Personal Financial Recovery Following Bankruptcy: Education Topics of Interest

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The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) was enacted to eliminate perceived abuses of the bankruptcy system and to help rehabilitate bankruptcy petitioners financially by requiring pre-bankruptcy financial counseling and post-filing financial education. The United States Trustees Program oversees the financial education and financial counseling requirement. This educational forum is growing, in 2009 over one million individuals filed bankruptcy, 156 financial counseling agencies are approved as service providers, and 259 financial education organizations are approved as education providers (Barry, 2010).

Financial education providers must focus on the following topics (U. S. Dept. of Justice, 2006): budgeting, money management, wise use of credit, and consumer information. Financial education courses generally last under two hours. Assessment of financial education programs indicates that significant increases in financial knowledge and participants also appear ready to adopt new financial behaviors as a result (Lyons, White, and Howard, 2009).

Currently mandated financial education focuses only on specific financial management skills, or specific human capital. Given the broad causes of bankruptcy this specific financial human capital may be a less important factor in recovery relative to general human capital and social capital. This study seeks to examine empirically the general human capital, specific financial human capital, and social capital factors that are associated with financial recovery from bankruptcy to provide guidance on the content of the mandatory financial education sessions.

Data from the 2007 Survey of Consumer Finances (SCF) are used in this analysis. Financial recovery is the dependent variable and is proxied by a bankruptcy petitioner's net worth relative to the general population's net worth. A dichotomous variable indicates whether the bankruptcy petitioner has recovered from bankruptcy. Independent variables include: general human capital, specific financial human capital, social capital, financial attitudes, and demographics. A logistic regression model was estimated to examine the effect of these variables on the likelihood of recovering financially following bankruptcy.

All forms of human capital proxied in the analysis are significant predictors of an individual's ability to recover financially from bankruptcy. An increase in general human capital (e.g., education, health, on the job training, employment) increases the likelihood of recovery by 65%. An increase in financial human capital (e.g., paying bills on-time, access to credit, price comparison, saving for retirement, homeownership, stock ownership) increases the likelihood of recovery by 51%. Social capital is marginally significant in the recovery process.

Results highlight the importance of general human capital as well as financial management human capital in the financial recovery process. Financial education topics, as currently mandated, may myopically overemphasize specific financial management human capital at the expense of emphasizing general human capital.

References

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