BANKRUPTCY BY THE NUMBERS

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HIGH DEBT DEBTORS:

Each year since 1998 the Executive Office for United States Trustees has gathered 2,000 recently closed no asset chapter 7 petitions from across the country. All of these cases were filed and processed as non-business cases. Data from these petitions are used for a variety of internal purposes, and have provided the basis for many of our past articles in the **ABI Journal**.

Occasionally we come across a case with extraordinarily high general unsecured debt levels. In this article we take a closer look at the petitions that include at least $500,000 in general unsecured debt. There are 35 such cases among the 8,415 cases in our current database (.4%).[2]

The following table compares the basic financial information of the high debt cases with all of the other chapter 7 cases.

	AVERAGE (MEAN) PER CASE		
	ALL CASES (N= 8,415)	UNSECURED DEBT OVER $500,000 (N=35)	UNSECURED DEBT $500,000 OR LESS (N = 8,380)
GENERAL UNSECURED DEBT	$41,455	$1,394,625	$35,803
SECURED DEBT	$44,052	$293,865	$43,009
PRIORITY DEBT	$2,104	$20,522	$2,027
GROSS MONTHLY INCOME	$2,386	$3,690	$2,380
NET MONTHLY INCOME	$1,875	$3,188	$1,870
MONTHLY EXPENSES	$2,113	$3,602	$2,107
FAMILY SIZE	2.34	2.31	2.34

Although these large debt cases count for fewer than one-half percent of all cases, they account for 14% of all general unsecured debt. This is yet another demonstration of the general principle

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

[2] Most of these cases were closed between 1998 and 2001. Only a small portion of the cases obtained in 2002 have been entered in our database at the time of this article

that distributions of money across bankruptcy cases tend to be highly skewed. One consequence of this principle is that the reporting of arithmetic averages across cases, without further elaboration regarding skew, leads to inaccurate conclusions about the money involved in typical cases.

Demographic Characteristics of High Debt Cases: The 35 cases were spread among 17 states. California, Florida, and New York accounted for 15 out the 35 cases (43%), but these three states also represented 28% of the total cases in our database.

More than one-half of the cases (19 out of 35) were filed by males, even though male filers make up about only about 30% of the entire chapter 7 database. Of the remaining 16 high debt cases, nine were filed by females, and seven were joint filings by a married couple. In two of the 35 cases the debtors appeared pro se.

About one-half of the debtors were homeowners (18 of 35), a little more than the average for chapter 7 debtors, but well below the national average homeownership rate of 67.4%. However, for those debtors in the high debt category who were homeowners, the average and median values were much higher than the values for chapter 7 debtors at large.

Finally, 60% of these debtors had relatively low incomes, i.e. $3,000 per month or less. At the other extreme were five cases in which the reported gross monthly income exceeded $7,500. As noted above, the mean income of these debtors does not provide much information about the typical case.

Debt Characteristics: Strong Association with Failed Businesses: Total general unsecured debt reported in these 35 cases was nearly $49 million, with the breakdown as follows:

TYPE OF DEBT	AMOUNT
BUSINESS JUDGEMENTS	$12,480,934
GENERAL BUSINESS DEBTS	$10,250,190
FORECLOSURES/DEFICIENCIES	$9,711,745
PERSONAL JUDGMENTS	$9,662,688
TAX	$2,024,682
CREDIT CARDS (PERSONAL & BUSINESS)	$1,144,656
MEDICAL	$811,486
OTHER/UNKNOWN	$2,725,500

Business-Related Cases: Although all of the large debt cases were classified as non-business cases, the petitions showed that nearly three-quarters of them (26 of 35) were the result of, or associated with, failed businesses. These high debt cases represented a wide variety of businesses, including three construction firms, two trucking or transportation firms, a coffee shop, a pizza parlor, a sandwich shop, a video arcade, a tanning salon, a furniture store, an interior design store, a clothing store, a golf course, a car wash, an engineering design firm and a real estate investment partnership. For the remaining nine business related cases we could not tell from the information in the petitions the nature of the business.

Although the cases all appeared to be business-related, the resulting patterns of reported debt varied considerably. Of the 26 cases involved failed businesses, 12 reported primarily general business debts, 5 arose from deficiencies or foreclosures, 4 resulted from judgments, 3 were tax-related,[3] 1 was based primarily on credit card debt , and one reported extraordinary student loans (more than $400,000 in student loans to a debtor who opened a pizza shop).

The Remaining Nine Cases: Nine of the high debt cases did not appear to be the result of business activity. Four were caused by judgements resulting from auto accidents, one resulted from a wrongful death suit, and two other cases were the result of a personal judgement for unknown causes. In the remaining two cases, one consisted mainly of taxes owed by a former movie producer, and the other was the result of medical bills incurred by a heart transplant recipient.

Discussion: Any large-scale study of chapter 7 cases will include some large debt cases such as those described above. In the context of consumer bankruptcy, various averages are used to make estimates of the total impact of consumer bankruptcy. While some researchers exclude outliers from their studies, cases with the largest debt are often included to calculate these averages. However, only a very small portion of the debt in these high debt cases was for goods or services associated with consumer activity. For example, a good portion of the debt in these cases consists of personal and business judgments.

In the six personal judgment cases, irrespective of the actions that led to these judgments, information in the debtors' petitions indicated that they had no capacity to pay them. Five of the debtors had gross incomes of less than $3,000 per month and rented rather than owned their residence. They were essentially judgment proof. In some of the cases, the discharge of credit card debt was a relatively small and secondary benefit of the discharge.

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[3] In fact more than a third of the debtors reported at least $10,000 in tax debts on Schedule E.