Community Indicator Report
Center for Community & Economic Development
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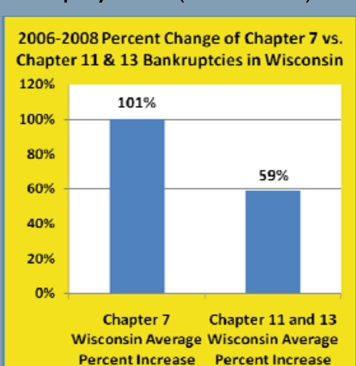
Bankruptcy: A Growing Problem

As more people and businesses filed bankruptcy to escape and evade paying off debt, the increase in bankruptcy abuse in addition to heavy lobbying efforts from credit lenders led to a push in congress to change the bankruptcy law. In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act was passed.

Experts believed these changes would greatly reduce total bankruptcies filed (especially Chapter 7). However, as can be seen below, bankruptcies in Wisconsin have increased dramatically since the change in bankruptcy laws (2006-2008).



The number of bankruptcies in a community can serve as a good indicator of the economic health of businesses, families, and creditors, and although national and state level data is often reported, the county-level perspective is often left out. This report is a comprehensive look into bankruptcies at the county, state, regional and national levels.

A Story in Three Chapters

When an individual or business can no longer make payments to creditors, that individual or business can "file" for bankruptcy with the US Federal Government in one of the 94 Federal Judicial Courts. There are three basic forms of bankruptcy commonly and legally termed Chapter 7, Chapter 11, and Chapter 13. These three types of bankruptcy are defined and covered under Title 11 of the United State Code along with the other chapters of bankruptcy that are less common.

Although filing for bankruptcy helps those with debt they cannot handle and/or pay off, filing for bankruptcy is not considered a good option because it can ruin an individual or business's credit and can damage local, regional and even national and international economies. Although there are several chapters of bankruptcy there are really two types:

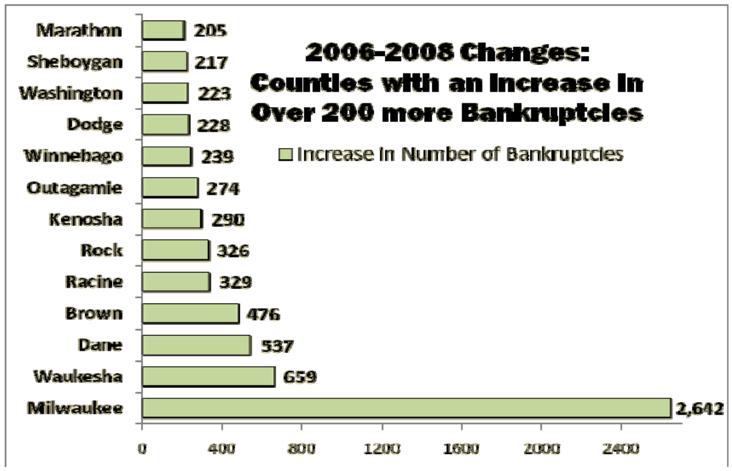
- Liquidation (Chap. 7)
- Reorganization (Chap 11& 13)

Chapter 7 bankruptcy cancels all or most debt (a process defined as "discharging" debt) but requires that the individual or business turn over all or many non-exempt assets to be liquidated (sold) so that proceeds generated from the sale can be used to pay back creditors. Non-exempt property is property the court determines that cannot be claimed by creditors. Many individuals forced into bankruptcy own only exempt property (e.g. clothes, household goods, and an older car) and will not have to surrender any property to the trustee. Homes are often non-exempt but not liquidated due to negotiations between the creditor holder and the individual via the supervision of the court. Chapter 7 bankruptcy is only available once in any eight year period depending on the type of bankruptcy previously claimed.

Chapter 11 and 13 bankruptcies merge, restructure, and consolidate debt so that payment towards debt can once again continue in a new repayment plan that usually is three to five years. At the end of this three to five year period all remaining unsecured debt is discharged. Typically Chapter 13 is for individuals and Chapter 11 for businesses, but if an individual's debt exceeds Chapter 13 limits, they can file for Chapter 11 bankruptcy.

