INSTITUTE FOR FINANCIAL LITERACY®

2008 Annual Consumer Bankruptcy Demographics Report

American Debtors in a Recession

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2008 Annual Consumer Bankruptcy Demographics Report: American Debtors in a Recession

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Acknowledgments
The Board of Directors of the Institute for Financial Literacy, for their continued support of the mission of financial education, the many wonderful clients who even in their darkest financial hours were willing to participate in this research, and the fine staff of the Institute who on a daily basis go above and beyond to help improve the financial literacy of those they serve.

About the Institute for Financial Literacy™
The Institute for Financial Literacy is a non-profit financial literacy organization. The Institute's mission is to make effective financial literacy education available to all American adults. The Institute accomplishes its mission by developing financial literacy educational materials, publishing the National Standards in Adult Financial Literacy Education™, maintaining the Library of Personal Finance™ and providing professional development and training through the Center for Financial Certifications®.

About the Center for Consumer Financial Research®
The Center for Consumer Financial Research was established as a division of the Institute for Financial Literacy in 2007. The mission of the Center for Consumer Financial Research is to expand and disseminate the body of independent, unbiased research within the field of financial literacy. The Center accomplishes this mission by objectively assessing the effectiveness of financial education efforts, researching consumer financial behavior and publishing its findings.

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Table of Contents

SIGNIFICANT FINDINGS

- The average American who is in financial distress and seeking credit counseling and financial education is a 35 to 44 year old married Caucasian with a high school degree or some college who is employed and earning less than $30,000 per year.
- The following demographic groups demonstrated a noticeable increase as a percentage of Americans in financial distress and seeking credit counseling and financial education:
    - Americans 45 to 64 years old;
    - Americans of Asian and Caucasian descent;
    - Americans with an Associates or Bachelors degree;
    - Americans earning $40,000 or more per year;
    - Americans who are self employed;
    - Americans who are married.
- The percentage of Americans reporting “Reduction of Income” as a cause of financial distress increased.
- The four causes of financial distress most commonly reported by Americans include Overextended on Credit, Unexpected Expenses, Reduction of Income and Job Loss.

EXECUTIVE SUMMARY

According to the National Bureau of Economic Research, the United States officially went into a recession in December of 2007. This year’s Annual Consumer Bankruptcy Demographics Report will be the first research to capture information on American debtors filing bankruptcy during the first 12 months of this recession (January 2008 through December 2008). While the data presented in this report does not lend itself to drawing final conclusions about any topic or issue, the 2008 data is compared with 2007 data to identify any changes in the demographics of debtors that may be attributable to the recession.

As in years past, the average American in financial distress and seeking credit counseling and financial education is a 35 to 44 year old married Caucasian with a high school degree or some college who is employed and earning less than $30,000 per year.

What differentiates the 2008 data from previous years is the increased reported percentages of the following American demographic groups: Americans 45 to 64 years old; Americans of Asian and Caucasian descent; Americans with an Associates or Bachelors degree; Americans earning $40,000 or more per year; Americans who are self employed; and Americans who are married. Taken collectively, these individually measured demographic factors indicate that the 2008-2009 Recession is noticeably shifting middle class Americans into bankruptcy.

It is intended that this report serve as a catalyst for discussion among the academic, legal, governmental, consumer and financial sectors of the causes and effects of financial distress. Several years of accumulated data now give us a good idea what consumer debtors look like. This data will continue to be tracked annually. The long-term goals of the Institute for Financial Literacy and the Center for Consumer Financial Research are to construct and maintain a substantial demographic baseline, monitor any substantive changes in the results and annually report out the findings. The research and academic community are encouraged to use these findings as a starting point for exploring the causes of and crafting solutions for America’s dynamic debt problems. This year’s report gives us an opportunity to look at the American debtor during a recession and determine if there are trends unique to this turbulent economic situation.

INTRODUCTION

In April 2006, the Institute for Financial Literacy released "First Demographic Analysis of Post-BAPCPA Debtors." That report examined a sampling of demographic information gathered during the six months following enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). The period covered from October 17, 2005 through March 31, 2006. The Institute has published a similar report annually.

This report looks at a full year's demographic information covering the period from January 1, 2008 through December 31, 2008. The results will be compared against the findings from 2007.

The Institute for Financial Literacy is a non-profit financial literacy organization based in Portland, Maine. The Institute's mission is to make effective financial literacy education available to all American adults. The Institute for Financial Literacy accomplishes its mission by developing financial literacy educational materials, publishing the National Standards in Adult Financial Literacy Education, maintaining the Library of Personal Finance and providing professional development and training through the Center for Financial Certifications.

