact of the code could have been less if the impact of the unquantifiable factors could have been estimated.

CHAPTER 3

COMPARISON OF CHAPTER 7 BANKRUPTCIES

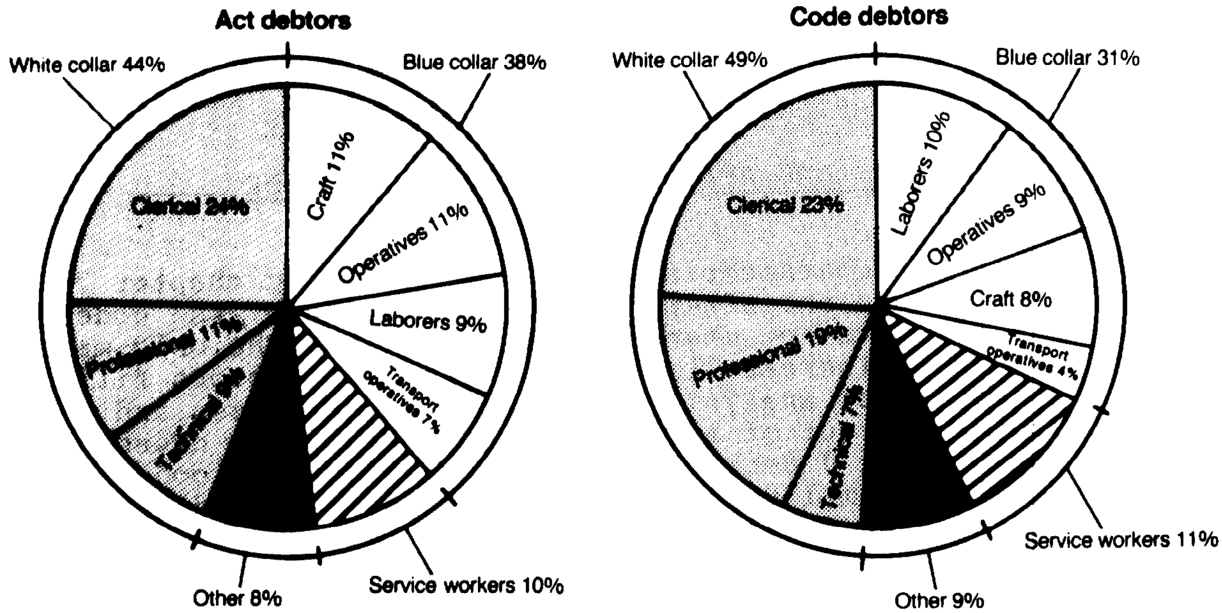
BEFORE AND AFTER REVISIONS TO THE CODE

The personal characteristics of people filing chapter 7 bankruptcies before and after the implementation of the code on October 1, 1979 have not changed significantly. The only major difference was an increase in homeownership for debtors filing under the code. Our analysis of 644 sampled act cases and 695 sampled code cases out of a total universe of 26,135 cases showed that chapter 7 debtors under both the act and code had similar levels of employment, had low incomes, and had total debts which exceeded the total incomes as well as total assets. Even though debtors who filed under the code had low incomes, their levels of income, assets, and debts were higher than act debtors.

DEBTORS SHARE SIMILAR PERSONAL CHARACTERISTICS

Debtors who filed bankruptcy under chapter 7 of the code possessed personal characteristics similar to those who filed under the act. The similarities exist in employment status, occupation, evidence of legal actions such as repossessions, and prior bankruptcy filings.

Approximately 8 out of 10 debtors who filed chapter 7 bankruptcies under both the act and the code were employed--80 percent of act debtors and 83 percent of code debtors. The bankruptcy case files of the employed debtors showed they had stable employment records. The average length of employment at their current occupation at the time of filing for bankruptcy was 3 years, 9 months for debtors under the act, and 4 years, 4 months for debtors under the code. Grouping the occupations into the categories of white collar, blue collar, service workers and other, more debtors in both groups had occupations classified as white collar, as shown on the following page.



Approximately an equal percentage of debtors who filed under the act and code reported prior bankruptcy filings. That is, 11 percent of the debtors who filed under the act reported prior bankruptcy filings compared to 8 percent who filed under the code. An equal percentage (44 percent) reported involvement in lawsuits during the year prior to filing bankruptcy, and an almost equal percentage (28 percent of the act debtors and 27 percent of the code debtors) reported that they had property which had been repossessed or returned to a seller or secured party. Thirteen percent of the act debtors reported that their wages had been garnished prior to their bankruptcy while 9 percent of the code debtors reported garnishment of their wages.

<u>LEVELS OF INCOME, ASSETS, AND DEBT DIFFER</u>

The income, assets, and debts scheduled by chapter 7 debtors who filed under the code were higher than those scheduled by debtors who filed under the act. The increases are summarized on the following page. The income data represents debtors' income for the year prior to filing personal bankruptcy which is required to be reported on the bankruptcy petition. Assets represent the market value of the debtors' property as listed on the bankruptcy schedules.

Financial characteristic	Mean value Act cases	Code cases	Difference
Income	$10,656	$13,497	$ 2,841
Assets	$ 7,560	$17,593	$10,033
Debt	$21,797	$31,674	$ 9,877

These increases were not adjusted for inflation. We could not determine from bankruptcy court records in all cases the precise make-up of assets or when the debts were incurred, therefore, we could not adjust precisely for inflation. However, the difference in the general rate of inflation between the two periods of our samples was approximately 21 percent as measured by the Consumer Price Index.

Income and assets

Chapter 7 debtors who filed under the act and the code typically had income below the national mean. Under the act, the mean income reported by the debtors was $10,656 compared to the national mean of $17,730. Those who filed under the code reported a mean income of $13,497, while the national mean was $19,620.

While the income of chapter 7 debtors remains below the national mean, an upward movement in debtor income under the code is evident. For example, about 92 percent of the debtors under the act had incomes less than $20,000 compared to 80 percent of the debtors under the code. Percentage of cases by income levels follows.

Income	Act cases Percent	Act cases Cumulative percent	Code cases Percent	Code cases Cumulative percent
Under $10,000	48	-	33	-
10,000 to 14,999	27	75	29	62
15,000 to 19,999	17	92	18	80
20,000 to 24,999	5	97	13	93
25,000 and over	3	100	7	100

The higher income levels were accompanied by higher levels in the value of debtors' assets. The mean value of total assets of debtors who filed under the code was $17,593 compared to $7,560 for debtors filing under the act, an increase of $10,033.

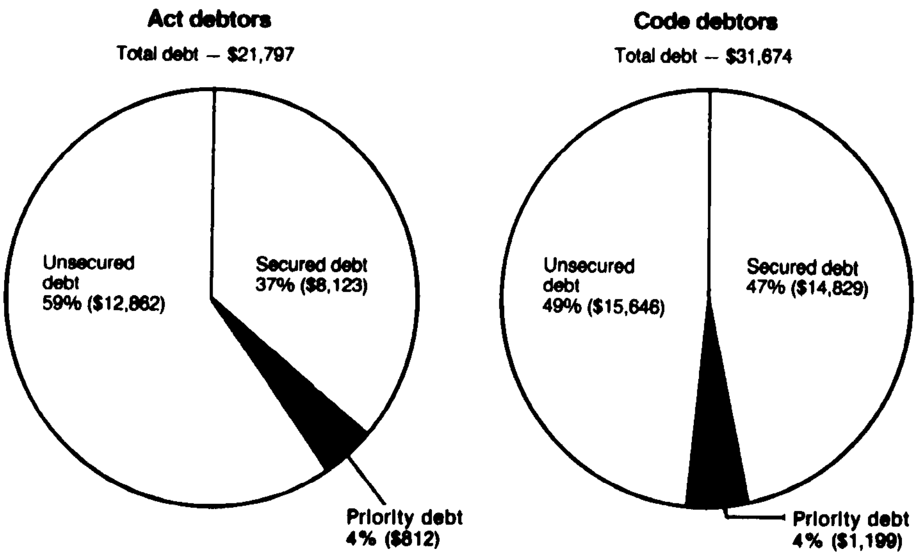
The following table shows a breakdown of debtor assets between real and personal property under the act and code. In most cases, real property consisted of the debtor's home, although in some instances debtors owned other real property, such as a vacation house or land. Personal property is made up of items such as automobiles, household items, personal effects and cash.

Property	Mean value: Act cases	Mean value: Code cases
Real	$5,014	$13,366
Personal	2,546	4,227
Total	$7,560	$17,593

The single most notable difference in the composition of assets of chapter 7 debtors filing before and after the code occurred in real property where homeownership increased. Of the debtors filing under the code, 25 percent owned homes with an average market value of $46,913 compared to 14 percent for debtors filing under the act owning homes with an average market value of $29,540.

Debts

Debtors who filed bankruptcy under the code had accumulated a higher level of debt than those who filed under the act. Total debt had increased from $21,797 under the act to $31,674 under the code. Analysis showed that the debt structure had changed in that debtors who filed under the code had incurred a larger portion of secured debt (creditor holds a lien on the property) than act debtors. Shown on the next page is the composition of the act and code debtors' debt structure by priority debt (that is, debts that are entitled to priority payment), secured debt, and unsecured debt (creditor holds no lien on the property).



In the secured debt category, the greatest dollar value increases were in debts owed to banks, savings and loans, and finance companies. In the unsecured category, the largest dollar increases were in debts due to lawsuits, credit cards, and business-related loans. The chart on the following page shows the mean value of all debts listed by the debtors on the bankruptcy petitions and the dollar differences for each between act and code cases for the five districts included in our review.

Type of debt	Mean value Act cases	Mean value Code cases	Difference
Priority debt			
Business-related	$ 607	$ 321	$ (286)
Nonbusiness-related	205	878	673
Total priority debt	812	1,199	387
Secured debt			
Banks, savings & loans	4,476	8,194	3,718
Finance companies	1,659	3,840	2,181
Credit unions	417	242	(175)
Individual loans	65	132	67
Automobile finance companies	365	570	205
Other	1,141	1,851	710
Total secured debt	8,123	14,829	6,706
Unsecured debt			
Banks, savings & loans, credit unions	2,240	1,980	(260)
Finance companies	843	1,066	223
Business-related	2,429	3,071	642
Individual loans	738	471	(267)
Credit cards	1,477	1,921	444
Student loans	219	127	(92)
Retail accounts	1,051	1,083	32
Service accounts	481	767	286
Medical expenses	790	775	(15)
Lawsuits	1,766	2,947	1,181
Other	828	1,438	610
Total unsecured debt	12,862	15,646	2,784
Total debt	$21,797	$31,674	$9,877

In addition to the sources from which secured debt was obtained, the following categorizes the use made of the debt (e.g., to purchase a home or automobile).

Use of secured debt	Mean value Act	Mean value Code	Difference
Home/mobile home	$3,801	$9,561	$5,760
Other real property	245	967	722
Automobile/other vehicle	1,591	2,412	821
Business-related	1,098	667	(431)
Household goods	614	628	14
Other	774	594	(180)
Total	$8,123	$14,829	$6,706

EXEMPTION LEVELS VARY

The code chapter 7 debtors in our sample exempted more property than the act chapter 7 debtors. This occurred because (1) the code introduced for the first time Federal exemptions some of which were generally higher than the State exemptions that were available to debtors under the act and (2) the two States in our review (Ohio and Kentucky) that had opted out of Federal exemptions, thereby prohibiting their citizens from claiming Federal exemptions, had increased their State exemptions under the code over the State exemptions available to chapter 7 debtors who had filed under the act.

In addition to Ohio and Kentucky, 31 other States had opted out of the Federal exemptions as of September 2, 1982, by enacting legislation prohibiting the use of Federal exemptions. Our analysis of chapter 7 filings in the 50 States and the District of Columbia showed that the States opting out experienced as a group a 9 percent decrease in filings during statistical year 1982 compared to a 2 percent decrease in States not opting out. On an individual State basis, however, States within both groups--those opting out and those not opting out--experienced a wide range of increases and/or decreases which indicates that factors other than exemptions may have influenced an individual's decision to file bankruptcy. See pages 83 to 88 for details of each State's personal bankruptcy filings.

Exemptions claimed have increased

Debtors who filed under the code in each of the five districts included in our review exempted more property than did debtors who filed under the act. The mean total dollar exemptions claimed before and after the code are presented below.

Bankruptcy court	Mean exemptions in act cases	Mean exemptions in code cases
Southern New York	$ 731	$2,627
Eastern New York	1,246	4,124
Central California	3,675	9,871
Eastern Kentucky	1,541	5,171
Southern Ohio	644	3,618
Weighted mean value	2,200	6,690

As noted above, debtors who filed in eastern Kentucky and southern Ohio did not have the choice of claiming Federal exemptions because these two States had opted out of the Federal exemptions. However, individuals who filed under the code in the southern and eastern districts of New York [6] and in the central district of California had the choice of claiming either Federal or State exemptions. In the eastern district of New York, Federal exemptions were claimed in 128 cases and State exemptions were claimed in 9 cases. In the southern district of New York, 108 cases used Federal exemptions, 12 cases claimed State exemptions, and 1 case used both Federal and State exemptions. In the central district of California, debtors claimed Federal exemptions in 81 cases, State exemptions in 44 cases, and a combination of Federal and State exemptions in 12 cases.

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[6] New York enacted a law effective September 2, 1982, which was subsequent to the period of our sample, that requires its citizens to use State exemptions.

The amount of property exempted by debtors depends on two factors--the maximum exemption allowable by either Federal or State law and the amount of equity which debtors have in the property. As a result, the amount of exemptions claimed by debtors can vary among States and in relation to the nature and value of the debtors' assets. The following shows Federal and State exemption levels for six selected items for the five districts included in our review.

	Homestead	Motor vehicle	Household goods	Jewelry	Standard exemption	Professional tools
Federal (note a)	$ 7,500	$1,200	$200 per item	$500	$400 plus unused portion of homestead exemption	$750
New York	$10,000	0	Wearing apparel, furniture, refrigerator, radio, television, and other items	One wedding ring, one watch not to exceed $35	$600 in savings and loan institution, $600 in credit union	$600
California	$45,000	$ 750	No limit on necessary items	No specific amount	$3,500 in Federal/State savings and loan institutions	$2,500
Kentucky	$ 5,000	$2,500	$3,000 of clothing, household goods, and jewelry	0	$1,000 of any property	$300 for tools and $2,500 for motor vehicle used in trade
Ohio	$ 5,000	$1,000	$200 per item limited to total of $1,500, if homestead exemption is claimed; $2,000 if homestead is not claimed	$400 for one item; $200 for other items up to unused portion of homestead	$400 cash and $400 wild card on any property	0

a/Exemption levels listed are applicable to single petitioners. For joint petitions (where both spouses file), the Federal exemptions double as do the State exemptions for New York, Ohio, and Kentucky. California State exemptions do not double for the homestead exemptions but other exemptions do double.

A wide variance exists in exemptions and the amount of assets that may be insulated from creditors. Debtors in California and New York had the option of using Federal exemptions because the two States had not opted out of Federal exemptions. The choice of which exemptions to claim--State or Federal--would depend on the nature and value of the debtor's assets. For example, a California homeowner with a large amount of equity in his/her home could insulate more assets by using State exemptions rather than Federal exemptions. However, a California renter may, depending on the value of his/her household goods, jewelry, and other assets, exempt more assets by using the Federal exemptions.

In addition to the limitations on exemptions allowed by State or Federal law, debtors can only exempt property value to the extent of their monetary interest or equity in the property. For example, a debtor with equity of $4,000 in a home secured by a mortgage can exempt only the $4,000 equity and thus cannot fully utilize the total $7,500 Federal homestead exemption or the total homestead exemptions for the States listed on page 29. Our analysis, as shown on the following page, for the debtors included in our sample in the five bankruptcy court districts visited showed that debtors did not always have enough equity in property to fully maximize allowable exemptions. For example, in New York where debtors claimed either Federal or State exemptions, 92 percent of the debtors who claimed the homestead exemption (Federal or State) claimed less than the maximum amount, while 26 percent of the debtors claiming the State homestead exemption in Kentucky claimed less than the maximum amount.

