

Consumer, Celebrity Bankruptcies May Hit 1.4 Million

By Linda Sandler and Andrew M. Harris

Aug. 10 (Bloomberg) -- Consumer bankruptcies show no sign of abating after rising more than a third this year and may hit 1.4 million by Dec. 31 as jobs are lost and loans are harder to get, according to the [American Bankruptcy Institute](#).

More than 126,000 consumers filed for bankruptcy in the U.S. last month, 34 percent more than in July 2008, the ABI said in its latest report on Aug. 4. The increase came after a 36.5 percent rise in personal bankruptcies nationwide in the first six months, to 675,351, according to the ABI research group, which interprets data collected by the [national bankruptcy](#) Research Center.

"Rising unemployment on top of high pre-existing debt burdens is a formula for higher bankruptcies through the end of this year," ABI Executive Director [Samuel Gerdano](#) said in a statement. The group, composed of lawyers, accountants, bankers and judges, is based in Alexandria, Virginia.

Debt problems don't stop with sub-prime borrowers. Celebrities who filed for bankruptcy in July included movie actor [Stephen Baldwin](#), who sought protection from creditors after lenders began foreclosure procedures against his home. [Lenny Dykstra](#) filed for Chapter 11 bankruptcy in a petition that says the former Major League Baseball All-Star owes between \$10 million and \$50 million.

Banks Hurt

Also last month, con man lawyer [Marc Dreier](#)'s luxury Manhattan condominium sold for \$8.2 million, 21 percent less than what he paid two years ago, in an auction at U.S. Bankruptcy Court in Manhattan. Proceeds will be used to pay creditors in Dreier's bankruptcy case and victims of Dreier's fraud, said Salvatore LaMonica, trustee in the Chapter 7 bankruptcy case.

Steeply rising filings by consumers are hurting commercial banks. [JPMorgan Chase & Co.](#), the second-largest U.S. bank, predicted more losses on consumer loans last month even as it announced a rise in second-quarter profit on record investment banking fees. Chief Executive Officer [Jamie Dimon](#) said he doesn't expect the credit card business to make a profit this year or in 2010, and the company increased its loss projections for prime and subprime mortgages.

Credit Card Losses

JPMorgan said losses in its Chase credit-card portfolio may be 10 percent next quarter and will be "highly dependent" on unemployment after that. Losses for cards issued by Washington Mutual, which the bank acquired in September, may reach 24 percent by the end of the year, the company said.

JPMorgan's credit cards lost \$672 million, compared with income of \$250 million in the second quarter last year. Home-equity charge-offs climbed to \$1.3 billion, or 4.61 percent. Prime mortgage defaults rose to \$481 million, or 3.07 percent, from \$104 million, or 1.08 percent a year earlier.

Dimon, 53, said the company supported "proper consumer protection" and that pending legislation setting up an agency to monitor consumer lending practices would hurt short-term profits in credit cards.

Congress, in October 2005, enacted the Bankruptcy Abuse Prevention and Consumer Protection Act, a legislative reform package intended to make it harder for consumers to get court orders wiping out their uncollateralized debt.

The act required debt counseling and a means test for would-be filers.

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Last Updated: August 10, 2009 12:34 EDT