BANKRUPTCY ABUSE PREVENTION & CONSUMER PROTECTION ACT OF 2005 (BAPCPA)

The Institute for Financial Literacy expanded its mission with the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). BAPCPA incorporated a requirement that individuals must complete mandatory credit counseling in order to be eligible to file a consumer bankruptcy case under the bankruptcy code.[1] This section reads as follows: "an individual may not be debtor under this title unless such individual has, during the 180-day period preceding the date of filing of the petition by such individual, received from an approved nonprofit budget and credit counseling agency described in section 111(a) an individual or group briefing (including a briefing conducted by telephone or on the Internet) that outlined the opportunities for available credit counseling and assisted such individual in performing a related budget analysis."[2]

In addition, the law requires certain debtors in the bankruptcy system to complete a mandatory financial management instructional course in order to receive a discharge of their debts.[3] A married couple filing a joint bankruptcy petition must each complete credit counseling prior to filing and a financial management instructional course prior to discharge as a result of the law's application of these requirements to "individuals."[4]

The Institute for Financial Literacy was approved to provide the mandatory credit counseling under section 111(a) in all 94 judicial districts covered by both the United States Trustees Program and the six Bankruptcy Administrators[5] in the fall of 2005.[6] The Institute for Financial Literacy was also approved as a provider of the mandatory financial management instructional courses. It should be noted that the 94 judicial districts cover all 50 states as well as the US territories.

[1] Title 11 USC

[2] 11 USC sec. 109(h)(1)

[3] 11 USC sec 727(a)(11) and 1328 (g)(1)

[4] 11 USC 302

[5] The states of North Carolina and Alabama and their six respective judicial districts are not under the authority of the United States Trustees Program, but rather individual Bankruptcy Administrators (BA). Each BA has set its own approval process in place for the approving of a nonprofit budget and credit counseling agency as is required under section 111(a).

[6] The Institute for Financial Literacy has subsequently been re-approved as a provider for a one year period of time, as the initial approvals were for a six-month probationary period only.

METHODOLOGY

During the years prior to the passage of BAPCPA there was much rhetoric and little comprehensive research cited with regard to the demographics of consumer bankruptcy debtors. The Institute for Financial Literacy recognized the importance of establishing a comprehensive, neutral research program to better understand those individuals contemplating bankruptcy, as well as those who eventually seek bankruptcy protection.

It is the intention of the Institute for Financial Literacy to publish the results of its demographic survey annually, monitor any substantive changes in those results and encourage the research and academic community to use this data to find the causes of and possible solutions to America's ever growing debt problem.

During the development of its credit counseling and financial management instructional course programs, the Institute for Financial Literacy incorporated a research component into its delivery platforms to allow large scale data collection and facilitate the establishment of such a study.

This report will look at a sampling of demographic information gathered during the time period covering January 1, 2008 through December 31, 2008. It includes a combination of respondents accessing the credit counseling services only, the financial management instructional course only, or both programs. It is not known how many respondents who sought credit counseling services actually filed for bankruptcy as of the date of this writing. It is worth noting that, pursuant to section 109(h)(1), any certificates issued by an approved non-profit budget and credit counseling provider are valid for a 180-day period from the date of delivery. Therefore, a consumer who sought out credit counseling on December 31, 2008 would have until June 29, 2009 to file a bankruptcy petition before being required to retake a credit counseling session.

DEVELOPMENT OF SAMPLE

The Institute for Financial Literacy has been approved to provide mandatory credit counseling by telephone and Internet as allowed in section 109(h)(1). The Institute is also approved to provide credit counseling in person in its home district of Maine.[7]

Clients learn about the availability of approved providers from one of several sources. The bankruptcy clerks maintain lists of approved providers for their districts and distribute these lists to the general public upon request.[8] The Bankruptcy Administrators and the United States Trustees Program also maintain updated lists of approved providers on their respective websites.[9] Clients may also learn about the new requirements and obtain a list of approved providers in their district during their initial consultation with an attorney.

DATA COLLECTION INSTRUMENT

During the development of the credit counseling and financial management instructional course programs, the Institute incorporated a voluntary survey tool. At the beginning of the respective programs, the survey gathers demographic information from participants. If a client receives both services from the Institute, the survey information is only gathered once.

Clients taking a program through the Internet for the first time are presented with the Client Survey page

[7] For purposes of this research the sampling of in person sessions was statistically insignificant.