Type of exemption claimed by Federal and State	Single petitions: Maximum dollar allowed	Single petitions: Number of cases claiming exemption	Single petitions: Number of cases claiming less than maximum	Joint petitions (note a): Maximum dollar allowed	Joint petitions (note a): Total cases claiming both exemptions	Joint petitions (note a): Number of cases claiming less than maximum
Federal exemptions (note b)						
Homestead	$ 7,500	378	301	$15,000	659	558
Motor vehicle	1,200	3,359	1,517	2,400	1,955	1,389
Jewelry	500	807	622	1,000	455	398
Professional tools	750	178	141	1,500	128	128
New York						
Homestead	10,000	37	37	20,000	0	0
Professional tools	600	64	27	1,200	64	64
California						
Homestead	45,000	571	514	45,000	285	114
Motor vehicle	750	1,256	742	1,500	457	285
Savings	3,500	571	571	7,000	171	171
Professional tools	2,500	57	57	5,000	0	0
Kentucky						
Homestead	5,000	97	14	10,000	118	42
Motor vehicle	2,500	369	292	5,000	383	376
Household	3,000	460	439	6,000	432	425
Ohio						
Homestead	5,000	667	145	10,000	609	232
Motor vehicle	1,000	1,536	840	2,000	1,304	1,188
Household (note c)	1,500/2,000	1,855	1,797	3,000/4,000	1,739	1,710

a/For purposes of this analysis we did not include the 13 cases where spouses combined Federal and State exemptions.

b/In our analysis only debtors in the eastern and southern New York districts and the central California district could claim Federal exemptions.

c/Ohio's household goods exemption allows for a maximum of $1,500 if the homestead exemption is claimed and $2,000 if not claimed. Our analysis includes both situations.

The fact that most debtors in our sample who claimed the respective exemptions were not able to claim the full amount of exemptions authorized by either Federal or State law suggests that a State's decision to opt out of Federal exemptions may not have had an impact on all debtors. For example, debtors from the southern district of Ohio are precluded from using Federal exemptions and must claim State exemptions which are less than the Federal exemptions for single and joint petitions. Despite the lower State exemption levels, however, 30 percent of the sampled debtors who filed in the southern district of Ohio and claimed exemptions were unable to claim the full State homestead exemption, and 71 percent were unable to claim the full motor vehicle exemption. A similar situation existed for our sampled debtors (both single and joint petitions) claiming exemptions in the eastern district of Kentucky where 26 percent of the debtors were unable to claim the maximum homestead exemption, and 89 percent were unable to claim the full motor vehicle exemption.

Effect on bankruptcy filings of decisions to opt out of Federal exemptions

Besides Kentucky and Ohio, 31 other States have passed legislation as of September 2, 1982, opting out of Federal exemption provisions and thereby requiring their citizens to use State exemptions. Our analysis and comparison of the number of chapter 7 cases filed in States opting out and States not opting out showed that the number of chapter 7 bankruptcies filed within each group varied widely.

The total number of chapter 7 bankruptcies filed in all 50 States and the District of Columbia 7/ increased by about 39 percent between the years ending June 30, 1980, and June 30, 1981, (from about 238,000 to about 331,000). During the year ending June 30, 1982, chapter 7 bankruptcies filed dropped to about 312,000, a reduction of 5.6 percent from the prior year.

Our analysis of chapter 7 bankruptcies showed that States that had opted out as of July 1, 1980, experienced a smaller rate of increase during statistical year 1981 than States not opting out. 8/ During 1982, the States that opted out experienced a larger decrease in filings than those not opting out. 9/

7/This analysis includes only chapter 7 bankruptcies filed because these cases are directly impacted by the availability of Federal and/or State exemptions. We also analyzed the filing trends of chapter 13 cases. Chapter 13 filings increased by about 93 percent, between the years ending June 30, 1980, and June 30, 1981, (from about 76,000 to about 120,000). During the year ending June 30, 1982, chapter 13 cases totaled 133,783, an increase of 11 percent over the prior year. Pages 83 to 88 contain a detailed analysis of chapters 7 and 13 filings on a State-by-State basis.

8/In analyzing filing trends between statistical years 1980 and 1981 we compared filings in 14 States that had opted out as of July 1, 1980, with the remaining States and the District of Columbia. This date was chosen because our analysis was based on the Administrative Office's bankruptcy statistics for the year ended June 30, 1981, thereby providing one full year's statistics for the 14 State-by-State basis.

9/Our analysis of filing trends between statistical years 1981 and 1982 included 27 States that had opted out as of July 1, 1981, (the 14 States which had opted out as of July 1, 1980, and 13 additional States that opted out between July 1, 1980, and July 1, 1981.)

Such statistics represent the experiences of States that opted out and States that did not opt out in the aggregate. However, when we examined the chapter 7 bankruptcy filing trends of individual States that had opted out and those that had not, we found that inconsistent filing trends existed among and between States which opted out and those that did not opt out. Pages 83 to 88 contain a State-by-State analysis of chapter 7 filings during statistical years 1979, 1980, 1981, and 1982 which shows that inconsistent filing trends existed among the States.

Comparing statistical years 1980 to 1981, we found that even though the overall number of chapter 7 filings in the 14 States which had opted out as of July 1, 1980, increased by 30 percent, the percentage of change in filings ranged from 13 percent in South Dakota to 40 percent in Ohio. Likewise, the percentage of change in chapter 7 filings for those States which had not opted out as of July 1, 1980, or during statistical year 1981, increased by 46 percent, and ranged from a decrease of 6 percent in Alaska and Hawaii to an increase of 98 percent in Pennsylvania.

Similar trends are seen in statistical year 1982 data. Analysis of these statistics showed that overall, chapter 7 filings decreased for the first time since the code was implemented. From statistical years 1981 to 1982, chapter 7 bankruptcies declined from 330,531 to 312,029 filings, or 5.6 percent. Overall, 29 States and the District of Columbia experienced a decrease in filings.

Because an additional 13 States opted out between July 1, 1980, and July 1, 1981, we compared the statistical year 1982 personal bankruptcy filing statistics of 27 States that had opted out to the remaining 23 States and the District of Columbia. This comparison of data from statistical years 1981 to 1982 showed that

--the chapter 7 filings in the 27 States that opted out as of July 1, 1981, decreased 9 percent, and

--the chapter 7 filings in the remaining States and the District of Columbia that had not opted out decreased 2 percent.

The inconsistent chapter 7 filing trends among States was also apparent in the 1982 statistics. For example, although the overall number of filings in the 27 States which had opted out as of July 1, 1981, decreased by 9 percent, the percentage of change in filings ranged from a decrease of 37 percent in Maryland to an increase of 21 percent in Arkansas. Likewise, the chapter 7 filings in the 23 States which had not opted out decreased by 2 percent ranging from a decrease of 38 percent in Alaska to a 33 percent increase in Hawaii.

Examination of the filing trends experienced by States opting out of the Federal exemptions and those not opting out did not allow a definitive assessment of the impact of Federal exemptions on decisions to file bankruptcy. While it did show that, as a whole, States opting out as of July 1, 1981, experienced a larger decrease than States not opting out, inconsistent filing trends existed among and between States opting out and not opting out of the Federal exemption provisions.

CONCLUSIONS

Chapter 7 debtors filing under the act and code were employed--80 percent for act debtors and 83 percent for code debtors. Debtors in both groups had income levels below the national means for the same time periods. However, code debtors had a higher level of income ($13,497) than act debtors, ($10,656). In fact, 92 percent of the act debtors had incomes of less than $20,000, whereas, only 80 percent of the code debtors had incomes less than $20,000. This higher income level for code debtors was closely associated with their higher asset levels. Act debtors had a mean asset value of $7,560 while code debtors had a mean asset value of $17,593. This can be explained by the fact that more debtors who filed under the code reported homeownership, 25 percent compared to 14 percent. In addition, the market value of the homes owned by code debtors was also higher, $46,913 compared to $29,540 for act debtors.

The debt structure between act and code debtors differed substantially. Act debtors reported 59 and 37 percent of unsecured and secured debt, respectively, whereas code debtors reported 49 and 47 percent of unsecured and secured debt respectively.

Code debtors also exempted a greater dollar value of property than act debtors due to a combination of (1) the greater dollar value of assets and (2) the introduction of Federal exemptions and, in some cases, revised State exemptions that were generally higher than those that were available under State laws to act debtors. Analysis of exemptions claimed by debtors in our sample in the five districts reviewed also showed that many debtors were unable, because of a lack of sufficient equity in property, to claim the full amount of exemptions authorized by either Federal or State law which, in our opinion, suggests that the fact a State opts out of Federal exemptions may not dramatically impact all debtors.

Analysis of chapter 7 filing trends under the code in all 50 States and the District of Columbia also showed that the effect on the number of chapter 7 bankruptcies has not been uniform. In some instances States that opted out experienced increased filings while States that had not opted out also experienced increases in filings.

CHAPTER 4

COMPARISON OF CHAPTER 13 BANKRUPTCIES

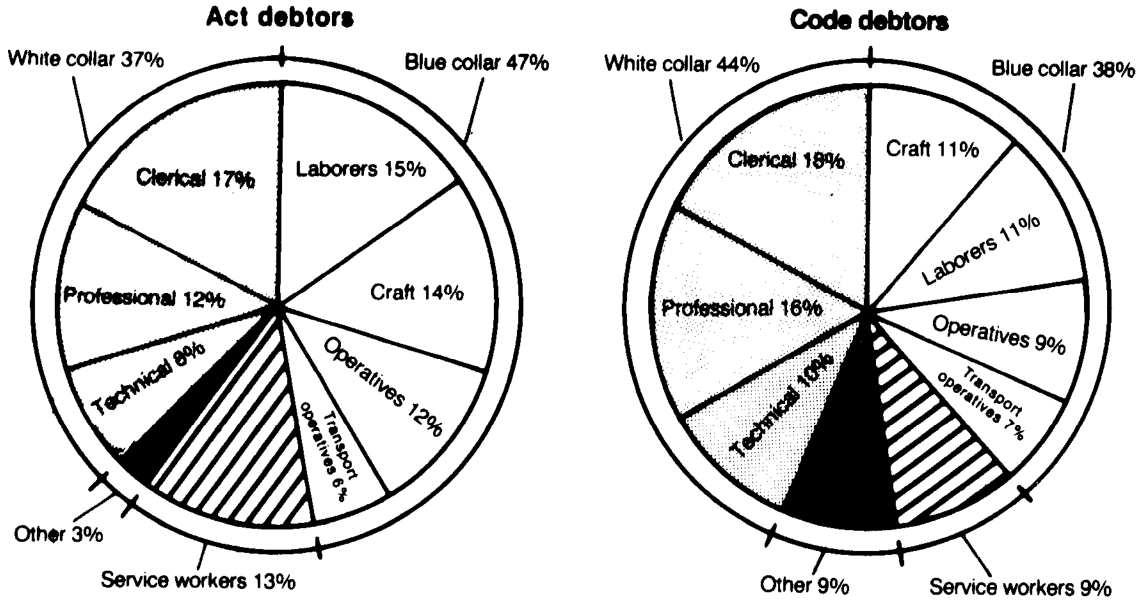
BEFORE AND AFTER REVISIONS TO THE CODE

Comparison of the profiles of people in the five districts we reviewed who filed chapter 13 bankruptcies before the code became effective with those who filed after showed there are differences and similarities between the two groups of debtors. Our analysis of 328 act and 589 code cases out of a total universe of 5,604 showed similarities in employment status, marital status, household size, and prior bankruptcy filings and showed differences in levels of income, assets, and debts, provisions of debt repayment plans, and homeownership.

LITTLE VARIANCE IN THE PERSONAL CHARACTERISTICS OF DEBTORS

A comparison of the personal characteristics of people who filed chapter 13 bankruptcies before the code with those who filed after showed only few differences between the two groups. One difference was in the proportion of debtors who held white-collar and blue-collar jobs. Before the code, more blue-collar workers than white-collar workers filed, while under the code the relationship reversed. In addition, the percentage of homeowners increased. In most other aspects, however, there were no major differences.

Our review of debtors filing chapter 13 bankruptcies before and after the code indicated that more than 9 out of 10 debtors in each group were employed with 96 percent employed under the act and 93 percent under the code. Those who filed under the code had been working at their current job an average of 1 year longer than the group that filed under the act--5 years and 10 months for code debtors compared to 4 years and 9 months for act debtors. Data on debtors' occupations appears on the following page.



The chapter 13 bankruptcy case files disclosed a variety of other personal characteristics, such as legal actions taken against debtors by creditors, prior bankruptcy filings, and household size. Most of the information showed that people who filed chapter 13 bankruptcies before and after the code had similar characteristics. The area in which the two groups of debtors differed the greatest was in homeownership: 37 percent of the act debtors were homeowners compared to 50 percent of the code debtors.

The following table compares the personal characteristics of the act and code debtors.

Personal characteristics	Act debtors	Code debtors
	--------(percent)----------	
Marital status		
Married	70	74
Single	9	9
Divorced/separated/widowed	21	17
Household size		
One	15	18
Two	18	16
Three	24	19
Four	21	20
Five or more	22	27
Prior bankruptcy filings	19	12
Evidence of creditor or other legal actions involving the debtor (note a)	41	32
Foreclosure	9	12
Garnishment of wages	7	9
Lawsuits	23	11
Repossession	11	12
Homeowner	37	50

a/Subunits of this characteristic include the same debtor in more than one category.

FINANCIAL CHARACTERISTICS DIFFER SUBSTANTIALLY

Debtors filing chapter 13 bankruptcies under the code had significantly higher levels of income, assets, and debts than those who filed under the act. Using mean values, total debt increased by $12,063 and assets increased by $9,943 while the increase in income was only $4,978. These indicators of a person's financial condition are summarized on the following page. The income data represents the debtors' income for the year prior to filing personal bankruptcy which is required to be reported on the bankruptcy petition. Assets represent the market value of the debtors' property as listed on the bankruptcy schedules. The figures have not been adjusted for inflation.

Financial characteristics	Mean value Act cases	Code cases	Increase
Income	$12,272	$17,250	$ 4,978
Assets	$18,532	$28,475	$ 9,943
Debts	$18,596	$30,659	$12,063

Income and assets

The mean annual income of debtors during the year prior to filing their chapter 13 petitions increased from $12,272 for act cases to $17,250 for code cases. The income of both groups was below the national mean. The $12,272 mean for act cases was $5,458 less than the national mean of $17,730. The mean income for code debtors of $17,250 was $2,370 less than the national mean of $19,620.

The table below shows the distribution of debtor incomes between the act and code cases. A comparison of the distribution shows why there is a difference of $4,978 between the mean incomes of the two groups of debtors. Only about 10 percent of the act debtors had incomes exceeding $20,000, while 33 percent of the code debtors' incomes exceeded this amount.

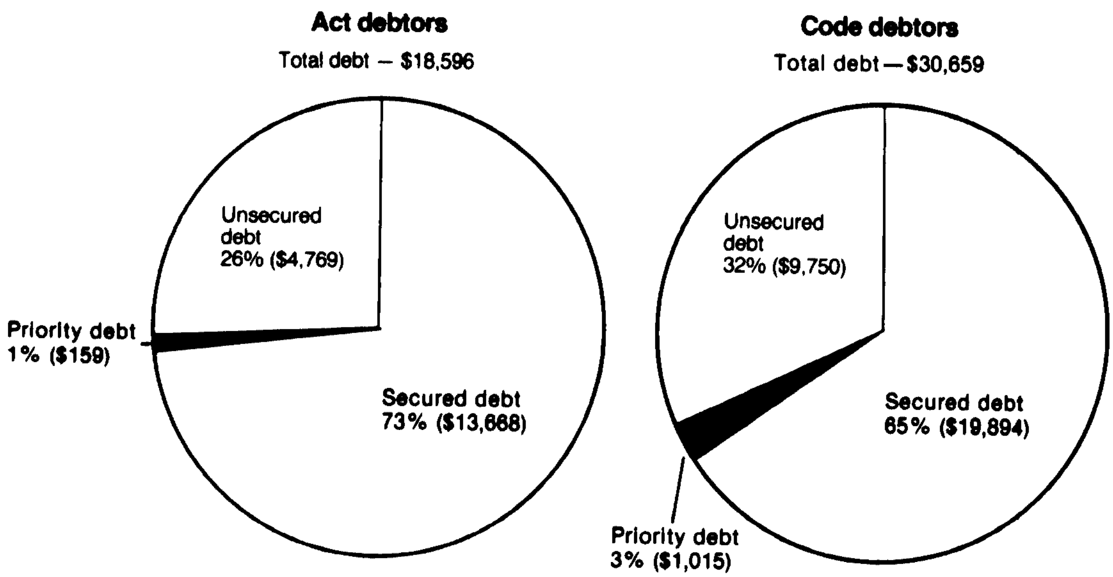
	Act cases		Code cases	
Income level	Percent	Cumulative percent	Percent	Cumulative percent
Under $10,000	37	-	19	-
10,000 to 14,999	34	71	28	47
15,000 to 19,999	19	90	20	67
20,000 to 24,999	5	95	16	83
25,000 and over	5	100	17	100

The total mean value of assets claimed by code debtors was $9,943 greater than the mean value of assets claimed by act debtors. The majority of the increase, as shown in the table on the following page, was from the real property portion of the debtors' assets. Approximately 90 percent of the increase in the real property was from the value the debtors claimed for their permanent residence. There was little difference between the amount of personal property reported by the act and code debtors on their bankruptcy petitions.

