



## Bankruptcies soared 32% in 2009

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Everyone from retirees who can't afford to live on Social Security, to baby boomers who were downsized, to college graduates who can't find work, to homeowners who drained the equity from their homes helped push 2009 personal bankruptcy filings up by nearly one-third over the previous year.

"This is now a perfect storm" as 2009 saw house prices fall and unemployment and foreclosure rates rise, says David P. Leibowitz, a bankruptcy attorney and managing member of LakeLaw, headquartered in Waukegan, Ill.

More than 1.4 million consumer filings were recorded last year, according to AACER (Automated Access to Court Electronic Records) and the American Bankruptcy Institute. Both groups issued 2009 year-end reports this week based on data compiled from U.S. bankruptcy courts. That number compares to fewer than 1.1 million filings in 2008, making for a 32 percent increase. And 2008 was no easy year, with bankruptcies rising by one-third from 2007.

### Western states see greatest increase

Which states suffered most from bankruptcy? It depends on the way the statistics are dissected.

The highest per capita bankruptcy rate was in Nevada, with more than 11 filings for every 1,000 residents. That put it far ahead of Tennessee (eight), and Alabama, Georgia and Indiana (each with more than seven).

In terms of sheer volume, California recorded more than 205,000 filings, compared to 95,000 in Florida and more than 70,000 each in Georgia and Illinois.

But Arizona led the pack when it came to the greatest increase in filings from 2008 to 2009 -- soaring by 77 percent. It was followed by Nevada, Wyoming, California and Utah -- each up by almost 60 percent.

### All types of consumers feel the pinch

Bankruptcy experts say the filings cut across all demographic groups. Jo Anne Shumard, an Orlando-based bankruptcy attorney with more than two decades of experience, says that in the past when clients met with creditors "you could tell the

clients from the lawyers." Today, the clients could very well be doctors or lawyers. "It permeates every layer of society."

In Florida, many who file for bankruptcy invested in real estate and then ran into trouble when the housing bubble burst.

At the other extreme, Leibowitz has a 75-year-old client who recently filed for bankruptcy because she doesn't receive enough money from her Social Security benefits to cover living costs, and in the past had used her credit cards to pay her medical bills.

But with many [credit card companies cutting back](#) on consumers' spending limits or canceling cards completely, some consumers are becoming financially strapped, Leibowitz says.

### **No easy way out**

Earlier in the decade, consumers had easy access to credit cards, and they were able to pay off that debt simply by refinancing their homes, he says. In 2006 and 2007, "if you had an economic problem, you could mortgage your way out of it."

But all that changed with the credit crunch and the bursting of the housing bubble. On top of that, unemployment rates soared, hitting 10 percent nationally in November and reaching even higher in a number of states.

At the same time, the historic reasons for filing for bankruptcy -- divorce, illness, death of a spouse -- still come into play.

### **When bankruptcy hit its peak**

The number of bankruptcy filings peaked in 2005, just ahead of the introduction of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The law requires higher filing fees, a means test for eligibility, counseling programs and an eight-year moratorium before a person can file again.

As a result, consumers rushed to file before the new law took effect, pushing filings up to about 2 million in 2005.

The influx of new filings, as well as the time it took for attorneys to adjust to the new act, pushed filings down to just 617,000 in 2006. By 2007, filings had topped 850,000, and they have soared ever since.

At the same time, there's been a steady shift in the type of bankruptcy filings. In 2009, 72 percent of consumers filed under [Chapter 7](#), which allows some people to walk away without paying any debts. That's up from 67 percent the previous year. Meanwhile, 28 percent filed under [Chapter 13](#) in 2009, which requires at least a partial repayment, versus 33 percent the preceding year. In comparison, 39 percent filed under Chapter 13 in 2007.

### **Most not prepared for tipping point**

Todd Christensen is director of education for Debt Reduction Services, and provides debtor education courses to individuals before a bankruptcy court discharges their obligations. Based in Boise, Idaho, the company has offices around the nation.

Christensen said via e-mail that 61 percent of those who filed for bankruptcy had no funds in emergency savings when the event occurred that pushed them into bankruptcy, while 29 percent had less than \$1,000.

More than a third of those filing for bankruptcy cited job loss or job reduction; one-quarter cited poor money management skills; and about 20 percent were impacted by medical expenses, Christensen says.

Catherine Williams, vice president of financial literacy for Houston-based Money Management International, which does credit and bankruptcy counseling, says those filing bankruptcy in 2009 tended to be married, have slightly higher incomes than previously, and their average age was in the mid-40s.

For the clients her firm deals with, 60 percent have run into financial issues because they are unemployed. "Bankruptcy is a trailing indicator of people's economic situation," Williams says, and people can often go six months to a year before exhausting all their resources.

### **Stigma less, but trauma remains**

Leibowitz says he thinks consumers are more likely to consider filing for bankruptcy today because "if bankruptcy is OK for the airlines, for Kmart or for Donald Trump, why isn't it OK for me?"

But Shumard sees much anguish from many people who contact her firm. "There's shame and grief, like with any major loss." Yet despite the upsurge in bankruptcy filings, "who knows how many people are sitting home, paralyzed."

And those people, along with the slow upturn in hiring and the prediction that more foreclosed properties will hit the market in 2010, leave the experts wary that bankruptcy filings will decline any time soon.

Shumard says that historically, her phone stops ringing after Thanksgiving, and the calls don't pick up again until late January. But not this year. She's been going nonstop all through the holiday season and into the start of the new year. She predicts, "we're in for a very tumultuous ride."