[8] 11 USC sec. 111(a)

[9] The United States Trustees Program website is located at www.usdoj.gov/ust. The six Bankruptcy Administrators maintain their own individual website, but they can be accessed by a link maintained by the United States Courts at www.uscourts.gov .

before proceeding. Here they read the following statement:

> "Before we begin your session we would like to collect some information from you. This information will not be used to personally identify you in any way. The information will be used for statistical research purposes as we evaluate our program."

Should a client choose not to complete any part of the survey, they simply move to the next page and begin their program.

Clients receiving their services by telephone are informed by counselors that the Institute is conducting on-going research, and the clients are not required to answer any of the questions. Counselors also explain the information gathered will have no impact on the outcome of their counseling or education session.

If the client agrees to participate, the counselor will read a confidentiality statement and collect the data from the client. The counselor will first identify the category and then read all answer choices in that category. The client then identifies their response and the counselor marks the choice into the data collection instrument.

The categories being surveyed included: Gender, Age, Ethnicity, Educational Background, Personal Income, Employment, Marital Status, and Causes of Financial Distress.

CORE SAMPLE

The Institute for Financial Literacy is approved to provide BAPCPA related credit counseling and financial management education in all 50 states as well as US territories. The sampling for this report contains respondents from all 50 states, the Northern Mariana Islands and Guam.

Forty Five Thousand Two Hundred Twenty Nine (45,229) clients volunteered to complete the survey in whole or in part, compared with nearly 1,074,225 new non-business bankruptcy cases filed nationally between January 1, 2008 and December 31, 2008.[10] If all respondents filed bankruptcy petitions,[11] this would represent 4.21% of all new cases filed for the period, and is therefore a statistically significant and relevant sample.

It should also be noted that not all respondents answered all survey questions. For purposes of statistical analysis, 100% of the survey participants gave gender information (45,229 responses) while only 96% answered the income question (43,499 responses) and 99% responded to the Highest Level of Education Completed question (44,667 responses).

PROTECTION OF CONFIDENTIALITY

The Institute for Financial Literacy maintains a client confidentiality policy. Counselors are trained that all information, whether gathered for research or the for the credit counseling or financial management instructional courses, is to be held in the strictest of confidence.

The Institute for Financial Literacy does not report out demographic information individually, only in the aggregate. Client's names or other obvious personal identifiers have been changed or removed to protect clients' privacy.

[10] The US Courts reported a total of 1,117,771 cases filed in 2008. Of these 43,546 were business filings and exempt from the credit counseling and financial education requirement.

[11] 91% of credit counseling clients received a recommendation to consult an attorney based upon their financial condition. All financial management education clients are already bankruptcy debtors.

THE RECESSION

The National Bureau of Economic Research is a private group of leading economists charged with determining exactly when the economy goes into and comes out of a recession. The United States officially went into a recession in December of 2007.

This year's Annual Consumer Bankruptcy Demographics Report will be the first research to capture information on American debtors filing bankruptcy during the first 12 months of this recession. The data in this report will be compared against the data from the 2007 report to begin tracking any changes in the demographics of debtors that may be attributed to the recession.

FINDINGS

Gender

A total of 45,229 participants answered the gender question, a 100% response rate. Of these, 52.6% (23,801) were female, while 47.4% (21,428) were male.

Table 1 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 1: Gender

Gender	Percentage of Debtors IFL-2007 Report	Percentage of Debtors IFL-2008 Report
Male	47.2	47.4
Female	52.8	52.6

There is no significant change in data compared to the Institute's 2007 report.

What is of interest is the difference between women seeking counseling and/or education (52.8%) as compared to men. Women comprised 50.7% of the US population in 2007 according to the US Census Bureau.[12] The variance has been consistent since the Institute for Financial Literacy began reporting out this data in 2006. It is unlikely this statistic is being affected by the recession.

Age

A total of 45,056 participants answered the age question, a 99% response rate. Of these, 2.2% (1,004) identified as 18-24 years of age; 19.5% (8,785) identified as 25-34 years of age; 29.4% (13,256) identified as 35-44 years of age; 26% (11,698) identified as 45-54 years of age; 15.6% (7,001) identified as 55-64 years of age; and 7.3% (3,312) identified as 65 years of age or older.