Assets	Mean value Act cases	Mean value Code cases	Difference
Real property	$14,457	$23,619	$ 9,162
Personal property	4,075	4,856	781
Total	$18,532	$28,475	$ 9,943

Debt

Our analysis of the debt structure of people filing chapter 13 bankruptcies showed that the largest component was debt owed to secured creditors. Using mean values, secured debt accounted for 73 percent of the total debt in act cases and 65 percent of the total debt in code cases. Most of the remaining debt was owed to unsecured creditors as shown below.



This relationship between secured and unsecured debt for both act and code debtors paralleled the structure of the debtors' assets. Real property, consisting primarily of debtors' residences, made up the majority of the assets purchased with funds obtained from secured creditors which accounts for the larger percentage of the debt being secured. Most personal property, such as household goods and personal effects, generally are purchased from unsecured creditors. The major exception was the automobile, which was categorized as personal property, but was generally a secured debt. Most of the secured debt was with banks, savings and loans, and finance companies. These creditors are the ones who experienced the largest dollar increase in the amount of debt owed them when comparing act and code cases. The four categories of unsecured debt which showed the largest dollar increase when comparing act and code cases were (1) banks, savings and loans, and credit unions, (2) business-related debts (i.e., debt incurred from a debtor-owned business, even though the debtor was filing bankruptcy as an individual), (3) credit card companies, and (4) finance companies.

The table on the following page shows the mean value for each category of debt for act and code cases and the difference from act to code cases.

Type of debt	Mean value Act cases	Code cases	Difference
Priority debt			
Business-related	$ 6	$ 328	$ 322
Nonbusiness-related	153	687	534
Total priority debt	159	1,015	856
Secured debt			
Banks, savings & loans	9,515	13,797	4,282
Finance companies	1,976	3,389	1,413
Credit unions	378	385	7
Individual loans	98	312	214
Automobile finance companies	553	685	132
Other	1,148	1,326	178
Total secured debt	13,668	19,894	6,226
Unsecured debt			
Banks, savings & loans, credit unions	946	2,610	1,664
Finance companies	922	1,492	570
Business-related	28	1,299	1,271
Individual loans	61	263	202
Credit card companies	736	1,367	631
Student loans	100	354	254
Retail accounts	759	806	47
Service accounts	216	313	97
Medical expenses	394	360	(34)
Lawsuits	161	126	(35)
Other	446	760	314
Total unsecured debt	4,769	9,750	4,981
Total debt	$18,596	$30,659	$12,063

REPAYMENT PLANS VARY

A major difference between chapter 13 bankruptcies before and after the code was that code repayment plans provided for debtors to pay back a smaller percentage of the debt they owed their unsecured creditors than the act repayment plans did. On the basis of available court records, repayment plans filed under the code required debtors to pay on the average about 57 percent of the debt owed to unsecured creditors compared to act plans which called for an average repayment of about 92 percent. A further comparison shows that the average code plan was scheduled to have a monthly payment of $202 for 38 months while the average act plan had a monthly payment of $216 for 37 months. Using these two payments to calculate the total scheduled pay back, the average code plan would generate less funds than the act plan ($7,676 compared to $7,992) even though the average code debtor had a higher level of debt in the plan.

Preparing the repayment plan

An integral part of a chapter 13 bankruptcy is the debtor's repayment plan. The plan, which is prepared by the debtor and his/her attorney, is the debtor's proposal for paying back all or a portion of the debt owed to creditors. Under the code, the plan must be confirmed by the bankruptcy judge, and unsecured creditors do not have to approve the plan in order for it to be confirmed. Secured creditors must either accept the plan, receive the property securing their claim, or receive under the plan the value of their secured interest. However, under the act, approval by the secured creditors and a majority of the unsecured creditors was required or the plan could not be confirmed by the court. After confirmation by the court, the plan runs until:

1. The debtor makes all the required payments and receives a discharge or the court grants an earlier discharge due to hardship.

2. The case is dismissed by the court at the request of an interested party, after notice and a hearing because the debtor fails to make payments. The case also may be dismissed at any time on the request of the debtor who may make such a request because he/she does not want to continue the plan or circumstances prevent further participation, such as loss of a job. When this occurs, the debtor reverts to the status he/she held prior to filing bankruptcy--he/she owes money to creditors and they can initiate legal action against

him/her, such as lawsuits or garnishment of wages, which is not allowed while the debtor is in bankruptcy.

3. The case can be converted to a chapter 7 bankruptcy by the court on request of the debtor or, after notice and a hearing, on request of an interested party.

The three characteristics of a chapter 13 repayment plan which determine how much money will be repaid to creditors are (1) the monthly amount the debtor is to pay, (2) the length of time the plan is to run, and (3) the percentage of debt to be repaid to unsecured creditors. Calculating the debtor's capacity to pay back creditors begins with determining the debtor's monthly take-home pay and how much is needed to cover monthly expenses. After expenses are subtracted from income, the amount remaining is what is available for payment into a chapter 13 repayment plan. Usually a small sum is set aside as a buffer for unexpected expenses. The remainder is the monthly payment amount. The monthly payment amount multiplied by the number of months in the plan produces the total amount the debtor proposes to pay. The act did not limit the length of time a repayment plan could run, although the usual period was 3 years. The code restricts the plan to no longer than 3 years, unless the court, for cause, approves a longer period. A judge cannot, however, approve a plan to run for a period that is longer than 5 years.

The total amount to be paid into the plan generally must cover all of the priority and secured debt that the debtor lists to be paid under the plan and that is approved by the court. Among these are administrative expenses including fees for the operations of the chapter 13 trustee. The plan also must provide for payment of all or a percentage of the debt owed to unsecured creditors. The debtor makes the monthly payment to the chapter 13 trustee, and the plan runs until it is completed, dismissed, or converted. There are several methods for making payments to the trustee. For example, the debtor can pay the trustee directly; the debtor's employer can deduct the payment amount from the debtor's pay and send it to the trustee; or the debtor's employer can send the debtor's entire pay check to the trustee who is given power of attorney to deduct the payment amount and refund the excess to the debtor. Our analysis showed that payroll deductions were used most frequently for both the act cases (47 percent) and the code cases (42 percent).

Comparison of plan characteristics

There were distinct differences in the financial aspects (total take-home pay, expenses, monthly payment) of the code and act plans we reviewed. Monthly take-home pay for the code debtors was about 20 percent higher than for the act debtors. Monthly expenses claimed were about 29 percent higher leaving a smaller amount from which to make the monthly payments to the plan. As a result, the average monthly payment for code plans was about 6 percent lower than for act plans--$202 compared to $216 for act plans. The scheduled length of the plan for code cases increased by 1 month. As shown below, comparison of the characteristics of the average act plan to the average code plan showed that the total scheduled pay-back under the code plan was $316 less than for act plans ($7,676 compared to $7,992).

Plan characteristic	Act cases	Code cases
Total monthly take-home pay	$1,010	$1,214
Monthly expenses	- 754	-973
Excess (pay minus expenses)	256	241
Monthly payment for plan	- 216	-202
Buffer	$ 40	$ 39
Scheduled length of plan (months)	37	38
Total planned pay-back to creditors (monthly payment times length of plan)	$7,992	$7,676

On the basis of available court records, the average percentage to be paid to unsecured creditors declined from 92 percent for the act plans to 57 percent for the code plans. Under both the act and code we found that the percentage to be repaid unsecured creditors varied widely and ranged from 5 to 100 percent for act cases and from zero to 100 percent for code cases. In total, we found that only 25 code cases were to repay 0 percent of unsecured debt while 167 code cases were to repay 100 percent of unsecured debt.

CONCLUSIONS

Our analysis of chapter 13 debtors filing before and after the code showed that 9 out of 10 debtors in each group were employed. In addition, the code debtors had been working at their current jobs an average of 1 year longer than the act debtors. Also, the debtors filing under the act were 37 percent white-collar workers compared to 44 percent for code debtors.

Seventy percent of the chapter 13 debtors filing under the act were married whereas 74 percent of the code debtors were married. The household sizes were basically the same for both groups. The major difference was that only 37 percent of the act debtors owned homes compared to 50 percent of the code debtors.

The levels of income, assets, and debts were higher for code debtors when compared to act debtors. For example, income increased by $4,978, while assets increased by $9,943, which is primarily attributable to homeownership. Even though income levels were higher for code debtors, these individuals still had income below the national mean as was the situation for act debtors as well. Only about 10 percent of the act debtors had incomes exceeding $20,000, while 33 percent of the code debtors had incomes exceeding this amount.

In the debt area, act debtors had 73 percent of their total debt with secured creditors as compared to 65 percent for code debtors. The largest dollar increase in debts owed to secured creditors was with banks, savings and loans, and finance companies. In the area of unsecured debt, act debtors owed 26 percent of their total debt to unsecured creditors compared to 32 percent for code debtors.

Chapter 13 repayment plans for code debtors provided for them to pay back a smaller percentage to unsecured creditors when compared to act debtor repayment plans. For example, repayment plans filed under the act required debtors to repay 92 percent of the debt owed to unsecured creditors; whereas, plans filed under the code only required debtors to repay 57 percent of the debt owed to unsecured creditors. As a result of the lower percent required to be paid unsecured creditors, debtors under the code were required to pay only an average of $7,676 or $316 less than act debtors.

CHAPTER 5

COMPARISON OF CHAPTERS 7 AND 13

DEBTORS FILING UNDER THE CODE

A comparison of the personal and financial characteristics of chapters 7 and 13 code debtors from our case samples provided further insight regarding the characteristics of individuals filing bankruptcy under the code. The major differences between chapters 7 and 13 debtors were evident in the area of financial characteristics, that is, the average income, asset, and debt levels for each group differed. Also, a greater percentage of chapter 13 debtors owned homes than chapter 7 debtors (50 percent compared to 25 percent).

Using mean values the chapter 13 debtors had higher annual income and asset levels than chapter 7 debtors, while chapter 7 debtors had a slightly higher level of debts. The makeup of the debt differed significantly in that chapter 13 debtors had 38 percent less unsecured debt and 34 percent more secured debt than chapter 7 debtors.

Notwithstanding the differences in the financial characteristics of chapter 7 and chapter 13 debtors as a group, analysis also showed that on an individual basis, 42 percent of the chapter 7 debtors reviewed reported income, asset, and debt levels that were very similar to chapter 13 debtors who filed bankruptcy in the same bankruptcy court district. Even though this provides insight into the degree to which chapters 7 and 13 debtors share similar income, asset, and debt characteristics; we cannot conclusively say that such debtors could repay their debts out of future income. Before such a conclusion could be made, one would have to know the debtors' living expenses, family size and other circumstances, which chapter 7 debtors are not required to include in their bankruptcy petitions.

Analysis showed that chapter 13 unsecured creditors were more likely to receive a portion of their debt than were chapter 7 unsecured creditors. Chapter 13 debtors on the average were scheduled to repay 57 percent of the total unsecured debt included in their chapter 13 repayment plans. In contrast, chapter 7 debtors rarely repaid their unsecured debt and were able to exempt their assets from liquidation and distribution to creditors in 97 percent of the cases included in our sample.

FINANCIAL CONDITION OF CHAPTER 13 AND CHAPTER 7 DEBTORS

The average chapter 13 debtor had more income and assets than chapter 7 debtors. Also, the average debts for chapter 13 debtors were slightly lower than those for chapter 7 debtors. The mean value of annual income for chapter 13 debtors of $17,250 exceeded the $13,497 income level for chapter 7 debtors by $3,753. The asset level of chapter 13 debtors was $10,882 higher than the level for chapter 7 debtors--$28,475 compared to $17,593. The average debt level differed by $1,015--$31,674 for chapter 7 debtors and $30,659 for chapter 13 debtors. The mean values for chapters 7 and 13 debtors' financial characteristics are summarized below. 10/ The income data represents the debtors' income for the year prior to filing personal bankruptcy which is required to be reported on the bankruptcy petition. Assets represent the market value of the debtors' property as listed on the bankruptcy schedules.

Financial characteristic	Chapter 7	Chapter 13	Difference
Income	$13,497	$17,250	$ 3,753
Assets	$17,593	$28,475	$10,882
Debt	$31,674	$30,659	$ 1,015

An analysis of the distribution of chapters 7 and 13 debtors by ranges of income and assets also showed some differences. Analysis showed that more chapter 7 debtors than chapter 13 debtors had income or assets below $15,000. For example, 62 percent of the chapter 7 debtors had incomes less than $15,000 a year compared to 47 percent of the chapter 13 debtors. Also, 78 percent of the chapter 7 debtors reported assets

10/Comparison of chapter 7 debtors with chapter 13 debtors who filed under the act showed similar results. For example, act chapter 13 debtors had on the average more income and assets than act chapter 7 debtors by $1,616 and $10,792, respectively. The average debts for act chapter 13 debtors were $3,201 lower than act chapter 7 debtors.

less than $15,000 compared to 53 percent of the chapter 13 debtors. The table below details the distribution of chapters 7 and 13 debtors by amount of income and assets.

Size category	Chapter 7 debtors	Chapter 13 debtors
	--------(percent)--------	
Income		
Under $10,000	33	19
10,000 to 14,999	29	28
15,000 to 19,999	18	20
20,000 to 24,999	13	16
25,000 and over	7	17
Assets		
Under $10,000	74	50
10,000 to 14,999	4	3
15,000 to 19,999	3	1
20,000 to 24,999	1	4
25,000 to 34,999	4	11
35,000 to 44,999	3	10
45,000 and over	11	21

Income and asset values are greater for chapter 13 debtors

The higher asset level for chapter 13 debtors in comparison to chapter 7 debtors corresponded with the higher level of homeownership reported by the chapter 13 debtors. In addition, chapter 13 debtors had an average annual income of $17,250 compared to $13,497 for chapter 7 debtors.

The higher level of assets of chapter 13 debtors in comparison to chapter 7 debtors--$28,475 compared to $17,593--was because chapter 13 debtors owned almost twice as much dollar value in real property as chapter 7 debtors. That is, the average value of real property was $23,619 for chapter 13 debtors compared to $13,366 for chapter 7 debtors. This comparison also corresponded to the fact that a greater percentage of chapter 13 debtors were homeowners compared to chapter 7 debtors--50 percent compared to 25 percent, respectively. Thus, although the amount of personal property owned by chapters 7 and 13 debtors was similar--$4,227 compared to $4,856--the amount of total assets for chapter 13 debtors was greater than the total assets for chapter 7 debtors.

Little difference between chapter 7 and chapter 13 total debt levels

In contrast to the asset levels, the mean debt level of chapters 7 and 13 debtors was similar, $31,674 and $30,659, respectively. However, within this debt structure, chapter 13 debtors had 34 percent more secured debt and 38 percent less unsecured debt than chapter 7 debtors. The priority debt level for chapters 7 and 13 debtors differed by only $184.

The higher secured debt level of $19,894 for chapter 13 debtors compared to $14,829 for chapter 7 debtors was attributable largely to the amount of debt owed to banks and savings and loans institutions. Chapter 13 debtors owed 69 percent of their total secured debt to banks and savings and loans compared to 55 percent of chapter 7 debtors. This comparison again corresponded to the fact that 50 percent of the chapter 13 debtors are homeowners compared to 25 percent of the chapter 7 debtors.

