

Hard Times Lead To Dramatic Rise In Bankruptcies

by Wendy Kaufman

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Personal bankruptcies rose more than 30 percent last year, with more than 1.4 million protection filings. Many middle-class Americans sought relief after losing jobs, seeing their businesses fail or facing foreclosure.

In 2005, Congress overhauled the nation's bankruptcy laws with the intention of limiting the ability of many individuals to get rid of their debt — especially through the use of Chapter 7 of the bankruptcy code. But in this faltering economy, the law's impact has been limited.

In fact, far more people are now using Chapter 7 — in which assets are sold to pay off debts and what can't be paid is absolved — instead of Chapter 13. In a Chapter 13 bankruptcy filing, an individual signs up for a time-limited repayment plan and, in return, gets to keep certain assets. Creditors often get more money in Chapter 13 filings.

In Search Of A Fresh Start

Bankruptcy is never pretty, but it does provide a fresh start for individuals like Linda Frakes, who lives in the Atlanta metro area.

By the time Frakes sought help from a bankruptcy lawyer, she owed about \$150,000 on her credit cards. And the former corporate manager turned entrepreneur was getting deeper and deeper in debt. She tried to work out a repayment plan with a credit counseling agency, but things didn't go smoothly, and bankruptcy began to feel like the only way out.



[Enlarge](#) Richard Drew/AP

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"It wasn't something I ever, ever thought I would consider let alone actually follow through with," Frakes says. "It seemed like the scarlet letter to me."

The single mother in her 50s, who had been living an upper-middle-class life, was both terrified and depressed.

"Up until that point in my life I really had defined myself by how successful I was," Frakes says. It was really difficult to come to the realization that she had gotten herself into a very difficult situation. "To me the equation was I wasn't as smart as I thought I was."

Using Credit To Stay Afloat

Frakes owned several successful businesses. But market conditions changed and she couldn't sell them as she had planned. As those in debt

often do, she resorted to credit cards to keep herself and her businesses afloat. Then, the other shoe dropped — someone who owed her a lot of money as part of a business deal quit paying.

"What was left of the income I was living off of disappeared," Frakes says. "Now I was scrounging just to pay daily living expenses and that's when I became trapped."

Frakes has chronicled her financial journey, in a self-published paperback, *How To Go Broke with Style: A User's Guide to Filing (or Avoiding) Bankruptcy with Humor & Grit!*

The Origin Of Personal Bankruptcies

Business failures are often at the heart of personal bankruptcies. So are serious illnesses, divorce, a death in the family and, increasingly, the loss of a job.

Some who choose to file for personal bankruptcy may be deadbeats or individuals who deliberately run up debts that they have no intention of paying. But Seattle bankruptcy lawyer Gloria Nagler says the vast majority of people who seek protection don't fall into either category:

"Believe me, people do not come into my office and say, 'Whoopie, I get to file bankruptcy.' "

Rather, she says, many people considering filing are often so embarrassed that they can't even look her in the eye.

"I quickly let them know it's not a moral failing," Nagler says. "My God, the economy is falling apart all around us. So many people are filing bankruptcy — I have twice the business. I can't even return all my calls." Other lawyers across the country report the same thing.

So many people have lost their jobs, says John Farver, another Seattle area bankruptcy lawyer, that they can no longer afford what they easily could have six months ago. "They need their own personal bailout," he says. "Just like the fat cats on Wall Street."

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