Table 2 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 2: Comparison of Age Group Data

Age Range	Percentage of Debtors IFL-2007 Report	Percentage of Debtors IFL-2008 Report
18–24	2.7	2.2
25–34	20.3	19.5
35–44	29.8	29.4
45–54	25.4	26.0
55–64	14.3	15.6
65+	7.5	7.3

[12] http://quickfacts.census.gov/qfd/states/00000.html

Compared to the Institute's report last year, the age cohorts which appear to be struggling the most during the recession are the 45-54 age cohort and the 55-64 year old age cohorts. Both groups saw increases, with the 55-64 year olds seeing a 1.3% increase in the rate of bankruptcy filings.

Ethnicity

A total of 44,577 participants answered the ethnicity question, a 99% response rate. Of these, 12.5% (5,572) identified as African American/Black; 73.3% (32,699) identified as Caucasian/White; 7.4% (3,292) identified as Latino/Hispanic; 3.6% (1,589) identified as Asian; 0.08% (339) identified as Native American; and 2.4% (1,086) identified as Other.

Table 3 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 3: Ethnicity

Ethnicity	Percentage of Debtors IFL-2007 Report	Percentage of Debtors IFL-2008 Report
African American/ Black	14.6	12.5
Caucasian/White	72.1	73.3
Latino/ Hispanic	6.9	7.4
Asian	2.6	3.6
Native American	0.9	0.8
Other	2.9	2.4

There has been a significant increase in the filing rates for both Caucasians and Asians in the past year. The recession may be directly connected to this outcome. Both of these categories have seen an increase by one percent or more and this is statistically relevant. The Hispanic population has also seen an increase, though it should be noted this variation may be a result of differences in the data collection instruments. The Institute respondents may choose only a single ethnicity category, while the US Census Bureau allows those of Hispanic origin to choose a second appropriate ethnicity category so our respondents may identify as another category.

Education

A total of 44,667 participants answered the question asking their highest level of education completed, 99% response rate. Of these, 5.3% (2,387) identified at the Graduate level; 12.3% (5,508) identified at the Bachelors level; 8.6% (3,818) identified at the Associates level; 29.4% (13,137) identified at the Some College level; 38.5% (17,226) identified at the High School/GED level; 5.2% (2,288) identified at the Primary School level; and 0.7% (303) identified themselves as having no education.

Table 4 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 4: Education		
Education Level	**Percentage of Debtors IFL-2007 Report**	**Percentage of Debtors IFL-2008 Report**
Graduate	5.3	5.3
Bachelors	11.3	12.3
Associates	8.0	8.6
Some College	29.8	29.4
High School/ GED	39.6	38.5
Primary School	5.3	5.2
None	0.7	0.7

Those with either a bachelor's degree or an associate's degree appear to have suffered the most during recession with significant increases in filings over the prior year. Those with a bachelor's degree saw their filing rates increased by a full percentage point while those with an associate's degree increased by 0.6%. Though statistically those with either some college or just a high school degree make up the greatest percentage of filers, both categories saw a decrease in their percentages in 2008. It raises the question of whether this is a 'white collar' recession. Are those in professions requiring college education more affected than those working in the trades?

Income

A total of 43,499 participants answered the income level question, a 97% response rate. Of these, 37.1% (16,148) identified as earning less than $20,000.00 per year; 21.9% (9,520) identified as earning $20,000.00 to $30,000.00 per year; 16% (6,983) identified as earning $30,000.00 to $40,000.00 per year; 10.4% (4,509) identified as earning $40,000.00 to $50,000.00 per year; 6.5% (2,798) identified as earning $50,000.00 to $60,000.00 per year; and 8.1% (3,541) identified as earning more than $60,000.00 per year.

Table 5 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 5: Self Identified Income of IFL Respondents		
Income	**Percentage of Debtors IFL-2007 Report**	**Percentage of Debtors IFL-2008 Report**
Less than $20k	38.4	37.1
$20k – $30k	23.2	21.9
$30k – $40k	15.9	16.0
$40k – $50k	10.1	10.4
$50k – $60k	5.5	6.5
More than $60k	6.9	8.1

The recession does appear to be having an effect on the higher income levels while those who earn less then $30,000 saw a decrease in filing rates. Those with incomes below $30,000 filed at rates 2.6% lower than their 2007 counterparts. Those who earn $40,000 or more saw an increase in filing rates of 2.5%. Of particular note, participants earning $60,000 or more saw an increase of 1.2%. This would indicate the recession is having an impact on higher income earners and sending more of them to seek out bankruptcy protection.

Employment

A total of 45,002 participants answered the employment question, a 99% response rate. Of these, 63.4% (28,528) identified themselves as employed; 13% (5,861) identified themselves as unemployed; 8.7% (3,908) identified themselves as retired; 9.9% (4,428) identified themselves as self-employed; 4.2% (1,909) identified themselves as a homemaker; and 0.8% (368) identified as a student.