Chapter 7 debtors, on the other hand, had a higher level of unsecured debt than chapter 13 debtors, with an average unsecured debt level of $15,646 compared to $9,750. The largest amount of chapter 7 debtors' unsecured debts was business related while the largest amount of unsecured debts for chapter 13 debtors was owed to banks, savings and loans, and credit unions.

The second largest amount of unsecured debt owed by chapter 7 debtors was due to lawsuits with the average debt amounting to $2,947 while for chapter 13 debtors, lawsuits comprised the smallest category of unsecured debt, or only an average of $126. Our sample data also demonstrated that 44 percent of chapter 7 debtors were involved in lawsuits compared to 11 percent of the chapter 13 debtors. The table on the following page details the mean values for the types of debts owed by chapters 7 and 13 debtors and the dollar differences.

Type of debt	Mean value Chapter 7	Chapter 13	Difference
Priority debt			
Business-related	$ 321	$ 328	$ 7
Nonbusiness-related	878	687	(191)
Total priority debt	1,199	1,015	(184)
Secured debt			
Banks, savings & loans	8,194	13,797	5,603
Finance companies	3,840	3,389	(451)
Credit unions	242	385	143
Individual loans	132	312	180
Automobile finance companies	570	685	115
Other	1,851	1,326	(525)
Total secured debt	14,829	19,894	5,065
Unsecured debt			
Banks, savings & loans, credit unions	1,980	2,610	630
Finance companies	1,066	1,492	426
Business-related	3,071	1,299	(1,772)
Individual loans	471	263	(208)
Credit cards	1,921	1,367	(554)
Student loans	127	354	227
Retail accounts	1,083	806	(277)
Service accounts	767	313	(454)
Medical expenses	775	360	(415)
Lawsuits	2,947	126	(2,821)
Other	1,438	760	(678)
Total unsecured debt	15,646	9,750	(5,896)
Total debt	$31,674	$30,659	$(1,015)

INCOME, ASSET, AND DEBT RELATIONSHIPS

A comparison of various combinations of the financial characteristics of income, asset, and debt levels for chapters 7 and 13 debtors showed that more than twice as many chapter 13 debtors as chapter 7 debtors had assets which were greater than their debts. It also showed that an equal percentage of chapter 13 and chapter 7 debtors had annual incomes which exceeded their debts.

Comparison of the financial characteristics of chapters 7 and 13 debtors on an individual basis showed that many chapter 7 debtors were similar to chapter 13 debtors when considering only income, assets, and debts. In total, we projected that 6,760 chapter 7 debtors, who filed in the five districts reviewed, or 42 percent, shared similar asset and debt characteristics with chapter 13 debtors who filed in the same bankruptcy district and who had similar income levels. Even though this provides insight into the degree to which chapters 7 and 13 debtors share similar income, asset and debt characteristics, we cannot conclusively say that such debtors could repay their debts from future income. Before a conclusion could be made, one would have to know the debtors' living expenses, family size, and other personal circumstances, which chapter 7 debtors are not required to include in their bankruptcy petitions.

More chapter 13 debtors have assets exceeding debts

Our analysis of debtors' asset and debt levels showed that twice as many chapter 13 debtors had assets exceeding debts as chapter 7 debtors--29 percent compared to 12 percent. This relationship corresponds with the previously demonstrated fact that chapter 13 debtors, on the average, had greater assets than chapter 7 debtors and under the provisions of the code, debtors may retain possession of their assets by filing a chapter 13 bankruptcy and repaying their debts out of future income.

We also analyzed the relationship of assets to debts by income levels and found that the greatest number of chapters 7 and 13 debtors with assets exceeding debts earned over $25,000 annually, while the greatest number of debtors with assets less than debts earned from $10,000 to $14,999 for chapter 7 debtors and $15,000 to $19,999 for chapter 13 debtors. Furthermore, in every income range a greater percentage of chapter 13 debtors than chapter 7 debtors had assets exceeding debts. The following illustrates the distribution by income ranges of chapters 7 and 13 debtors with assets greater than debts and assets less than debts.

Income	Chapter 7 cases		Chapter 13 cases	
	Assets greater than debts	Assets less than debts	Assets greater than debts	Assets less than debts
	(percent)		(percent)	
Under $10,000	7	93	28	72
10,000 to 14,999	5	95	23	77
15,000 to 19,999	18	82	22	78
20,000 to 24,999	17	83	39	61
25,000 and over	34	66	41	59
Weighted percentage	12	88	29	71

Chapters 7 and 13 debtors have similar income to debt relationships

Twenty-nine percent of the chapter 7 debtors earning less than $10,000 a year had debts less than their incomes. In comparison, 48 percent of the chapter 13 debtors earning less than $10,000 a year had debts less than their incomes. The distribution by income range of chapters 7 and 13 debtors with debts greater than annual income and debts less than annual income is detailed below.

Income	Chapter 7 cases		Chapter 13 cases	
	Debts greater than income	Debts less than income	Debts greater than income	Debts less than income
	(percent)		(percent)	
Under $10,000	71	29	52	48
10,000 to 14,999	42	58	46	54
15,000 to 19,999	44	56	49	51
20,000 to 24,999	60	40	56	44
25,000 and over	45	55	73	27
Weighted percentage	54	46	54	46

In total, 46 percent of all chapters 7 and 13 debtors had debt levels less than their annual income levels; and conversely, for both groups of debtors, 54 percent had debt levels exceeding their annual income levels.

Individually, many chapter 7 debtors had income, asset, and debt levels similar to chapter 13 debtors

Even though as a group chapter 13 debtors had, on the average, income and assets greater than chapter 7 debtors and debts somewhat less, our analysis showed that when debtors were compared individually, 42 percent of the chapter 7 debtors who filed in the five districts reviewed had income, asset, and debt levels that were similar to debtors who filed under chapter 13. Even though this provides insight into the degree to which chapters 7 and 13 debtors share similar income, asset, and debt characteristics, we cannot conclusively say that such chapter 7 debtors could repay their debts from future income. Before a conclusion could be made, one would have to know the debtors' living expenses, family size, and other circumstances, which chapter 7 debtors are not required to include in their bankruptcy petitions.

As shown below, we analyzed and compared the chapters 7 and 13 debtors by income category and by bankruptcy court district. In addition, we used a range of plus or minus $2,000 of assets and debts when comparing chapters 7 and 13 debtors.

Projected number of chapter 7 cases with income, asset, and debt characteristics similar to chapter 13 cases (note a)

Income levels	Eastern New York	Southern New York	Eastern Kentucky	Southern Ohio	Central California	Total
Under $10,000	237 (44)	70 (21)	237 (68)	667 (47)	1,142 (48)	2,353 (47)
$10,000 - 14,999	153 (35)	280 (80)	195 (62)	869 (61)	1,427 (64)	2,924 (62)
$15,000 - 19,999	288 (45)	180 (62)	77 (62)	290 (43)	114 (9)	949 (32)
$20,000 - 24,999	136 (33)	40 (40)	21 (27)	116 (25)	57 (6)	370 (18)
25,000 and over	68 (29)	10 (9)	0 (0)	29 (25)	57 (8)	164 (14)
Total	882 (39)	580 (49)	530 (59)	1,971 (48)	2,797 (37)	6,760 (42)

a/Number of cases and percentage, in parentheses, represent chapter 7 debtors that are similar to chapter 13 debtors in the same income levels and who filed in the same bankrupcty court district. For purposes of this analysis, we categorized a chapter 7 debtor as being similar if his/her assets and debts were within a plus or minus $2,000 of those listed by a chapter 13 debtor.

Our analysis showed that there are, on the basis of our samples, chapter 7 debtors in the same income range that had similar asset and debt levels as debtors who filed chapter 13 repayment plans within the same bankruptcy court districts. For example, for the income range of $15,000 to $19,999 we projected that 949 chapter 7 debtors in the five districts, or 32 percent, had similar asset and debt levels with at least one chapter 13 debtor who filed in the same district. For chapter 7 debtors in all income groups we project that 6,760 chapter 7 debtors, or 42 percent, shared similar asset and debt characteristics with chapter 13 debtors who filed in the same bankruptcy court district and who had similar income levels. In our opinion, such analysis indicates that there are chapter 7 debtors who might be able to repay some debt out of future income under a chapter 13 repayment plan if required to do so. Our analysis does not conclusively show, however, that the sampled chapter 7 debtors would be able to repay their debt because such a determination would require a detailed analysis of debtors' expenses and other circumstances which are not currently recorded in chapter 7 bankruptcy court records.

CHAPTER 13 REPAYMENT PLANS ARE SCHEDULED TO REPAY MORE DEBT TO UNSECURED CREDITORS

On the basis of our analysis of chapter 13 code cases (see page 43), we found that code chapter 13 debtors were scheduled on the average to repay unsecured creditors 57 percent of their debt. Chapter 7 code cases rarely resulted in any liquidations and distributions to unsecured creditors because available assets were exempted from liquidation and distribution under either Federal or State law in 97 percent of the cases filed in the five districts reviewed.

Despite the opportunity for unsecured creditors to be repaid a portion of the debt owed in chapter 13 cases, our analysis showed that unsecured creditors did not always file proofs of claims and thus were generally ineligible to receive any distribution of funds. Unsecured creditors did not file proofs of claims for 38 percent of the dollar value of unsecured debt listed by chapter 13 debtors. We could not precisely identify the extent that unsecured creditors involved in chapter 7 cases chose not to file claims because often they were instructed not to do so by the bankruptcy court.

Repayment of unsecured debt

On the basis of 461 of the 589 chapter 13 code cases included in our review where it could be determined, we projected that in 3,560 of the 4,348 cases filed in the five districts reviewed debtors were scheduled to repay an average of 57 percent of unsecured debt. Of the 3,560 cases we projected that 2,433 were still in an active status. Although the actual return on debt could not be estimated we could project that these cases on the average planned to repay unsecured creditors 51 percent of debt. Thus, if the cases run their full scheduled time period, unsecured creditors should receive on the average slightly over half of the total unsecured debt included in the plans.

Of the 3,560 chapter 13 cases, we projected that 62 percent of the plans were scheduled to repay at least 30 percent of unsecured debt. In addition, 52 percent of the plans were scheduled to repay at least 50 percent of unsecured debt while 37 percent were scheduled to repay 100 percent of unsecured debt. Therefore, unsecured creditors have the potential, on the average, to receive a major portion of their debt if the plans run to their completion.

We also analyzed the actual return to creditors for 548 of the 589 chapter 13 code cases in our review. On the basis of 222 cases that had been discharged, dismissed or converted to a chapter 7 at the time of our review and for which it could be determined, we estimated that unsecured creditors in a projected 1,551 cases in the five districts that had been discharged, dismissed, or converted received payments of about 2 percent of their scheduled debt. We were also able to estimate the payments to priority, secured, and unsecured creditors in 326 cases. On the basis of these cases we projected that creditors received about 16 percent of the total debts to be paid by the plans in 2,470 cases that were active at the time of our review. We could not break down the return to the individual groups of creditors on the basis of court records. The remaining 41 of the 589 cases contained insufficient information to either determine their status, debt structure, or payment history.

In contrast, our analysis showed that chapter 7 code cases less frequently resulted in any distributions to unsecured creditors. On the basis of our analysis of 695 code chapter 7 cases, we estimated that 97 percent of the chapter 7 cases were no-asset cases; that is, no assets were available after either Federal or State exemptions were claimed for liquidation and distribution to creditors. As a result, unsecured creditors involved in chapter 7 cases rarely received any repayment.

<u>Proofs of claims are not always filed by unsecured creditors</u>

Unsecured creditors involved in both chapters 7 and 13 cases did not always file proofs of claims for unsecured debts owed to them. Proofs of claims are documents filed by creditors with the bankruptcy court to substantiate debts owed by the debtor and are generally necessary to be eligible to participate in any funds distributed to creditors.

Historically, creditors in chapter 7 cases have not always filed proofs of claims. For example, a study published in 1971 by The Brookings Institution [11] reported that unsecured creditors filed proofs of claims for only 10 percent of the unsecured debt scheduled in personal bankruptcies primarily because creditors recognized the marginal returns in personal bankruptcies and did not believe it worth their while to file claims. On the basis of our review, we could not accurately identify the precise extent that chapter 7 creditors filed or did not file proofs of claims because the bankruptcy courts often notified creditors not to file claims in apparent no-asset cases. Although these practices existed in the court districts included in our review, they were not followed consistently and we could not determine the extent that creditors in all of the no-asset cases reviewed received such notification. Because so few cases in our review were asset cases--only 3 percent of the 695 chapter 7 cases reviewed--we could not statistically project the extent claims were filed or not filed in these chapter 7 cases.

Our analysis did show, however, the extent that chapter 13 creditors filed proofs of claims. On the basis of our analysis, we estimated that unsecured creditors did not file proofs of claims for $15,035,186, or 38 percent, of the total unsecured debt of $39,055,265 listed by debtors in their chapter 13 petitions.

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[11]/David T. Stanley and Marjorie Girth, Bankruptcy Problem, Process, Reform (Washington, D.C.: The Brookings Institution, 1971), pp. 89 and 90.

We analyzed proofs of claims filed and not filed by creditors holding unsecured claims because they generally stand to lose in bankruptcy because no recourse exists to recover debts after discharge. On the other hand, secured creditors hold a mortgage or lien on the debtor's property which serves as collateral to guarantee the repayment of debt. Although a bankruptcy discharge absolves the debtor from personal liability for the secured debt, it generally does not eliminate the property on which the mortgage or lien is held from being liable for the debt. Consequently, after the bankruptcy discharge is granted the secured creditor can repossess his/her property and resell it to recoup or minimize his/her loss even though the property was exempt from liquidation and distribution in chapter 7 cases. Similarly, the secured creditor can enforce the mortgage or lien in a chapter 13 case where no liquidation and distribution of property occurs. Because chapter 13 debtors agreed to make some repayments to unsecured creditors, one would expect it would be to the advantage of unsecured creditors to file proofs of claims. Our analysis of court records did not reveal the reasons why unsecured creditors did or did not submit proofs of claims.

CONCLUSIONS

Our comparison of chapters 7 and 13 debtors showed that chapter 13 debtors generally had more income and assets than chapter 7 debtors while chapter 7 debtors had a slightly higher debt level. However, within this debt structure, chapter 13 debtors had a 34 percent higher level of secured debt and 38 percent less unsecured debt than chapter 7 debtors. These comparisons corresponded with the fact that a greater percentage of chapter 13 debtors owned homes--50 percent compared to 25 percent for chapter 7 debtors.

Our analysis showed that the average chapter 13 debtor earned $17,250 annually, or 28 percent more than the $13,497 earned by chapter 7 debtors. In addition, chapter 13 debtors owned assets valued on the average at $28,475, or 62 percent higher than the $17,593 in assets for chapter 7 debtors. The total debt for chapters 7 and 13 debtors differed by only 3 percent. Our analysis showed that twice as many chapter 13 debtors had assets exceeding debts as chapter 7 debtors--29 percent compared to 12 percent. Also, 46 percent of both chapters 7 and 13 debtors had debts less than their annual income levels.

Comparison of chapter 7 and chapter 13 debtors on an individual basis showed some similarities. In total, we estimate that 42 percent of the chapter 7 debtors in the five districts reviewed had asset and debt levels that fell within a plus or minus $2,000 of the asset and debt levels listed by chapter 13 debtors in the same income level and who filed in the same bankruptcy court district. While our analysis showed that some debtors are similar on the basis of income, asset, and debt characteristics, we cannot conclusively say that debtors could have repaid their debts out of future income. In order to make such a conclusion, detailed information on chapter 7 debtor living expenses, family size, and other characteristics would be needed; however such information is not currently reported in bankruptcy court records.

Chapter 13 unsecured creditors were more likely to receive some repayment of their debts than were chapter 7 unsecured creditors. Analysis of 461 chapter 13 code cases showed that, on the average, debtors were scheduled to repay 57 percent of unsecured debt included in their repayment plans, whereas, chapter 7 debtors were able to exempt all of their assets in 97 percent of the chapter 7 cases we reviewed, and consequently, unsecured creditors received no repayment.

Even though chapter 13 debtors agreed to repay a portion of their debt to unsecured creditors, unsecured creditors did not file proofs of claims for a projected 38 percent of the unsecured debt listed by the debtors. Consequently, they were ineligible to receive any repayment. The extent that chapter 7 creditors chose not to file proofs of claims could not be determined because they were sometimes instructed not to do so by the bankruptcy court.

