

BANKRUPTCY BY THE NUMBERS

BY: ED FLYNN Executive Office for United States Trustees¹
& GORDON BERMANT Burke, Virginia

CHARGING INTO BANKRUPTCY:

Credit card² debt is a major factor behind many chapter 7 bankruptcies. Therefore, we have taken a closer look at credit card debt levels in a sample of nearly 1,000 recently closed chapter 7 no asset cases.³ The following table shows the amount of credit card debt in these cases.

AMOUNT OF CREDIT CARD DEBT	NUMBER OF CASES	PERCENT OF ALL CASES
\$ 0	135	13.5%
\$1 - \$9,999	359	36.0%
\$10,000 - \$24,999	264	26.4
\$25,000 - \$ 49,999	167	16.7%
\$50,000 - \$74,999	43	4.3%
\$75,000 OR MORE	30	3.0%

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

² As used here, credit card debt reflects various bank cards that can be used at multiple locations (e.g., Visa, MasterCard, Discover, etc). It does not include purchases made on credit through cards issued by individual stores or gas companies (e.g., Sears, Exxon, Mervyn's, Lane Bryant, etc.).

³ Our sample includes 998 no asset chapter 7 cases closed between May and August 2000 in more than 40 judicial districts. Nearly all of these cases were filed during the first half of 2000.

Although nearly one-half of the sample had less than \$10,000 in credit card debt, some had far more. The sample contained 30 debtors who reported at least \$75,000 in credit card debt. If our sample is representative of the nation as a whole, there are more than 25,000 such debtors per year nationwide who discharge nearly \$3 billion in credit card debt. In this article we examine the petitions of these 30 debtors with extremely high credit card debt to determine their circumstances at the time of bankruptcy.

Most of these debtors were married couples (14) or males filing alone (13). We only had three females filing alone in this sub-group, although females comprise 35% -40% of all chapter 7 debtors. They had few dependents -- the average was .6 dependents per case, and 22 of the 30 had no dependents at all. One-half were homeowners, four of whom had no equity in their homes. The average equity for the remaining 11 debtors was \$39,279.

Among the debtors 19 were employed, seven were retired or disabled, and four were unemployed. Among the 16 spouses, nine were employed, three were retired, and four were unemployed. The average gross monthly income for the 30 debtors was \$2,700. However, this number does not reflect the variability in individual cases. (Seven reported less than \$1,000 gross income per month, and four were over \$6,000 per month). Their post-bankruptcy prospects did not look too favorable, as 25 of the 30 debtors reported that their monthly expenses were higher than their take home pay.

It certainly was not surprising to find that these debtors had a lot of credit card accounts. They ranged from a low of eight cards to a high of 33 cards, with an average of 16.7 credit cards. The average balance per account was \$6,351. Other than the enormous amount of credit card debt, however, there is little to distinguish this sub-group from other chapter 7 debtors. In fact, these petitions are more interesting based on what they did not contain:

- None reported any income from overtime or a second job. (About 10% of chapter 7 debtors report some additional income from these sources.)
- None reported any losses from fire, theft, or gambling.
- None reported having a prior bankruptcy in the six previous years. (One debtor had been involved in a business bankruptcy, and one other debtor reported a consumer filing 11 years prior).
- They had virtually no medical debt. The average was only

\$180 per debtor, and 22 of 30 reported none at all.

- For all the use they had made of their credit cards, they didn't seem to have a lot of "stuff" at the time of bankruptcy. Excluding automobiles and retirement accounts they reported an average of \$4,166 in personal property on Schedule B, with \$12,500 being the highest for any debtor.

- Five of the debtors had no car. The average reported value for the 48 cars owned or leased by the remaining 25 debtors was \$5,140. Half of these vehicles were at least eight years old.

Basically, there is not much to make this sub-group stand out from other chapter 7 debtors. Most of these cases did not appear to have had some sort of bankruptcy triggering event. Rather, the pattern seems to be that over a period of years the debtors had taken on far more credit card debt than they could ever hope to repay.

A quick application of the proposed means testing guidelines shows that few if any of these debtors would be required to file under chapter 13 if means testing were implemented. People might disagree on whether some or all of these debtors were abusing the system. However, it does not appear that either the current or proposed bankruptcy laws would give much relief to the creditors of such debtors. In fact, probably little if any of this money would have been repaid if there were no bankruptcy laws at all.

Perhaps there is no solution for the earliest creditors of these debtors. Nevertheless, at some point before the 16th credit card is issued to an individual or couple, a creditor might question their repayment capacity.