

## **Factors Contributing to Consumer Bankruptcy**

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From 2002-2004 Utah ranked first in the nation in bankruptcy filings in relation to the number of households. Data collected by bankruptcy courts do not reveal the reasons why the debtor filed. To ascertain the reasons for filing, a questionnaire was developed based on Sullivan, Warren and Westbrook (2000). The objectives were to describe a financial and demographic profile of Utah Chapter 7 and Chapter 13 debtors; compare debtors to the Utah population; identify reasons for filing bankruptcy; and compare Utah debtors to bankruptcy filers in other districts. Questions addressed the reasons for filing, events leading up to the bankruptcy, who the debtor owed, type and tenure of employment and demographics. First, a list of reasons for filing was included in the survey where they could check all that apply. Second, the final question was open-ended and invited the debtor to explain the reasons for their bankruptcy. During Spring and Summer 2005 data were collected from 481 debtors at the meeting of creditors. Only 87 debtors refused to participate, mainly due to language difficulties.

Two-thirds (N=345; 65.3%) of debtors filed for chapter 7 debt liquidation; 136 (30.9%) filed a chapter 13 repayment plan, reflecting the current distribution of filings within the state. There were more male filers, with 264 males (52.7%), and 237 females (47.3%) responding as the primary debtor. Of the 282 debtors filing alone, 125 were male and 157 were female. The largest educational category was some college (41.1%); 15.7% did not graduate from high school. Only 11.0% earned a bachelor's degree or higher. Half the respondents reported being married; a change in marital status over the last two years was reported by 16.6%. Median age was 37. Debtors deviate from the general population; they are less well educated, less likely to own a home, more likely to be single, and less likely to be of the LDS religion. Active Mormons were underrepresented among debtors in relation to their portion of the state population.

The most common causes for filing were: job problems, credit cards, trouble managing money, illness or injury, aggressive collectors, and divorce/family problems. About 46% experienced an income interruption in the two years before filing. The self-employed were overrepresented. Almost 25% reported tax problems as a contributing factor. Job tenure for the debtors was short with employment at their current job for a median of 3 years; the modal job tenure was one year. Many debtors (46.7%) had medical debts that exceeded \$1000 although most (76%) had health insurance. In addition to mortgage and vehicle debt, one-third were behind on utility payments, one-fourth owe back taxes and 17% owe payday loans.

Utah debtors clearly had trouble managing money and credit, indicating a need for more financial education and information. An important finding of this study is that Utahns who file for bankruptcy are not a mirror image of the general population. They are less educated, less likely to be homeowners, less likely to be married, and more likely to be single parents.

### **Acknowledgment**

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### **Reference**

Sullivan, T. A., Warren, E., & Westbrook, J. L. (2000). *The fragile middle class: Americans in debt*. New Haven, CT: Yale University Press.

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