CHAPTER 6

OBSERVATIONS REGARDING POTENTIAL MODIFICATIONS TO THE PERSONAL BANKRUPTCY PROCESS

On the basis of data developed during our review of 695 chapter 7 code cases and 589 chapter 13 code cases, we found that limiting the maximum Federal household goods exemption to $3,000 ($6,000 for joint petitions), eliminating the opportunity for joint petitioners to use both State and Federal exemptions, and requiring a debtor to make a bona fide effort to repay a portion of his/her debt under the repayment plan would have impacted a limited number of debtors.

We also found that if Federal exemptions were limited to various total dollar levels substantial property would be available for liquidation and distribution to creditors. Depending on the dollar limit established, substantial dollars could become available to creditors. For example, if a $5,000 limit was established we estimate that about $6.5 million may have been generated for liquidation and distribution to creditors. If the States revised their exemption levels in the same manner, a similar impact would occur. For example, if a $5,000 limit was established, we estimate that about $20.7 million may have been generated for liquidation and distribution to creditors.

POTENTIAL MODIFICATIONS TO EXEMPTION LEVELS

The code for the first time introduced Federal exemptions. Prior to the code, property exemptions were established by State law; however, the Congress expressed concern that many State exemption laws did not serve the needs of individuals and did not provide a fresh start for debtors. The historical purpose of the exemptions was to provide a fresh start so that after bankruptcy the debtor could begin or continue a productive life. In congressional hearings it has been stated that some provisions of the Federal exemptions have gone too far and have allowed the debtors to retain significantly more property than is needed to remain a productive member of society. Accordingly, we analyzed the potential impact of several modifications, including

--amending the present household goods exemption (which currently does not have an aggregate limit, but allows debtors to exempt any interest in goods so long as the value in any specific item does not exceed $200) by setting an aggregate limit of $3,000 for this category of exemption ($6,000 for a joint petition),

--eliminating the opportunity for couples who file jointly to separately elect and combine Federal and State exemptions and thus take advantage of the liberal provisions of each, and

--placing an aggregate limit on total exemptions and allowing the debtor to choose the specific property to be exempted as long as the total does not exceed the limit.

On the basis of data developed during our review, we calculated the impact such modifications to Federal exemptions would have had on the code chapter 7 cases in our sample and where possible, projected to the universe of chapter 7 bankruptcies that were filed during the period of our sample in the five districts included in our review. Such modifications have the potential of affecting a debtor's ability to insulate certain property from liquidation and thus would affect his/her fresh start after bankruptcy. Our analysis showed that

--placing a $3,000 limit on household goods for single petitions would have impacted a projected 464 of the 12,365 chapter 7 code cases filed in the three districts reviewed that had the option of using Federal exemptions and would have generated about $653,000 that could have been liquidated and distributed to creditors by decreasing the exempt amounts from $2.0 million to $1.4 million,

--a total of 13 joint petitions claimed both State and Federal exemptions and would have been impacted if this provision were eliminated, and

--placing an aggregate limit on Federal exemptions from $1,000 to $10,000 could have generated from $21.2 million to $1.6 million in assets that could have been available for liquidation and distribution to creditors.

Impact of changing Federal household goods exemption

Establishing a maximum limit of $3,000 12/ on household goods would have impacted only 11 of the 220 chapter 7 code single petition cases in our sample that claimed Federal exemptions and would have resulted in $15,477 of household items that would not have been exempted. When projected to the universe (12,365) of the chapter 7 code cases in the three districts reviewed that had the option of using Federal exemptions, it would have impacted an estimated 464 debtors and would have freed approximately $652,848 of property which could have been liquidated and distributed to creditors. We also projected that debtors filing single petitions in an additional 219 cases claimed household goods exemptions exceeding $3,000 by a total of $254,697. Debtors in these cases claimed State exemptions and would not have been affected by a change to Federal exemptions.

Generally, the debtors included in our sample claimed total household exemptions less than $3,000. As shown in the table below, the mean value of exemptions claimed in the five districts ranged from $588 in southern Ohio to $1,615 in central California. In total, the average household goods exemption claimed was $1,194.

Bankruptcy court district	Mean value of household exemptions claimed
Eastern Kentucky (note a)	$1,068
Southern Ohio (note a)	$ 588
Southern New York	$ 981
Eastern New York	$1,008
Central California	$1,615
Weighted mean value	$1,194

a/Debtors in eastern Kentucky and southern Ohio could claim only State exemptions because the respective States had opted out of Federal exemptions.

12/We also analyzed the potential impact on joint petitions in which case the $3,000 limit would apply to each spouse, totaling $6,000. We found only one case in which Federal exemptions were claimed that exceeded the $6,000 limit. We found no joint petition cases which claimed the State exemption that exceeded $6,000.

The chapter 7 cases we reviewed included debtors that claimed (1) Federal exemptions only, (2) State exemptions only, and (3) a combination of the two whereby one spouse claimed Federal exemptions and the other spouse claimed State exemptions. To accurately estimate the impact that a limit on Federal household exemptions would have, we analyzed the cases by the type of exemption claimed--Federal, State, or a combination of both--because only those debtors claiming Federal exemptions would be affected. In assessing the estimated impact of the proposed change to Federal household goods exemptions, it should also be recognized that 33 States had opted out of Federal exemptions as of September 2, 1982. Consequently, any modification to Federal exemptions will only affect debtors in the remaining 17 States and the District of Columbia. However, if the States followed the lead of the Federal Government and changed their State law exemptions, the impact on their bankruptcy filings would also be affected.

The table on the next page analyzes the (1) single petition cases which claimed household goods exemptions exceeding $3,000 and (2) joint petition cases whereby one spouse claimed Federal exemptions and one spouse claimed State exemptions and which exceeded $6,000. We did not include joint petitions claiming either Federal or State petitions because only one case, which claimed Federal exemptions, exceeded the $6,000 limit by $875 and no State cases exceeded this limit.

	Total cases in sample	Cases in sample exceeding $3,000	Average dollar exceeding $3,000	Projected number of cases impacted	Total projected dollar exceedin $3,000 (note a)
Single petition cases where Federal exemptions were claimed	220	11	$1,407	464	$ 652,848
Single petition cases where State exemptions were claimed	197	5	$1,163	219	$ 254,697
Joint petition cases where State and Federal exemptions were claimed (notes b and c)	13	4	$4,725	228	$1,077,300

a/See appendix V, Table 5 for the sampling error associated with these projections.

b/For a Federal joint petition the limit was $6,000.

c/Twelve of these cases occurred in the central California district and one case was in the southern New York district.

As shown, only 11 of the 220 chapter 7 single petition cases reviewed that claimed Federal exemptions would have been affected. The average excess of $1,407 of household goods over the $3,000 limit would not have been exempted under the modification and thus would have been available for liquidation and distribution to creditors. On the basis of this, we projected that 464 chapter 7 code cases or 4 percent of the 12,365 chapter 7 cases filed in the three districts allowing the use of Federal exemptions during the period of our review insulated household goods totaling $652,848. Thus, if such a modification had been made additional assets would have been available for liquidation and distribution to creditors.

Another five cases in our sample exceeded $3,000 of household goods exemptions but claimed State exemptions only and, consequently, would not have been impacted by a change in the Federal exemption level. However, if the States also changed their exemption levels to correspond with the Federal exemption level, we estimated that a total of 219 cases in the five districts reviewed would have been impacted making an additional $254,697 available for liquidation and distribution to the creditors.

In addition, in four cases (which were joint filings) one spouse claimed Federal exemptions and the other spouse claimed State exemptions. Household goods exempted in these cases were on the average $4,725 in excess of the $6,000 limit. These four cases were filed in California whose State household goods exemptions in effect at the time the petition was filed, closely matched the Federal exemptions in that, with few exceptions, no limits were placed on household goods, furnishings, and wearing apparel. Consequently, a Federal exemption limit of $6,000 on household goods for joint petitions would not have impacted these cases because the property could be insulated through State exemptions claimed by the other spouse. However, if California followed the Federal lead, we estimated that an additional $1.1 million could have been available for liquidation and distribution to creditors.

Impact of eliminating the opportunity for a debtor to claim Federal exemptions and a spouse to claim State exemptions in a joint petition

Eliminating the opportunity for spouses who file jointly to separately elect exemptions under Federal and State laws would eliminate the advantage that allows married couples to use the more liberal provisions in both State and Federal laws. We found that 13 couples filing joint petitions--12 in central California 13/ and one in southern New York 14/--elected to combine State and Federal exemptions. On the average, these couples exempted more property than those couples who either both elected Federal exemptions or who both elected State exemptions. In addition, our analysis showed that combining Federal and State exemptions can benefit couples by allowing them to exempt more property than if both spouses elected either State or Federal exemptions.

The couples included in our sample who elected to combine State and Federal exemptions protected on the average $27,608 of their property. The table on the next page compares their average exemption levels to the average for couples where both spouses claimed either State or Federal exemptions.

13/California enacted legislation in September 1981, subsequent to the period of our sample, that prohibits couples filing joint returns from using both Federal and State exemptions.

14/New York enacted a law effective on September 2, 1982, that requires its citizens to use State exemptions.

	Cases in sample	Mean value of exemption
Couples claiming Federal exemptions only	103	$ 6,763
Couples claiming State exemptions only	140	$ 9,652
Couples separately claiming Federal and State exemptions	13	$27,608

A substantial difference existed in the average exemptions claimed by couples who used a combination of both Federal and State exemptions ($27,608) and those who used only State or only Federal exemptions, ($9,652 and $6,763, respectively).

The potential benefits to couples who split exemptions between Federal and State can be illustrated by comparing Federal and State exemption provisions themselves. The schedule below compares California exemptions with Federal exemptions for selected items. However, California recently revised its law to eliminate this opportunity for joint filings. (See footnote on p. 65.)

Item	Federal exemptions (Per spouse)	California State exemptions	Exemptions if both claim Federal	Exemptions if both claim State	Exemption if spouses combine Federal & State exemptions
Homestead	$7,500	$45,000	$15,000	$45,000	$52,500
Motor vehicle	1,200	750	2,400	1,500	1,950
Professional tools	750	2,500	1,500	5,000	3,250

The above schedule shows why a couple's decision to separately claim Federal and State exemptions might have been beneficial under certain circumstances. California's homestead exemption of $45,000 is more generous than the Federal exemption of $7,500 (for a married couple the exemption would double equaling $15,000) while the Federal motor vehicle exemption of $1,200 is larger than the State exemption of $750. If both spouses had filed jointly and claimed State exemptions for their home and motor vehicle, hypothetically, they would have had the potential, assuming they had substantial equity, to protect a total of $46,500 of property. However, if one spouse had claimed Federal exemptions and the other spouse had claimed State exemptions, they, hypothetically, would have been able to exempt property worth $54,450, assuming they had that much equity.

States have the authority under the code to pass legislation opting out and precluding their citizens from using Federal exemptions. As of September 2, 1982, 33 States had opted out of Federal exemption provisions and, as a result, the opportunity for married couples to combine Federal and State exemptions has been reduced. In addition, two States that have not opted out (Minnesota and California) enacted legislation which prohibits joint filers from using both exemptions. They now require debtors to use only Federal or State exemptions but not both.

Impact of placing a total dollar limit on exemptions

Placing a dollar limit on total exemptions and allowing the debtor to apply the exemptions as he/she sees fit to the property of his/her choice could result in additional property being available for liquidation and distribution to creditors. On the basis of 688 of the 695 chapter 7 code cases reviewed where we could determine the dollar value of exemptions claimed, we projected the impact that limits to total exemptions would have had on the chapter 7 code cases filed in the districts included in our review. We based our projected impact upon various dollar exemption levels as illustrated below. For purposes of this analysis, we did not double exemptions for married couples filing jointly. If such limitations were introduced but allowed debtors filing jointly to double exemptions, our projections of total cases impacted and dollar amounts would be reduced.

Dollar limit	Federal cases impacted	Dollars available to creditors (note a)	State cases impacted	Dollars available to creditors (note a)
$ 1,000	6,498	$21,228,399	5,278	$31,103,566
$ 3,000	3,144	$11,340,705	2,652	$25,320,340
$ 5,000	1,543	$ 6,459,757	1,982	$20,656,801
$10,000	338	$ 1,621,893	958	$13,527,928

a/See appendix V, table 6 for the sampling error associated with these projections.

As shown, limiting total Federal exemptions to various levels would impact a significant number of debtors and make available property for liquidation and distribution to creditors. For example, limiting exemptions to $10,000, would have impacted a projected total of 338 of the 12,365 chapter 7 cases filed in the three districts that allowed the use of Federal exemptions and could have resulted in $1.6 million of property that would have been subject to liquidation and distribution to creditors. A projected total of 958 debtors also exempted property over $10,000 but claimed State exemptions and would not have been affected by a change in Federal exemptions. If States were to follow the Federal lead and revise their exemption levels, an additional $13.5 million worth of property would have also been available for liquidation and distribution to creditors.

While the above analysis shows that a significant amount of funds could be made available, the concept of placing an aggregate limit on Federal exemptions should also be examined or considered in terms of the intent of the Bankruptcy Code to provide a debtor with the opportunity for a fresh start after bankruptcy. Our hypothetical limits on exemptions of $1,000, $3,000, $5,000, and $10,000 were established only to illustrate the potential impact of the concept of setting a limit on total exemptions and allowing the debtor to apply them to the property of his/her choice. If such a limit were introduced into the code it would have to be weighed in consideration of the fresh start objective. At least in theory, an almost endless amount of property can currently be exempted and consequently a total limit on Federal exemptions would inevitably narrow the fresh start available to debtors. As the analysis shows, however, a limit of $10,000 would only have affected a projected total of 338 debtors in three districts reviewed which allowed the use of Federal exemptions. The remaining 12,027 debtors would not have been affected and their fresh starts would have been preserved.

MODIFICATIONS TO EXISTING CHAPTER 13 REPAYMENT PLANS

Generally, chapter 13 repayment plans are more successful in generating money for repayment to creditors than chapter 7 cases primarily because repayment of debt is made from debtors' future income rather than from the proceeds of asset liquidation. Therefore, we analyzed the impact that certain modifications would have had on our code chapter 13 plans. These modifications include (1) extending the repayment plans from 3 to 5 years and (2) requiring that repayment plans, in order to be approved by the court, must represent the debtors' bona fide effort to repay a portion of their unsecured debt consistent with their financial abilities after providing support for their families.

Our analysis of chapter 13 code cases included in our review showed that, on the average, lengthening chapter 13 repayment plans to 5 years would have decreased monthly payments from $209 to $133, or by 36 percent, providing the total amount of debt planned to be repaid remained the same. While this measure could be beneficial by increasing the cushion that debtors have to meet unexpected expenses, lengthening repayment plans may also be unattractive to debtors by delaying their fresh start and increasing the period in which they are under the jurisdiction of the bankruptcy court. This potential problem may be mitigated, however, if the decision to extend the repayment plan to 5 years was strictly voluntary by the debtor. In other words, the debtor would make the choice of having a higher monthly payment or extending the length of his/her chapter 13 repayment plan.

Our analysis of chapter 13 code cases showed that the major portion of debtors' take home pay, after expenses, was being devoted to their chapter 13 repayment plans and that 53 percent of the debtors had agreed to repay at least 50 percent of their unsecured debt. This indicates that, on the basis of expenses listed on their chapter 13 repayment plans, debtors in our sample were, on the average, already repaying a reasonable portion of their debt consistent with their abilities after providing for the support of themselves and their families.

Impact of increasing the length of chapter 13 plans

Our analysis of the effect that different repayment periods (3, 4, and 5 years) would have had on the monthly payments for the cases included in our sample was predicated on the assumption that the debtors' levels of income would remain constant during the total repayment period and that the total amount to be repaid the creditors would remain the same. All the proposed change would do would be to extend the repayment period and thus reduce the debtors' monthly payments. Our analysis was based only on 445 of the 589 cases included in our sample because we could not determine from court records the anticipated length of the chapter 13 repayment plans for 144 cases.