Table 6 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 6: Employment		
Employment	**Percentage of Debtors IFL-2007 Report**	**Percentage of Debtors IFL-2008 Report**
Employed	64.2	63.4
Unemployed	12.6	13.0
Retired	8.9	8.7
Self-Employed	9.0	9.9
Homemaker	4.4	4.2
Student	0.9	0.9

Compared with the Institute's 2007 report the category of employment that have seen the most change during the first year of the recession appears to be self-employment which increased by 0.9%. This may indicated that those working for themselves are struggling more and having to seek protection in bankruptcy as their businesses falter. Additionally those who identified as unemployed (13%) increased by 0.4% this past year. As a result of the recession, the national unemployment rate increased from 4.9% in January 2008 to 7.2% by December 2008. This would suggest the recession has had an impact on this demographic as well.

Marital Status

A total of 45,113 participants answered the marital status question, a 99% response rate. Of these, 62% (27,955) identified themselves as married; 18.6% (8,377) identified themselves as single; 15.3% (6,913) identified themselves as divorced; 3.3% (1,500) identified themselves as widowed; and 0.8% (368) identified themselves as cohabitating.

Table 7 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 7: Marital Status		
Marital Status	**Percentage of Debtors IFL-2007 Report**	**Percentage of Debtors IFL-2008 Report**
Married	59.7	62.0
Single	20.2	18.6
Divorced	15.6	15.3
Widowed	3.6	3.3
Cohabitating	0.9	0.8

The recession clearly took a toll on the married couple in its first twelve months. The increase from 2007 to 2008 of 2.3% shows married households had greater financial struggles than their single counterparts. Additionally, the Administrative Office of the United States Courts (which gathers the Bankruptcy Courts statistics) reports 32% of all non-business bankruptcy cases filed were filed as joint cases (husbands and wives) for calendar year 2008. This is up from 30.4% in 2007. So both the Administrative Office of the United States Courts and the Institute for Financial Literacy as seeing a trend of more married couples seeking protection in bankruptcy during the recession.

Causes of Financial Distress

During the credit counseling process, clients are asked to pick from a list of common causes of financial distress to self-describe the causes for their current financial situation. Clients are encouraged to choose more than one cause when describing their situations and therefore the percentages will equal more than 100%.

Table 8 compares the findings from the 2007 report published by the Institute with the results for 2008.

Table 8: Causes of Financial Distress

Cause of Financial Distress	Percentage of Debtors IFL-2007 Report	Percentage of Debtors IFL-2008 Report
Overextended on Credit	69.2	72.6
Unexpected Expenses	59.9	57.1
Reduction of Income	56.7	58.4
Job Loss	38.1	37.6
Illness/Injury	35.9	33.0
Divorce	16.9	16.6
Birth/Adoption of Child	9.6	10.4
Death of Family Member	8.4	8.1
Retirement	5.6	6.0
Identity Theft	3.0	2.4

The most noticeable impact the recession has had on the causes for debtor's financial distress is "Overextended on Credit." This may be the "credit crunch" headlines being played out. These may be individuals who are unable to access additional credit cards or home equity loans finding themselves finally having to deal with their financial reality and personal insolvency. This single category saw an increase of 3.4% in the past year. Another category which shows a significant increase is "Reduction of Income," where debtor's indicated a 1.7% increase in the past year. However, "Job Loss" did not show a significant change as one might have expected during a recession. Another interesting category to note is that "Illness/Injury" adjusted back down to 33% (in 2006 it was 32.7%) after showing a spike in 2007 to 35.9%. This has been a category of particular interest to policymakers, academics and members of the consumer and financial sectors. It does not appear the recession has yet had a direct impact on debtors in this area.

CONCLUSION

The data presented in this report does not lend itself to drawing final conclusions about any topic or issue. It is intended to identify issues requiring additional research and analysis, and to serve as a catalyst for discussion of the causes and effects of financial distress among the academic, legal, governmental, consumer and financial sectors. We now have a good idea what consumer debtors look like and will continue to track this data annually. The long-term goals of the Institute for Financial Literacy are to construct and maintain a substantial demographic baseline, monitor any substantive changes in the results and annually report out the findings. The research and academic communities are encouraged to use these findings as a starting point for exploring the causes of and crafting solutions for America's ever growing debt problem. This year's report gives us an opportunity to look at the American debtor during a recession and determine if there are trends unique to this turbulent economic situation.

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