

Bankruptcy filings up 22% in August vs. last year

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Nevada has replaced Tennessee as the state with the most bankruptcies, as filings continue to stack up nationally.

From January to August, national bankruptcy filings reached 954,911, up from 703,732 in the same period of 2008, according to Automated Access to Court Electronic Records. In August, filings were up 22% compared with August 2008.

It is likely that filings will total 1.45 million this year, says Robert Lawless, professor of law at the University of Illinois.

After the bankruptcy law changed in 2005, filings had slowed.

"But we're now heading back close to where they were before the law was enacted," Lawless says. "It's not surprising, because the 2005 law did nothing to change the underlying economic reality of why people file for bankruptcy."

The 2005 reform aimed to curb bankruptcy abuse and make it harder to erase debts.

The housing crisis has caused much of the recent financial distress. It's not surprising that Nevada has seen bankruptcy filings surge, because Clark County, home to Las Vegas, is the foreclosure capital of the world, says Sam Gerdano, executive director of the American Bankruptcy Institute, an independent research and education organization. In addition to homeowners, many local businesses, casinos among them, also have filed for bankruptcy in the past six months.

Rising unemployment is the leading predictor of consumer bankruptcy filings, Gerdano says. And financial problems get much worse if it takes long to find a new job.

Job loss or divorce can cause people to lose their health insurance, and then serious illness can occur, Lawless says. And medical debt is a major cause of bankruptcy. Researchers disagree about how often health issues cause bankruptcy, but even the lowest estimates say that one in four bankruptcy filers has significant medical debt, Lawless says. That's about half a million people a year.

Even when the economy turns around, personal bankruptcy filings may not dramatically change.

"Consumer bankruptcy cases rise in tandem with an expanding economy," Gerdano says. "Consumer spending drives the economy and also adds to debt burdens that can make families vulnerable."

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