Bankruptcy court	Mean actual length of approved plans	Mean actual payment	Repayment period		
			3 yrs.	4 yrs.	5 yrs.
	---(months)---				
Eastern New York	36.2	$162	$163	$122	$ 98
Southern New York	36.6	$118	$120	$ 90	$ 72
Southern Ohio	39.8	$242	$268	$201	$161
Eastern Kentucky	42.5	$182	$215	$161	$124
Central California	36.8	$242	$247	$185	$148
Weighted average	38.2	$209	$221	$166	$133

As shown, lengthening the plan while holding the total amount to be repaid to creditors constant can result in a reduction in the monthly payment amount. For example, in the eastern New York bankruptcy district, the average repayment period was to be 36.2 months with a monthly payment of $162. This left the average debtor a cushion of about $40 with which to meet unexpected expenses. If the plans in this district had been extended to 4 or 5 years, the average monthly payments would have been reduced to $122 and $98, respectively. This would have increased the average cushion by $40 and $64, respectively. Similar results would occur for each of the districts and all cases in total. In total, the repayment period was planned to be an average of 38 months with a monthly payment of $209 per month. This gave the average debtor a cushion of $45 per month to meet unexpected expenses. If the average plan had been increased to 4 years, monthly payments would have been reduced by $43 and the debtors' cushion would have been increased to $88.

Mathematically, allowing the debtor to choose to increase the length of a repayment plan provides some benefit in that the debtor's monthly payments are reduced which leaves a larger cushion the debtor can use for unexpected expenses. Increasing the payment period may serve as an incentive for debtors to choose to file under chapter 13 providing that the total amount of debt planned to be repaid stays the same. However, such a change would postpone the individual's discharge from the jurisdiction of the bankruptcy court and, consequently, delay the fresh start after bankruptcy. For some debtors, this may prove unattractive and actually serve as a disincentive for filing a chapter 13 bankruptcy. This potential problem may be mitigated if the choice of extending a plan to a period greater than 3 years was strictly voluntary by the debtor.

Modification to require chapter 13 debtors to repay a reasonable portion of unsecured debt

Another modification would require chapter 13 debtors to make a bona fide attempt to repay a portion of their unsecured debt consistent with the debtors' ability to repay after providing support for themselves and their dependents. We analyzed the chapter 13 code debtors in our sample to provide insight into (1) expenses claimed as a percent of take home pay and (2) the percent of unsecured debt to be repaid. As shown below, we analyzed chapter 13 debtors by income range.

	Gross income ranges					
	Under $10,000	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 and over
Number of cases in sample	98	139	101	71	66	13
Average net income (note a)	$9,234	$11,604	$14,032	$16,928	$20,821	$36,082
Expenses as percent of net income	81	82	85	82	85	73
Payment to plan as percent of net income	16	15	15	13	13	22
Remainder as percent of net income	3	3	1	5	2	5
Average percent to be repaid unsecured creditors	58	62	56	49	52	71

a/Net income represents income after deductions for certain items such as income taxes, health insurance, union dues, etc.

Generally, debtors are required by the court to list their expenses on the chapter 13 petition. These include such items as rent or mortgage payments, food, clothing, recreation, utilities, etc. As the table shows, debtors in our sample listed budgeted expenses that averaged from 73 to 85 percent of their take home pay. They agreed to pay into the plan from 13 to 22 percent of their net take home pay, leaving a balance of 1 to 5 percent which could be used to meet unexpected expenses.

The table on the previous page shows that debtors, by income ranges, agreed to repay 49 to 71 percent of their unsecured debt. The percent of unsecured debt to be repaid varied widely and ranged from 0 to 100 percent. On the basis of 461 chapter 13 cases analyzed in which we could determine the percentage to be repaid to unsecured creditors, we were able to estimate the percentages of unsecured debt to be repaid for 3,560 of the 4,348 chapter 13 code cases that were filed in the 5 districts included in our review. The analysis follows.

Percentage of unsecured debt agreed to be repaid	Projected number of chapter 13 plans	Percent	Cumulative percent
0	148	4.1	4.1
1 to 9	296	8.3	12.4
10 to 29	914	25.7	38.1
30 to 49	332	9.3	47.4
50 to 69	184	5.2	52.6
70 to 89	301	8.5	61.1
90 to 99	56	1.6	62.7
100	1,329	37.3	100.0

In summary, our analysis of chapter 13 plans filed under the code, after deducting expenses claimed by debtors, showed that almost all of the remaining funds were planned to be paid into the repayment plans, leaving the debtor only from 1 to 5 percent of his/her take home pay as a cushion for unexpected expenses. In addition, our analysis showed that 62 percent of the cases planned to repay at least 30 percent of their unsecured debt and 53 percent planned to repay at least 50 percent of their unsecured debt.

CONCLUSIONS

Our analysis showed that modifications limiting the household goods exemption to $3,000 for single petitions and eliminating the opportunity for couples to combine Federal and State exemptions would not have impacted many chapter 7 cases. Our analysis showed that only an estimated 464 single petition chapter 7 code cases, or 4 percent of the total filings, would have been affected. However, this would have resulted in about $652,848 in additional assets that would have been available for liquidation and distribution to creditors. If the States followed the proposed Federal exemptions, an additional 219 single petition cases would have been affected making an additional $254,697 in assets available for liquidation and distribution to creditors. In addition, only 13 couples who filed chapter 7 bankruptcies jointly combined Federal and State exemptions and would have been affected by eliminating this opportunity.

The potential impact of both modifications has also been limited due to States' decisions to opt out of Federal exemptions. As of September 2, 1982, 33 States have opted out and consequently their citizens would not be affected by modifications to Federal exemptions. In addition, two States that have not opted out of Federal exemptions (Minnesota and California) have enacted regulations which now prohibit debtors filing jointly from using both the State and Federal exemptions; they can now only elect to use one or the other.

The modification to extend chapter 13 repayment plans to 5 years could benefit debtors by reducing their monthly payments into their plans if the total debt to be repaid remained the same. This would increase the amount of money left over which could be used for unexpected expenses. One potential disadvantage of extending repayment plans to 5 years would be the delay of a debtor's fresh start, although this could be mitigated as long as the decision is strictly voluntary by the debtor.

Analysis of chapter 13 repayment plans also indicates that debtors planned to make reasonable payments in light of their incomes and expenses. On the average the expenses and planned chapter 13 payments that debtors listed on their chapter 13 petitions totaled from 95 to 99 percent of their net take home pay and thus left a very small margin with which to meet unexpected expenses.

Another possible modification to the Bankruptcy Code would be to establish a total limit on the dollar value of all exemptions. If a limit of $1,000, $3,000, $5,000, or $10,000 were placed on total Federal exemptions, we estimate that there would be additional assets freed for liquidation and distribution to creditors ranging from a low of $1.6 million to a high of $21.2

million. In addition, if the States followed the Federal Government's model and established a similar limit, additional assets ranging from a low of $13.5 million to a high of $31.1 million would be available for liquidation and distribution to creditors. If such limitations were introduced, but allowed debtors filing jointly to double exemptions, our projected cases impacted and dollar amounts would be reduced.

CHAPTER 7

SCOPE AND METHODOLOGY

Our review of personal bankruptcies filed before and after the implementation of the Bankruptcy Code on October 1, 1979, was requested by the Chairman, Committee on the Judiciary, House of Representatives. Our review included (1) a comparison of economic and demographic characteristics of debtors filing before and after the implementation of the code, (2) an examination of the factors leading to bankruptcy and the relationship between personal bankruptcies and selected social and economic variables, including the revisions to the code, and (3) an analysis of bankruptcy filings in States that as of July 1, 1981, had opted out of the Federal exemptions in comparison to States not opting out.

We reviewed 2,256 personal bankruptcy case files in five Federal bankruptcy courts to obtain economic and demographic information on personal bankruptcies. We sent a questionnaire to a nationwide sample of 804 individuals who filed bankruptcy during October 1981 under the code to obtain information on the major factors leading to bankruptcy. We also used statistical analysis techniques to test the relationship between the number of filings and selected social and economic variables. We used statistics provided by the Administrative Office of the U.S. Courts to analyze bankruptcy filings in States that had opted out and those that had not opted out, as well as to provide overall data on the number of bankruptcy filings nationwide.

SELECTION OF LOCATIONS AND SAMPLES

Our detailed audit work was performed in 5 of the 91 bankruptcy courts handling cases for the 94 Federal judicial districts. We selected the bankruptcy courts in southern and eastern New York, southern Ohio, eastern Kentucky, and central California because these courts

--represented 10 percent, or 9,826, of the 96,287 personal bankruptcy cases filed during our sample period prior to the code's implementation and 14.5 percent, or 21,913, of the 150,430 cases filed during our sample period after the code's implementation,

--were geographically distributed to include two districts on the east coast, one district on the west coast, and two districts in the midwest, and

--represented two States, Kentucky and Ohio, which had opted out of Federal bankruptcy exemptions and two States, New York and California, which had not opted out at the time our sample was selected. Subsequently, New York opted out on September 2, 1982.

Our total sample of 2,256 randomly selected cases drawn from a total universe of 31,739 personal bankruptcy cases included samples of chapter 7 and chapter 13 bankruptcy cases filed under the act and under the code from October 1978 to March 1979 and from April 1980 to September 1980, respectively. We reviewed a total of 1,339 chapter 7 cases from a universe of 26,135 cases and a total of 917 chapter 13 cases from a universe of 5,604 cases. Our review consisted of a total of 972 chapters 7 and 13 cases filed prior to the code's implementation and 1,284 chapters 7 and 13 cases filed after the code. The number of cases sampled in each district is detailed below.

Chapter 7 cases

Bankruptcy court location	Act cases			Code cases		
	Universe	Original sample	Actual sample (note a)	Universe	Original sample	Actual sample (note a)
Southern New York	855	132	102	1,341	134	127
Eastern New York	1,164	140	139	2,459	145	143
Eastern Kentucky	451	117	111	940	136	136
Southern Ohio	2,292	147	143	4,260	147	146
Central California	3,808	151	149	8,565	150	143
Total	8,570	687	644	17,565	712	695

Chapter 13 cases

Bankruptcy court location	Act cases			Code cases		
	Universe	Original sample	Actual sample (note a)	Universe	Original sample	Actual sample (note a)
Southern New York	9	9	7	217	89	86
Eastern New York	26	26	26	1,180	131	128
Eastern Kentucky	92	58	58	226	91	90
Southern Ohio	631	126	126	1,722	144	144
Central California	498	118	111	1,003	143	141
Total	1,256	337	328	4,348	598	589

a/Our sample size had to be adjusted because some case files could not be located by court officials, cases were filed under a different chapter than recorded in Administrative Office statistics, or were actually filed in a different time frame than our samples covered.

All numbers cited in the report are universe weighted projections for the five districts reviewed except where otherwise noted. We also made appropriate tests to determine the statistical reliability of the differences between act and code cases and between chapters 7 and 13 debtors. A detailed list of the statistical significance for selected attributes included in the report is presented in appendix V.

In each court district we reviewed a randomly selected sample of personal bankruptcy case files. We attended creditor meetings and discharge hearings and held discussions with bankruptcy court officials. We reviewed the legislative history of the Federal Bankruptcy Code and attended a bankruptcy judges' conference.

SOCIAL AND ECONOMIC FACTORS AFFECTING PERSONAL BANKRUPTCIES

To determine the factors which are most commonly related to the number of personal bankruptcies, we conducted a literature search, reviewed the legislative history of the Bankruptcy Code and various studies relating to bankruptcy issues, and consulted with experts on statistical modeling. We then developed a list of 22 different social and economic variables and used correlation analysis to analyze their relationship with the number of personal bankruptcy filings using quarterly data from January 1958 through September 1982. A discussion of these variables is included on page 90.

Development of data bases

We developed two data series to adjust the data maintained by the Administrative Office of the U.S. Courts on the volume of bankruptcies to account for different filing requirements under the act and code.

The code modified the filing procedure for personal bankruptcy by allowing debtors (husbands and wives) to file a joint bankruptcy petition and pay only one filing fee. For those years prior to the code, the Administrative Office, which maintains statistics on bankruptcy filings, treated petitions filed separately by husbands and wives as two cases. When the code introduced the provision to file jointly, the Administrative Office recorded two sets of data--the number of cases filed (which treats joint petitions as one petition) and the number of debtors (which includes the filings plus the other spouse who filed jointly). This method assumed that all the spouses who filed joint petitions under the code would have filed separate petitions under the act. This assumption inflated the number of bankruptcies. For example, the Administrative Office reported that during statistical year 1981, 312,914 personal bankruptcy cases were filed. Of this amount, 139,231 cases involved joint petitions of husbands and wives. If the two figures were added to treat husbands and wives as separate bankruptcies, as was the practice under the act, the number of personal bankruptcies filed during 1981 would have been 452,145, an increase of about 45 percent.

We believe that providing two data series provides a more precise means of allowing for the change in filing procedures. In one series we counted a joint filing after the change in the code as two debtors. In the second data series we constructed an adjusted number of filings to make the filings before and after the code more comparable. We estimated from our own analysis of bankruptcies in the five bankruptcy courts reviewed that filings under the code had to be adjusted upwards by 24.1 percent to make them comparable to the act filing procedures. We applied this percentage to the number of cases filed under the code for each quarter beginning in October 1979. These two data measures of personal bankruptcies were used in our study to estimate the code's impact on bankruptcy filings.

Development of regression analysis models

We used regression analysis to assess the impact of the changes in the code on the number of personal bankruptcy filings. We tested different combinations of the 22 selected variables listed on pages 90 and 91 in numerous regression models. From these models we selected the model with the most desirable statistical characteristics which we believe best described the variance in the number of bankruptcy filings. A description of this model is provided on page 90. The estimated impact of the change in the Bankruptcy Code is significant at a 99 percent confidence level for the number of debtors and at a 91 percent confidence level for the number of adjusted filings.

STATES OPTING OUT AND NOT OPTING OUT OF FEDERAL EXEMPTIONS

To determine the number of bankruptcy filings in States which had opted out of the Federal exemptions in comparison to those States and the District of Columbia which had not opted out, we obtained statistical data published by the Administrative Office for statistical years 1979 through 1982. This data was published on a statistical year basis, covering the period July 1 to June 30. We compared the number of personal bankruptcy filings from statistical years 1979 to 1981 in 14 States that had opted out as of July 1, 1980, to the remaining States and the District of Columbia that had not opted out. We also compared the number of bankruptcy filings for statistical year 1982 in the 27 States which had opted out as of July 1, 1981, to the remaining States and the District of Columbia. (See pages 83 to 88 for these comparisons.)

Comparison of Federal
and State exemptions

We also examined the exemption levels for all States and the District of Columbia for selected items and the comparable Federal exemptions to determine the extent exemptions differed among States and with Federal exemptions. We focused on six specific exemptions most applicable to all debtors--(1) homestead, (2) motor vehicles, (3) household goods, (4) jewelry, (5) standard exemption, and (6) professional tools--and compared these exemptions in the States that opted out to the States that had not opted out.

Congress of the United States
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515
Telephone: 202-225-3951

June 10, 1981

Milton J. Socolar
Acting Comptroller General
of the United States
General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Socolar:

In connection with the House Judiciary Committee's oversight jurisdiction over the federal bankruptcy law, the Committee requests that the General Accounting Office conduct a study concerning the current level of personal bankruptcy filings and the extent to which the recent increase in such filings is attributable to the recession and inflationary conditions of the past few years.

The Committee is specifically interested in obtaining GAO's detailed analysis of the following:

1. The relationship between the number of personal bankruptcies since October 1, 1979 and such economic variables as level of interest rates, unemployment rate, amount of consumer debt outstanding, and Consumer Price Index.

2. A profile of the typical consumer who filed for bankruptcy after October 1, 1979 (e.g., age, educational level, employment status, occupation ("blue collar" vs. "white collar"), income level, homeowner or renter, level of unpaid debt).

3. A comparison of the profiles of consumers filing for bankruptcy after October 1, 1979 with those filing prior to that date. Are there significant demographic or economic differences between those who filed for personal bankruptcy under the old Bankruptcy Act and those filing under the Bankruptcy Code?

4. In 1975, the banking industry estimated that 11-12% of the consumer finance industry's losses were due to bankruptcies. What percent of the consumer finance industry's losses today are attributable to bankruptcies?*

5. What is the average interest rate on consumer loans today?**

6. What are the major factors leading to bankruptcy since October 1, 1979? Loss of employment? Inflation? Catastrophic medical expenses? Personal liability suit? Marital difficulties or divorce? Death of head of household? Drugs, alcohol or other personal problems? Poor financial management? Overreliance or overextension of credit? Other factors?

