BANKRUPTCY BY THE NUMBERS

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LOW INCOME CHAPTER 7 DEBTORS: In recent years there has been considerable debate in the bankruptcy community concerning how many chapter 7 debtors might be able to repay some or all of their unsecured debt out of future income. By its very nature, the debate has concentrated on the small proportion of chapter 7 debtors with relatively high incomes. In this column I examine the financial condition of the great majority of chapter 7 debtors who have incomes below the national median for their family size[2].

In mid-1998 the Executive Office for United States Trustees obtained a sample of 1,955 recently closed no-asset chapter 7 cases, most of which had been filed in late 1997 or early 1998. The cases were gathered from each of the 84 federal judicial districts served by the United States Trustee Program in proportion to the number of chapter 7 cases filed in each district during 1997. Of the 1,955 total cases, 1,592 (81.4%) had incomes below the national median for their family size. The following chart shows a few key figures for these below median income chapter 7 debtors.

FAMILY SIZE	NUMBER OF CASES	AVERAGE GROSS INCOME	AVERAGE NET INCOME	AVERAGE EXPENSES	MEDIAN* UNSECURED DEBT
1	606	$14,783	$12,061	$14,418	$19,374
2	345	$19,903	$16,729	$20,629	$22,506
3	257	$23,544	$18,816	$22,869	$21,148
4	237	$27,398	$21,665	$24,881	$23,200
5 OR MORE	147	$28,860	$23,669	$27,803	$22,135
TOTAL	**1,592**	**$20,484**	**$16,675**	**$19,922**	**$21,195**

* The median unsecured debt figures are used because the average figures are skewed by a few debtors with extremely high unsecured

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

[2] The median figures used were the 1996 Bureau of the Census figures for family incomes and for households with one earner.

debts.

As a group, these debtors were in rather poor financial shape at the time of filing. Average annual gross income for the group was $20,484. Five percent of the debtors (79 of 1,592) reported no income at the time of filing. Their average reported expenses on Schedule J ($19,922) were more than $3,000 above their average net income ($16,675). More than 70% of the debtors reported that their expenses exceeded their income, and only about 10% indicated their monthly net income was at least $100 above expenses. Since the carrying cost of the unsecured debt is not included in the reported expenses, most of these debtors will have to trim expenses or increase their income to remain solvent after bankruptcy.

Although income and expenses rose according to family size, the median unsecured debt amount was relatively level at around $21,000 for each family size. More than one-half of the debtors had total unsecured debts between $10,000 and $30,000. The typical lower income debtor owed a little over one year's gross income in unsecured debt. For most of the debtors, credit card debt accounted for a majority of the total unsecured debt. Including late fees and over-the-limit charges, the annual carrying cost of the unsecured debt at the time of bankruptcy was over 20% of gross income for the majority of the lower income chapter 7 debtors.

We did not record whether the below median income debtors were homeowners. However, 70.9% of them reported under $25,000 in secured debt (including 34.4% with no secured debt at all), and 21.3% reported over $50,000 in secured debt. The petitions make clear that most of the debtors in the first category are renters, and most in the second category are owners, so the actual home ownership rate is very likely in the 20% to 30% range. Whatever the actual ownership rate for below median chapter 7 debtors, it is far below the national rate, which was 65.9% during the first quarter of 1998.

Average family size of the below median income debtors was 2.4. The below median income debtors are far more likely to be in households of one (38.1%) than the overall population (25.1%). In contrast, the below median income debtors are far less likely to be in households of two people than the national average (21.7% for debtors vs. 32.4% for the overall population). The proportion of below median income debtors in households of three or more was representative of the population at large.

Although there is no typical chapter 7 debtor, the most common profile would include a one or two person household, with at least one member employed, an income below the national median for that family size, unsecured debts of around $20,000-most of it for credit cards- and expenses greater than net income, even excluding unsecured debt payments. For whatever reasons they got into bankruptcy, by the time they filed they had little if any capacity to repay. In fact, most will have to increase income or reduce expenses to remain solvent after bankruptcy.