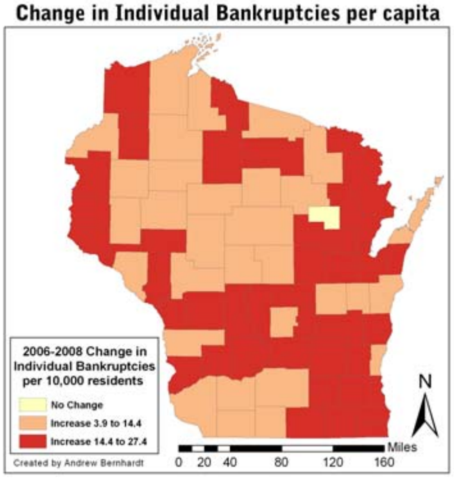
If the debtor can make payments, reorganization bankruptcy is typically more attractive because the debtor can protect property and possessions from being repossessed and liquidated and creditors often have a better chance of being repaid.

How have things changed?



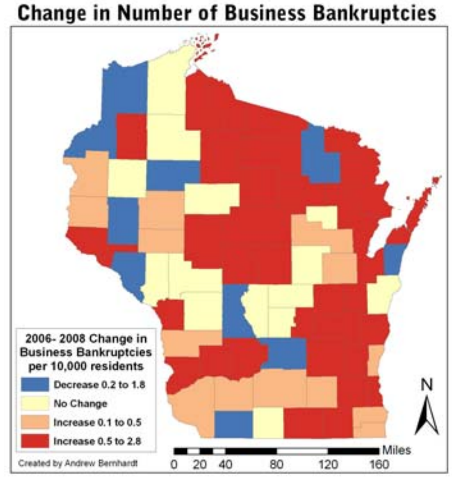
From 2006 to 2008, Wisconsin saw a huge jump in the total number of bankruptcies filed by both businesses and individuals. After the dust cleared, 10,121 more bankruptcies were filed in 2008 than 2006: almost doubling from 11,295 to 21,416 bankruptcies, an 89% increase. As seen in the graph to the right, Milwaukee stands out, constituting 26% of the total increase in statewide bankruptcies, whereas Waukesha and Dane counties combined only made up 12% of the total increase of bankruptcies across the state.

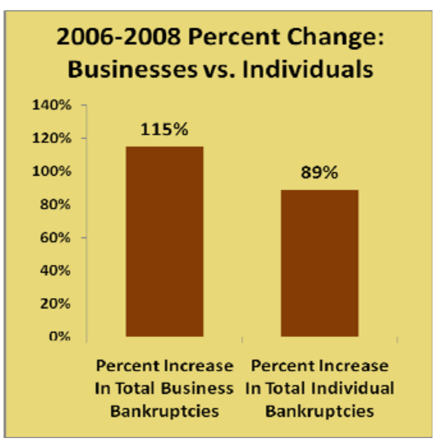
Change in Individual Bankruptcies per capita



However, when considering each county's population, the data produces a very different picture. The map to the left shows the change in individual bankruptcies per capita from 2006-2008. The average per capita change in the state was an increase in 14.4 bankruptcies per 10,000 people. Taking a look at businesses, the map to the right shows that from 2006 to 2008, 48 counties experienced an increase in the total number of bankruptcies filed by businesses, 14 counties saw no change, and 10 counties actually saw a decrease. The average change was an increase of 0.5 bankruptcies per 10,000 people with 36 counties below the average.

Change in Number of Business Bankruptcies

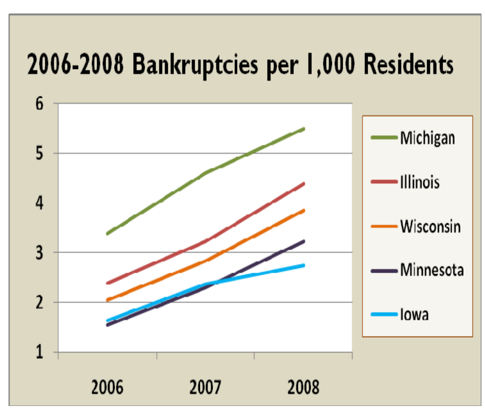




Who is being hit harder?