7. In 1969, wage earner plans were successfully performed in less than half of the Chapter XIII cases filed each year. However, even in cases dismissed because of debtor default, unsecured creditors averaged 19% return on claims as against 7-8% return in straight bankruptcy. What is the picture today?

8. What percent of their debts are consumer debtors repaying under Chapter 13 plans filed since October 1, 1979?

9. What is the current ratio of bankruptcy losses to total receivables in the consumer credit industry?*

10. How many bankrupts are recidivists?

11. Have bankruptcy filings decreased in those states that have "opted out" of the federal exemptions since October 1, 1979?

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*GAO note: Complete data on the extent of the consumer finance industry's losses due to personal bankruptcies could not be determined because it is not maintained on an industry-wide basis. We obtained several studies/surveys conducted by specific segments of the consumer finance industry and reviewed congressional testimony. Examination of the available data for 1980 and 1981 showed that as a percentage of total credit outstanding, bankruptcy losses ranged from only .1 percent to 1.28 percent.

**GAO note: Interest rates on consumer loans varied by type of loan from 11.0 to 21.1 percent during our sample periods. Consequently, the standard prime interest rate was used in our correlation and regression analyses. As shown on page 18, our analysis showed that individuals' interest payment burden had a very high degree of association with personal bankruptcies.

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12. What percent of bankrupts are renters? Homeowners?

13. What percent of all households go bankrupt?*

14. What is total consumer debt and what percent is total debt of annual personal income?**

I suggest that your staff contact the Committee's General Counsel, Alan A. Parker, to discuss the scope of the requested study in more detail.

Thank you very much for your assistance.

Sincerely,

PETER W. RODINO, JR.
Chairman

PWR:emd

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*GAO note: In 1979, .19 percent of all households filed bank ruptcy and in 1980, .30 percent of all households filed bankruptcy.

**GAO note: This data was included as a variable in our correlation and regression analyses.

ANALYSIS OF PERSONAL BANKRUPTCY FILINGS IN STATES OPTED OUT AND NOT OPTED OUT

Chapter 7 filings

In states opted out

States opted out as of July 1, 1980	Date opted out	1979 (note a)	1980 (note a)	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alabama	5/19/80	2,185	3,306	51	4,548	38	4,871	7
Florida	10/01/79	4,218	5,549	32	7,392	33	7,835	6
Georgia	3/24/80	4,977	7,024	41	8,504	21	8,117	(5)
Indiana	4/01/80	8,275	12,899	56	17,511	36	15,864	(9)
Kansas	4/26/80	2,764	3,450	25	4,327	25	4,054	(6)
Kentucky	4/09/80	4,206	7,044	67	8,900	26	7,925	(11)
Louisiana	10/01/79	3,758	4,385	17	5,143	17	5,189	1
Nebraska	4/17/80	1,851	2,317	25	2,908	25	2,290	(21)
Ohio	10/01/79	11,370	18,966	67	26,483	40	24,001	(9)
Oklahoma	6/25/80	3,341	5,003	50	5,715	14	4,744	(17)
South Dakota	7/01/80	307	476	55	536	13	587	9
Tennessee	6/01/80	5,196	7,806	50	9,184	18	9,485	3
Virginia	10/01/79	5,857	7,555	29	10,129	34	9,439	(7)
Wyoming	3/03/80	313	451	44	596	32	510	(14)
Total		58,618	86,231	47	111,876	30	104,911	(6)
States opted out as of July 1, 1981								
Arizona	7/31/80	2,984	3,933	32	4,896	24	4,785	(2)
Arkansas	6/17/81	798	710	(11)	1,073	51	1,301	21
Colorado	7/01/81	2,706	3,345	24	3,991	19	3,551	(11)
Delaware	7/01/81	229	416	82	680	63	570	(16)
Idaho	3/23/81	1,048	1,495	43	2,098	40	2,194	5
Illinois	1/01/81	11,781	17,875	52	22,704	27	19,765	(13)
Iowa	7/01/81	2,175	3,067	41	4,674	52	3,719	(20)
Maryland	7/01/81	1,741	3,292	89	6,492	97	4,078	(37)
Nevada	3/27/81	1,159	1,964	69	2,933	49	2,720	(7)
North Dakota	7/01/81	408	504	23	597	18	592	(1)
South Carolina	5/05/81	328	708	116	1,376	94	1,287	(6)
Utah	5/12/81	1,309	1,990	52	3,826	92	2,742	(28)
West Virginia	6/23/81	1,238	1,584	28	2,646	67	2,804	6
Total		27,904	40,883	46	57,986	42	50,108	(14)
Total		86,522	127,114	47	169,862	34	155,019	(9)

Chapter 7 filings in
states not opted out

States	1979 (note a)	1980 (note a)	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alaska	205	263	28	247	(6)	152	(38)
California	22,482	34,436	53	47,440	38	45,633	(4)
Connecticut	1,443	1,964	36	2,457	25	2,583	5
Hawaii	322	369	15	345	(6)	459	33
Maine	392	567	45	658	16	674	2
Massachusetts	1,281	1,968	54	3,179	62	2,951	(7)
Michigan	5,889	9,658	64	13,335	38	12,089	(9)
Minnesota	2,782	3,950	42	5,276	34	5,276	0
Mississippi	2,358	3,144	33	4,161	32	4,268	2
Missouri	4,027	6,444	60	8,570	33	8,377	(2)
Montana	663	1,104	66	1,445	31	1,261	(13)
New Hampshire	411	673	64	845	25	857	1
New Jersey	2,091	3,412	63	5,849	71	6,457	10
New Mexico	1,031	1,541	49	1,869	21	1,600	(14)
New York	9,306	14,892	60	24,109	62	20,828	(14)
North Carolina	1,056	2,297	117	3,380	47	2,819	(17)
Oregon	2,685	4,443	65	5,940	34	5,829	(2)
Pennsylvania	3,306	5,245	59	10,388	98	12,448	20
Rhode Island	351	703	100	993	41	1,014	2
Texas	2,710	4,185	54	6,589	57	6,892	5
Vermont	146	212	45	262	24	264	1
Washington	2,764	4,874	76	7,210	60	7,302	1
Wisconsin	3,013	4,268	42	5,459	28	6,393	17
District of Columbia	194	407	110	663	63	584	(12)
Total	70,908	111,019	57	160,669	45	157,010	(2)

Chapter 13 filings in states opted out

States opted out as of July 1, 1980	Date opted out	1979	1980	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alabama	5/19/80	5,092	6,274	23	7,900	26	8,359	6
Florida	10/01/79	48	299	523	496	66	789	59
Georgia	3/24/80	2,242	3,127	39	5,627	80	6,904	23
Indiana	4/01/80	123	547	345	1,053	92	1,263	20
Kansas	4/26/80	676	1,123	66	1,648	47	1,609	(2)
Kentucky	4/09/80	770	1,634	112	1,966	20	1,595	(19)
Louisiana	10/01/79	463	821	77	1,391	69	1,659	19
Nebraska	4/17/80	143	438	206	790	80	695	(12)
Ohio	10/01/79	2,882	6,495	125	10,991	69	11,659	6
Oklahoma	6/25/80	39	95	144	332	249	536	61
South Dakota	7/01/80	90	87	(3)	49	(44)	55	12
Tennessee	6/01/80	2,752	5,736	108	7,894	38	8,665	10
Virginia	10/01/79	955	1,313	37	2,015	53	2,134	6
Wyoming	3/03/80	11	37	236	88	138	97	10
Total		16,286	28,026	72	42,240	51	46,019	9
States opted out as of July 1, 1981								
Arizona	7/31/80	87	162	86	307	89	435	42
Arkansas	6/17/81	826	1,950	136	2,437	25	2,228	(9)
Colorado	7/01/81	571	1,982	247	3,736	88	2,731	(27)
Delaware	7/01/81	2	45	2,150	98	117	153	56
Idaho	3/23/81	446	748	68	887	18	1,163	31
Illinois	1/01/81	4,510	7,429	65	10,776	45	10,870	.9
Iowa	7/01/81	110	327	197	316	(3)	309	(2)
Maryland	7/01/81	41	194	373	409	111	809	98
Nevada	3/27/81	23	97	322	185	91	242	31
North Dakota	7/01/81	6	10	67	17	70	31	82
South Carolina	5/05/81	72	205	185	771	276	1,525	98
Utah	5/12/81	45	223	395	502	125	745	48
West Virginia	6/23/81	24	48	100	176	267	169	(4)
Total		6,763	13,420	98	20,617	54	21,410	4
Total		23,049	41,446	80	62,857	52	67,429	7

Chapter 13 filings
in states not opted out

States	1979	1980	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alaska	7	27	286	28	4	46	64
California	6,194	9,164	48	13,466	47	22,719	69
Connecticut	46	114	148	398	249	564	42
Hawaii	141	302	114	432	43	260	(40)
Maine	390	420	8	467	11	306	(34)
Massachusetts	503	626	24	955	52	916	(4)
Michigan	960	2,908	203	5,112	76	5,092	(.4)
Minnesota	329	532	62	1,253	135	1,278	2
Mississippi	29	839	2,793	2,868	242	2,897	1
Missouri	403	789	96	997	26	910	(9)
Montana	3	17	467	29	71	74	155
New Hampshire	3	30	900	39	30	83	113
New Jersey	145	858	492	2,714	216	3,949	45
New Mexico	48	92	92	199	116	203	2
New York	756	3,724	392	5,866	57	4,671	(20)
North Carolina	2,956	5,572	88	8,320	49	6,569	(21)
Oregon	282	597	112	948	59	1,221	29
Pennsylvania	229	1,412	516	2,819	100	4,549	61
Rhode Island	12	171	1,325	245	43	149	(39)
Texas	875	2,865	227	5,338	86	5,042	(5)
Vermont	2	2	0	8	300	10	25
Washington	1,418	2,432	71	3,294	35	3,320	.8
Wisconsin	529	854	61	1,277	49	1,398	9
District of Columbia	38	45	18	93	107	128	38
Total	16,298	34,399	111	57,165	66	66,354	16

Total personal bankruptcy filings
in states opted out

States opted out as of July 1, 1980	Date opted out	1979 (note a)	1980 (note a)	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alabama	5/19/80	7,277	9,585	32	12,460	30	13,270	65
Florida	10/01/79	4,266	5,864	37	7,929	35	8,732	10
Georgia	3/24/80	7,219	10,159	41	14,153	39	15,065	6
Indiana	4/01/80	8,398	13,455	60	18,583	38	17,207	(7)
Kansas	4/26/80	3,440	4,575	33	5,981	34	5,674	(5)
Kentucky	4/09/80	4,976	8,688	75	10,869	25	9,548	(12)
Louisiana	10/01/79	4,221	5,212	23	6,544	26	6,859	5
Nebraska	4/17/80	1,994	2,757	38	3,707	34	3,013	(19)
Ohio	10/01/79	14,252	25,466	79	37,487	47	35,695	(5)
Oklahoma	6/25/80	3,380	5,103	51	6,070	19	5,309	(13)
South Dakota	7/01/80	397	564	42	585	4	645	10
Tennessee	6/01/80	7,948	13,547	70	17,097	26	18,230	7
Virginia	10/01/79	6,812	8,871	30	12,160	37	11,597	(5)
Wyoming	3/03/80	324	488	51	684	40	611	(11)
Total		74,904	114,334	53	154,309	35	151,455	(2)
States opted out as of July 1, 1981								
Arizona	7/31/80	3,071	4,097	33	5,216	27	5,257	1
Arkansas	6/17/81	1,624	2,670	64	3,513	32	3,561	1
Colorado	7/01/81	3,277	5,332	63	7,735	45	6,301	(18)
Delaware	7/01/81	231	461	100	779	69	726	(7)
Idaho	3/23/81	1,494	2,246	50	2,986	33	3,362	13
Illinois	1/01/81	16,291	25,315	55	33,503	32	30,711	(8)
Iowa	7/01/81	2,285	3,397	49	4,994	47	4,072	(18)
Maryland	7/01/81	1,782	3,512	97	6,923	97	4,931	(29)
Nevada	3/27/81	1,182	2,068	75	3,130	51	3,002	(4)
North Dakota	7/01/81	414	514	24	614	19	627	2
South Carolina	5/05/81	400	918	130	2,153	134	2,826	31
Utah	5/12/81	1,354	2,215	64	4,330	95	3,533	(18)
West Virginia	6/23/81	1,262	1,638	30	2,829	73	2,983	5
Total		34,667	54,383	57	78,705	45	71,892	(9)
Total		109,571	168,717	54	233,014	38	223,347	(4)

Total personal bankruptcy filings
in states not opted out

States	1979 (note a)	1980 (note a)	Percentage change over 1979	1981	Percentage change over 1980	1982	Percentage change over 1981
Alaska	212	294	39	275	(7)	198	(28)
California	28,676	43,669	52	61,040	40	69,154	13
Connecticut	1,489	2,078	40	2,862	38	3,166	11
Hawaii	463	673	45	780	16	725	(7)
Maine	782	988	26	1,125	14	981	(13)
Massachusetts	1,784	2,602	46	4,152	60	3,888	(6)
Michigan	6,849	12,574	84	18,468	47	17,209	(7)
Minnesota	3,111	4,484	44	6,537	46	6,562	.4
Mississippi	2,387	4,006	68	7,052	76	7,227	2
Missouri	4,430	7,242	63	9,579	32	9,335	(2)
Montana	666	1,123	69	1,475	31	1,345	(9)
New Hampshire	414	705	70	886	26	944	6
New Jersey	2,236	4,271	91	8,584	101	10,415	21
New Mexico	1,079	1,645	52	2,079	26	1,827	12
New York	10,062	18,627	85	30,012	61	25,546	(15)
North Carolina	4,012	7,875	96	11,727	49	9,431	(20)
Oregon	2,967	5,040	70	6,900	37	7,060	2
Pennsylvania	3,535	6,693	90	13,289	99	17,103	29
Rhode Island	363	875	141	1,239	42	1,163	(6)
Texas	3,585	7,067	197	11,964	69	12,012	.4
Vermont	148	214	45	270	26	274	1
Washington	4,182	7,325	75	10,556	44	10,691	1
Wisconsin	3,542	5,140	45	6,747	31	7,840	16
District of Columbia	232	453	95	760	68	726	(4)
Total	87,206	145,663	67	218,358	50	224,822	3

a/During statistical year 1979 and 3 months of 1980, the Administrative Office included in its statistics both chapter 7 filings and chapter 11 non-business filings. It was not possible to identify the chapter 11 filings.

STATES THAT HAD OPTED OUT OF FEDERAL EXEMPTIONS AS OF SEPTEMBER 2, 1982

State	Effective date
Florida	October 1, 1979
Louisiana	October 1, 1979
Ohio	October 1, 1979
Virginia	October 1, 1979
Wyoming	March 3, 1980
Georgia	March 24, 1980
Indiana	April 1, 1980
Kentucky	April 9, 1980
Nebraska	April 17, 1980
Kansas	April 26, 1980
Alabama	May 19, 1980
Tennessee	June 1, 1980
Oklahoma	June 25, 1980
South Dakota	July 1, 1980
Arizona	July 31, 1980
Illinois	January 1, 1981
Idaho	March 23, 1981
South Carolina	May 5, 1981
Utah	May 12, 1981
Nevada	May 27, 1981
Arkansas	June 17, 1981
West Virginia	June 23, 1981
Delaware	July 1, 1981
Iowa	July 1, 1981
Maryland	July 1, 1981
North Dakota	July 1, 1981
Colorado	July 1, 1981
New Hampshire	August 16, 1981
Maine	September 18, 1981
Montana	October 1, 1981
North Carolina	October 1, 1981
Oregon	November 1, 1981
New York	September 2, 1982

DEVELOPMENT OF REGRESSION MODEL

To determine the factors which are most commonly related to the number of personal bankruptcies, we conducted a literature search, reviewed the legislative history of the Bankruptcy Code, and consulted with experts on statistical modeling. We then developed a list of 22 social and economic variables which we believed were closely associated with the number of personal bankruptcy filings. The following is a list of these variables.

