Economic vs. Social Predictors of Chapter 13 Completion Rates:
An In-depth Analysis of One Bankruptcy District

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Abstract

The intention of this study was to identify a group of debtor characteristics that predicted discharge from a sample of 1997 Chapter 13 bankruptcy filers in the federal district of Utah. The second objective was to use that same set of characteristics to predict the likelihood of dismissal at three stages of the bankruptcy process. Those stages were identified, first, as the period before the 341 hearing or meeting of creditors ($n = 115$ or 12.7%), second, before confirmation of the debtor's repayment plan ($n = 267$ or 29.4%), and third, the period after confirmation of the plan and before discharge ($n = 286$ or 31.5%). Once the best group of characteristics was discovered, the effects of demographic and economic characteristics were compared.

Discharged and dismissed debtors were found to have statistically significantly different levels of certain types of debts (i.e. secured and unsecured) based on pairwise *t*-test results. Although limited to one district, this study was the first to examine the likelihood of dismissal at three stages of bankruptcy prior to discharge via evidence derived from bivariate and multinomial logistic regression analyses. The study demonstrated that single debtors, debtors with children, debtors with previous bankruptcies, and those with higher levels of mortgage arrears were the most likely to be dismissed before completion of their repayment plans.

One of the major conclusions of the study was the discovery that social characteristics were indeed better predictors of case outcomes than economic characteristics as evidenced by the odds ratios of the exogenous variables in both the binary and multinomial logit analyses. Seemingly key financial indicators such as per-capita income, debt-to-income ratios, levels of unsecured debt, and income remaining after the trustee payment was made, carried surprisingly low proportions of statistical weight. Additionally, the three stages of bankruptcy, as mentioned above were, in fact, distinguishable in terms of completion rates. The implications of the study suggest that policy changes based on the economic variables will have minimal, if any, positive impact on Chapter 13 completion rates. The consequences of the proposed income means testing, for instance, may ultimately decrease the already low share of filers who complete their repayment plans (26.7% in this study).

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