Although both businesses and individuals are suffering, one might assume that individuals have been hit harder than businesses due to the greater number of bankruptcies filed by individuals. But looking at percent change, the data shows that although business constitute a small fraction of the total number of bankruptcies in Wisconsin, businesses have experienced the largest percent increase in total number of bankruptcies.

A regional perspective: how are we fairing?



Taking a broader look to see how Wisconsin compare in the region, the data shows that we fall right in between our four neighboring States in number of total bankruptcies per capita with an upward trend that parallels the other States in the region except for Iowa, who has managed to slow down its increase in bankruptcies filed by businesses and individuals have stabilized.

What Can Communities Do?

- **Increase Financial Literacy**
- **Provide Family Financial Management Education**
- **Promote a Healthy Balance of Saving and Spending**
- **Improve Consumer Counseling**

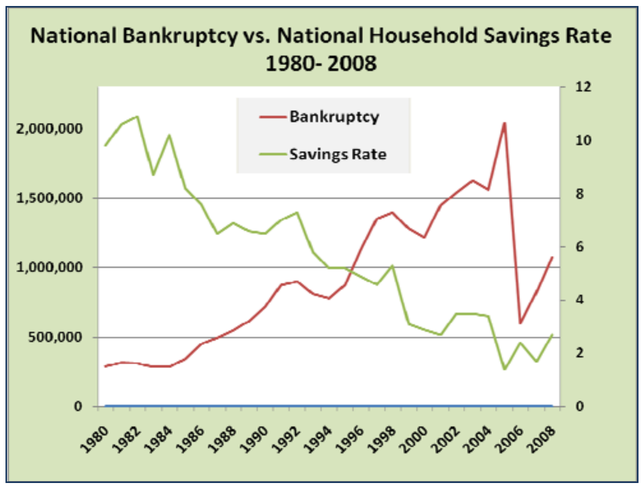
The top three reasons people file for bankruptcy are due to job loss, high medical bills, and costs associated with divorce or separation. While the change in bankruptcy laws was intended to curb abuse, clearly for the majority of Americans facing bankruptcy, unfortunate financial situations and the economy has led them to this situation. Individuals and businesses facing financial trouble have several alternatives they can consider before talking to an attorney about bankruptcy:

- Talk to lenders early on. Most would be better off working with consumers to negotiate the terms of personal and business loans. Lenders and creditors often lose out just as much or more whenever bankruptcies are filed.
- Contact local resources which offer support, advice and assistance, including UW Extension Family Living Educators or reputable credit counseling groups such as Consumer Credit Counseling Services (www.cccs.org). Both of these groups are most likely to offer one-to-one assistance, financial literacy classes, and/or credit consolidation assistance.

These two actions are intended to help individuals and businesses that are nearing or already find themselves in financial trouble. There are also steps and strategies to employ that help individuals and businesses avoid ending up in a situation where bankruptcy seems like the only way out. Some of the common pieces of advice are to carefully plan and monitor investments; strike a healthy and safe balance between spending and saving; become informed and savvy about the responsibilities and potential implications of having credit; and the threat of predatory lending practices.

In America, it is often too easy to qualify for a credit card in a culture that is often inundated with consumerism and commercial targeting. Increasing financial literacy and consumer intelligence can help a community prevent bankruptcies from weakening its social and economic stability. One of the easiest steps is to encourage proper budgeting practices, and to monitor total money spent and saved.

In America, the rate of saving has been dropping at a steady rate inverse to the rate of bankruptcy. With data gathered on the national household saving rate from the U.S. Dept. of Commerce Bureau of Economic Analysis and data on total national bankruptcies from the American Bankruptcy Institute, a graph was produced which shows the possible correlation between savings and bankruptcies.



National Bankruptcy Source: www.abiworld.org
National Household Savings Rate Source: www.bea.gov

The ability to file for bankruptcy is a safety net built in by our government to help people and communities who have fallen victim to unfortunate economic times, but there are several simple steps that communities can take to help safeguard from situations where bankruptcy is the only option.

For additional county specific data & charts, go to: http://www.uwex.edu/ces/cced/economies/communityindicators/bankruptcy.xlsx