1. Number of households in millions

2. Number of divorces in thousands

3. Number of lawyers in thousands

4. Unemployed people 20 years and older in thousands

5. People unemployed 15 weeks or more in thousands

6. Percentage of unemployed blue-collar workers 20 years and older

7. Percentage of unemployed females 20 years and older

8. Percentage of unemployed minorities 20 years and older

9. Average hours of work per week in manufacturing (coded less than 40 hours or 40 or more hours)

10. Consumer Price Index

11. Index of medical care expenses in 1972 constant dollars

12. Prime interest rate in 1972 constant dollars

13. Percentage of home mortgages delinquent for more than 90 days

14. Ratio of total personal debt (mortgage and installment credit) to disposable personal income

15. Ratio of total personal debt (mortgage and installment credit) to disposable personal income, lagged 6 months

16. Ratio of total personal debt (mortgage and installment credit) times the prime interest rate to disposable personal income

17. Ratio of total personal debt (mortgage and installment credit) times the prime interest rate to disposable personal income, lagged 6 months

18. Ratio of personal financial liabilities to personal financial assets

19. Measurement for the change in the code

20. Measurement for the change in the code, lagged 6 months

21. Socio-economic index (a multiplicative index of items 1,2,3,4,10, and 13)

22. Financial problem index lagged 6 months (a multiplicative index of items 15 and 18)

Data on personal bankruptcies were obtained from the Administrative Office. Because of the change in filing requirements after the implementation of the code, two series were developed to estimate the code's impact on personal bankruptcies (see p. 77 for a more thorough discussion on this issue). The Administrative Office initially supplied us with yearly data from 1950 through 1959 and quarterly data from 1960 through September 30, 1981. In order to include the recession of 1958 in the quarterly series, the yearly data from 1958 and 1959 were interpolated to provide quarterly data. This procedure produced a data base of 95 quarterly observations for analysis.

Regression analysis was then used to assess the impact of the social, economic, and code variables on the number of personal bankruptcies for both data series. Initially, equations containing all the variables were developed. While the equations had high explanatory power, many of the estimated coefficients of the independent variables had signs contrary to that which was expected due to a statistical problem called multicollinearity. Muilticollinearity is a problem in regression analysis when some or all of the explanatory variables in the analysis are highly correlated. One of the consequences of this problem is that some of the explanatory variables may show a sign contrary to that which was expected in the regression equation. Thus, the equations were re-estimated dropping the variables with the wrong signs.

After reducing the number of independent variables using this procedure, regression equations were re-estimated using other combinations of independent variables. Again, because of multicollinearity these variables had signs contrary to those expected. Because of this problem and the number of variables highly correlated with bankruptcy filings, the socio-economic index was developed and added to the equations.

Subsequent to this analysis, it was decided that the data base should be updated to include bankruptcy filings through September 1982. At this time, the model specification was changed slightly. Terms representing the first and second quarters of the year were added to adjust for seasonal variation in personal bankruptcies. Also, the lagged ratio of total debt to disposable personal income was replaced by a multiplicative index of this variable times the ratio of personal liabilities to personal assets. The results of this model, including the appropriate statistics, as applied to the number of debtors and adjusted filings are shown in the following two tables. The correlations of the variables used in the updated model to the number of debtors and adjusted filings are shown in the third table.

TABLE 1

Regression Equations Used to Estimate the Impact of the Change in the Bankruptcy Code on the Number of Debtors and the Number of Adjusted Filings

Confidence percentages in parentheses

Independent variables	Dependent variables: Number of debtors	Dependent variables: Number of adjusted filings
Constant	19,748 (99.96)	19,556 (99.98)
Financial problem index: ratio of personal financial liabilities to personal financial assets multiplied by the ratio of total personal debt (mortgage and installment credit) to disposable personal income (lagged 6 months)	5 (91.27)	6 (96.70)
Proxy for interest payment burden: ratio of total personal debt (mortgage and installment credit) times the prime interest rate to disposable personal income (lagged 6 months)	2,264 (99.99)	1,938 (99.98)
Socio-economic index	213 (99.99)	174 (99.99)
Measurement for the change in code (law effect)	13,346 (99.94)	5,767 (91.17)
Seasonal effect of the first quarter of the calendar (DQ1)	1,817 (98.88)	1,698 (99.29)
Seasonal effect of the second quarter of the calendar year (DQ2)	2,739 (99.98)	2,705 (99.99)
RHO 1	0.72 (99.99)	0.74 (99.99)
R^2	0.81	0.76
D.W.	1.45	1.57
N	96	96

TABLE 2

Intercorrelation Matrix of the Independent Variables Used on the Model

	Financial problem index	Proxy for interest payment burden	Socio-economic index	Law effect	Seasonal DQ 1	Effect DQ 2
Financial problem index	1.000	0.845	0.725	0.651	0.009	0.009
Proxy for interest payment burden		1.000	0.872	0.858	-0.011	0.028
Socioeconomic index			1.000	0.855	-0.032	0.020
Law effect				1.000	-0.002	-0.002
Seasonal effect						
DQ1					1.000	-0.338
DQ2						1.000

TABLE 3

Correlations of Number of Debtors and Number of Adjusted Filings with Selected Social and Economic Variables

	Number of debtors	Number of adjusted filings
1. Ratio of total personal debt (mortgage and installment credit) to disposable personal income (lagged 6 months)	0.785	0.818
2. Ratio of total personal financial liabilities to personal financial assets (lagged 6 months)	0.723	0.750
3. Proxy for interest payment burden: ratio of total personal debt (mortgage and installment credit) times the prime interest rate to disposable personal income (lagged 6 months)	0.941	0.942
4. Financial problem index: ratio of personal financial liabilities to personal financial assets multiplied by the ratio of total personal debt (mortgage and installment credit) to disposable personal income (lagged 6 months)	0.786	0.813
5. Prime interest rate in 1972 constant dollars	0.893	0.889
6. Measurement for change in the code (law effect)	0.908	0.872
7. Socio-economic index	0.888	0.867

		Number of debtors	Number of adjusted filings
8.	Unemployed people 20 years of age or older (in thousands)	0.711	0.702
9.	Number of households (in millions)	0.793	0.817
10.	Number of divorces (in thousands)	0.692	0.720
11.	Percentage of home mortgages delinquent for more than 90 days	0.767	0.775
12.	Consumer Price Index	0.875	0.877
13.	Number of lawyers in private practice (in thousands)	0.818	0.826
14.	First quarter seasonal effect	-0.011	-0.011
15.	Second quarter seasonal effect	0.050	0.059

STATISTICAL SIGNIFICANCE OF SELECTED COMPARISONS MADE BETWEEN DEBTORS AND SAMPLING ERRORS ASSOCIATED WITH SELECTED PROJECTIONS

Statistical sampling of the universe of chapters 7 and 13 debtors in five districts who filed under the act and code enabled us to make comparisons between the groups. Results of statistical sampling are subject to uncertainty because only a portion of the universe is analyzed. Consequently, some differences noted may be due to sampling error while other differences may be statistically valid (statistically significant).

We made the appropriate tests to determine the confidence level at which differences noted are statistically significant--that is, differences are not due to sampling error. A confidence level of 95 percent means that we are 95 percent certain that differences between the groups exist and are not due to sampling error. We identified the statistical significance of selected comparisons between bankrupt debtors at different confidence levels: (1) 99 percent (very high statistical significance), (2) 95 to 98.999 percent (high statistical significance), and (3) 90 to 94.999 percent (statistical significance). Other comparisons made which had a statistical significance below a 90 percent confidence level were categorized as having no statistical significance. For each comparison tested in the following tables we have provided the page number in the report, in parenthesis, where the comparison first appears.

We also conducted the appropriate tests to determine the range associated with certain projections. The range is the upper and lower limits between which the actual value may be found. For the projections in Table 5 and Table 6, the chances are 95 in 100 that the actual value would be between the ranges shown. In cases in which the sampling error would have resulted in ranges with lower end values of less than zero, we simply show zero as the lowest value.

TABLE 1

Selected Comparisons Between Chapters 7 and 13 Debtors Who Responsed to GAO's Nationwide Questionnaire

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Chapter 7 debtors to chapter 13 debtors				
Age (p. 12)	-	-	-	X
Education (p. 12)	-	-	-	X
Income (p. 13)	-	-	-	X
Household size (p. 14)	-	-	-	X
Homeownership (p. 14)	X	-	-	-
Occupation (p. 13)	-	-	X	-
Chapter 7 debtors to national population statistics				
Age (p. 12)	X	-	-	-
Education (p. 12)	X	-	-	-
Income (p. 13)	X	-	-	-
Household size (p. 14)	X	-	-	-
Homeownership (p. 14)	X	-	-	-
Occupation (p. 13)	-	X	-	-
Chapter 13 debtors to national population statistics				
Age (p. 12)	X	-	-	-
Education (p. 12)	X	-	-	-
Income (p. 13)	X	-	-	-
Household size (p. 14)	X	-	-	-
Homeownership (p. 14)	-	-	-	X
Occupation (p. 14)	-	X	-	-

TABLE 2

Selected Comparisons Between Chapter 7 Debtors Who Filed Under the Act with Chapter 7 Debtors Who Filed Under the Code

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Personal characteristics				
Homeownership (p. 24)	X	-	-	-
Employment (p. 21)	-	-	-	X
Occupation (p. 22)	-	-	-	X
Months employed at current job (p. 21)	-	-	X	-
Legal actions				
Prior bankruptcies (p. 22)	-	-	-	X
Involvement in lawsuits (p. 22)	-	-	-	X
Involvement in repossessions (p. 22)	-	-	-	X
Garnishment of wages (p. 22)	-	-	-	X
Financial characteristics				
Total income (p. 23)	X	-	-	-
Total assets (p. 23)	X	-	-	-
Total debt (p. 23)	X	-	-	-
Total exemptions (p. 28)	X	-	-	-
Income				
Annual income by income levels (p. 23)	X	-	-	-
Act debtors' income to national population income (p. 23)	X	-	-	-
Code debtors' income to national population income (p. 23)	X	-	-	-
Assets				
Total real property (p. 24)	X	-	-	-
Total personal property (p. 24)	X	-	-	-

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Debt				
Total priority debt (p. 25)	-	-	-	X
Total secured debt (p. 25)	X	-	-	-
Secured debt from banks, savings and loans (p. 26)	X	-	-	-
Secured debt from finance companies (p. 26)	X	-	-	-
Total unsecured debt (p. 25)	-	-	-	X
Unsecured debt from finance companies (p. 26)	-	-	X	-
Unsecured debt from banks, savings and loans, and credit unions (p. 26)	-	-	-	X
Unsecured debt from business-related loans (p. 26)	-	-	-	X
Unsecured debt from credit cards (p. 26)	X	-	-	-
Unsecured debt from service accounts (p. 26)	-	-	-	X
Unsecured debt from lawsuits (p. 26)	-	-	-	X
Exemptions				
Total exemptions in				
Southern Ohio (p. 28)	X	-	-	-
Eastern Kentucky (p. 28)	X	-	-	-
Southern New York (p. 28)	X	-	-	-
Eastern New York (p. 28)	X	-	-	-
Central California (p. 28)	X	-	-	-

APPENDIX V

TABLE 3

Selected Comparisons Between Chapter 13 Debtors Who Filed Under the Act with Chapter 13 Debtors Who Filed Under the Code

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Personal characteristics				
Homeownership (p. 37)	X	-	-	-
Employment (p. 36)	-	-	X	-
Occupation (p. 37)	-	-	-	X
Months employed at current job (p. 36)	X	-	-	-
Marital status (p. 38)	-	-	-	X
Household size (p. 38)	-	-	-	X
Prior bankruptcy filings (p. 38)	-	-	-	X
Evidence of legal actions (p. 38)	X	-	-	-
Evidence of fore-closures (p. 38)	-	-	-	X
Financial characteristics				
Total income (p. 39)	X	-	-	-
Total assets (p. 39)	X	-	-	-
Total debt (p. 39)	X	-	-	-
Income				
Annual income by income levels (p. 39)	X	-	-	-
Act debtors' income to national population income (p. 39)	X	-	-	-
Code debtors' income to national population income (p. 39)	X	-	-	-
Assets				
Total real property (p. 40)	X	-	-	-
Total personal property (p. 40)	-	-	X	-

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Debt				
Total priority debt (p. 40)	-	-	X	-
Total secured debt (p. 40)	X	-	-	-
Secured debt from banks, savings and loans (p. 42)	X	-	-	-
Secured debt from finance companies (p.42)	-	X	-	-
Total unsecured debt (p. 40)	X	-	-	-
Unsecured debt from finance companies (p. 42)	X	-	-	-
Unsecured debt from banks, savings and loans and credit unions (p. 42)	X	-	-	-
Unsecured debt from business-related loans (p. 42)	-	X	-	-
Unsecured debt from credit cards (p. 42)	X	-	-	-
Unsecured debt from service accounts (p. 42)	-	X	-	-
Unsecured debt from lawsuits (p. 42)	-	-	-	X
Repayment plans				
Monthly take home pay (p. 45)	X	-	-	-
Monthly expenses (p. 45)	X	-	-	-
Monthly payment (p. 45)	-	-	-	X
Length of plan (p. 45)	-	-	X	-
Total planned pay back (p. 45)	-	-	-	X
Percent paid unsecured creditors (p. 45)	X	-	-	-
Method of payment (p. 44)	X	-	-	-

APPENDIX V

TABLE 4

Selected Comparisons Between Chapter 7 Debtors and Chapter 13 Debtors Who Filed Under the Code

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Personal characteristics				
Homeownership (p. 48)	X	-	-	-
Employment (p. 51)	X	-	-	-
Evidence of lawsuits (p. 50)	X	-	-	-
Financial characteristics				
Total income (p. 48)	X	-	-	-
Total assets (p. 48)	X	-	-	-
Total debt (p. 48)	-	-	-	X
Annual income by income levels (p. 48)	X	-	-	-
Assets				
Total real property (p. 49)	X	-	-	-
Total personal property (p. 49)	-	-	-	X
Total assets by levels (p. 48)	X	-	-	-
Debt				
Total priority debt (p. 49)	-	-	-	X
Total secured debt (p. 49)	-	X	-	-
Secured debt from banks, savings and loans (p. 51)	X	-	-	-
Secured debt from finance companies (p. 51)	-	-	-	X
Secured debt from credit unions (p. 51)	-	-	v	-

APPENDIX V

	Very high statistical significance	High statistical significance	Statistical significance	No statistical significance
Secured debt from individuals (p. 51)	-	-	X	-
Total unsecured debt (p. 50)	X	-	-	-
Unsecured debt from finance companies (p. 51)	-	X	-	-
Unsecured debt from banks, savings and loans, and credit unions (p. 51)	X	-	-	-
Unsecured debt from business-related loans (p. 51)	-	-	-	X
Unsecured debt from credit cards (p. 51)	X	-	-	-
Unsecured debt from service accounts (p. 51)	-	-	X	-
Unsecured debt from lawsuits (p. 51)	X	-	-	-
Debts to assets by income category (p. 53)	-	-	-	X
Debts to income by income category (p. 53)	-	-	-	X

TABLE 5

Projected Dollar Value of Household Goods Exemptions that Exceed $3,000 ($6,000 for Joint Petitions)

Type of petition	Projected dollar value	Estimated range of projected dollar value at the 95 percent confidence level
Single petition cases where Federal exemptions were claimed	$ 652,848	$322,526 to $982,984
Single petition cases where State exemptions were claimed	$ 254,697	$ 13,162 to $496,320
Joint petition cases where State and Federal exemptions were claimed	$1,077,300	$0 to $2,471,520

TABLE 6

Projected Dollars Available by Placing a Total Dollar Limit on Exemptions (note a)

Dollar limit	Projected dollars available to creditors in cases claiming Federal exemptions	Estimated range of projected dollars available to creditors in cases claiming Federal exemptions at the 95 percent confidence level	Projected dollars available to creditors in cases claiming State exemptions	Estimated range of projected dollars available to creditors in cases claiming State exemptions at the 95 percent confidence level
$ 1,000	$21,228,399	$ 6,601,677 to $35,855,137	$31,103,566	$ 2,751,276 to $63,454,540
$ 3,000	$11,340,705	$67,730 to $22,613,671	$25,320,340	$ 1,305,993 to $49,334,753
$ 5,000	$ 6,459,757	$0 to $14,822,583	$20,656,801	$0 to $45,491,558
$10,000	$ 1,621,893	$0 to $ 6,366,705	$13,527,928	$0 to $38,369,209

a/Estimates are based on the Modified Means Procedure; that is, the five cases claiming the highest exemptions and the five cases claiming the lowest exemptions were omitted from our analysis.

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