

Bankruptcies soar despite stiffer laws, higher costs

'OUT OF HAND' | Recession, mortgage crisis take widening toll on Chicago area residents

September 27, 2010

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Judy Meredith was working two jobs when her work hours were cut and her income plunged 40 percent. Facing mounting credit-card debts and seeing no immediate way out, she filed for bankruptcy.

"Once my income fell, I started robbing Peter to pay Paul by using credit cards, and it got out of hand," said Meredith, a Morgan Park resident whose adult daughter is living with her to help pay expenses.



Morgan Park resident Judy Meredith filed for bankruptcy after her work hours were slashed and her credit card bills began to mount.

(Keith Hale/Sun-Times)

As she pays off her debts, she also faces foreclosure on her home. "I applied in February for a loan modification for my home mortgage," she said, "and I'm still waiting."

Meredith is among the soaring number of residents in the Chicago area who, despite tougher laws and higher costs, filed for bankruptcy since the recession began in 2007, according to federal court data provided to the Chicago Sun-Times.

Her situation is wholly consistent with working people struggling nationwide, said bankruptcy expert Marshall Tracht, director of graduate real estate programs at New York Law School.

After working in a major insurance company's accounting department for 22 years, Meredith was "downsized" in 1999 but was hired as an office manager for a uniform company. She started supplementing her income in 2004 by working as a security guard.

At the height of her earning power, in 2006 and 2007, Meredith made about \$55,000 a year by working two full-time jobs. Her position as an office manager was cut to part-time -- from 45 to 50 hours a week to 26 -- turning her \$1,230-a-month mortgage into a daunting expense.

Once her income started dropping, she used credit cards to pay bills until she could no longer cover the mounting debts, she said. She had no wiggle room left, so in July 2008, she filed for bankruptcy. Making matters worse, she had to quit her second job nine months ago because of a scheduling conflict, cutting her annual income to \$22,000.

"I've been trying to find another job [in addition to the part-time office manager's position]," Meredith said. "Jobs are so scarce, and I'm not a spring chicken. Either companies aren't hiring, or the position has been filled, or I don't have enough experience, or I need a college degree."

The recession has left consumers in its wake. In the metro Chicago area, 48,510 individuals filed for bankruptcy protection last year -- 39 percent more than filed in 2008, which saw a 46 percent increase from 2007. The increases were even sharper than the rise in bankruptcies nationwide (which jumped 31 percent in 2008 and 32 percent last year.)

The latest national data shows this year's bankruptcy filings as of August at more than 1 million - up 8 percent from the same period in 2009, according to the American Bankruptcy Institute, a Washington, D.C.-based research and information organization.

The Chicago metro area's bankruptcy cases are on pace to rise even more, with 38,376 individuals filing so far this year.

Bankruptcy today isn't like bankruptcy of just a few years ago, when debts were generally wiped clean. The 2005 law, called the Bankruptcy Abuse Prevention and Consumer Protection Act, massively overhauled the act of filing for bankruptcy. It imposed higher expenses for bankruptcy filing, set up a "means test," imposed new costs and time for counseling and created higher hurdles for leaving bankruptcy, including paying off a greater share of the debt.

Meredith's Chapter 13 settlement with creditors requires her to repay 15 percent of her \$21,400 in unsecured debts over 36 months. She has about one year left to repay the debts.

Congress enacted the law to discourage filings under Chapter 7 of the U.S. Bankruptcy Code, which discharges debts, and push more people into Chapter 13 so that they would be required to repay a greater percentage of their debts. As a result, people who were considering or who were wavering about filing for bankruptcy rushed to file under the old law in 2005. The new law's "means test" requires a person who makes more than the median income for his or her locale and household size to show that his disposable income is adequate to pay off any debts that he can -- in other words, that he isn't trying to game the system.

In spite of the law, Chapter 7 filings have jumped the most here. As people lose their jobs and make less than the median income, they become eligible to file for Chapter 7 rather than Chapter 13, said David P. Leibowitz, founder and managing member of Lakelaw, a Waukegan-based law firm that concentrates on bankruptcy and mortgage foreclosure.

After a spike in filings in 2005, the relatively lower numbers of consumer bankruptcies in 2006 and 2007 reflected a still-humming economy and the fact that lawyers were still figuring out the new bankruptcy-filing system, Leibowitz said.

Then the economy started to reflect what had been going on behind the scenes: the subprime mortgage crisis that precipitated the foreclosure crisis, mixed in with rising unemployment, the uninsureds' inability to pay medical expenses and new credit-card regulations that imposed higher minimum balances.

A variety of situations push people into bankruptcy, noted New York Law School's Tracht, primarily job loss, divorce and medical expenses.

"These are people who've run into real hardships in their lives, and they're struggling to find a way out," he said.

"The number of people choosing to file to somehow take advantage of their creditors is trivial. And bankruptcy is not charity.

"If people don't get relief and are faced with no hope of ever paying off their bills, what is their incentive to work? By providing relief, we say, 'You can continue to work, to care for your family and to be a productive member of society as you work off the debts.' "