

# **In Search of A Fresh Start: Can Credit Counseling Help Debtors Recover from Bankruptcy?**

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## **Abstract**

The 2005 Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) includes two educational provisions which require debtors to complete an approved credit counseling course prior to filing for bankruptcy as well as a financial education course prior to discharging their debt. In 2009, one of the largest full-service nonprofit consumer credit counseling agencies in the U.S. launched a multi-phase research study that tracked debtors through the entire bankruptcy process, from the time they entered counseling to a post-bankruptcy follow-up interview. The study sought to measure how debtors' financial knowledge and behavior changed as they moved through the new bankruptcy process. Data were collected from a national sample of nearly 4,000 debtors who participated in both the credit counseling and education courses.

This study uses that data to assess the extent to which debtors engaged in positive behaviors following the completion of both the counseling and education courses and to investigate the factors associated with debtors adopting good financial behaviors post-bankruptcy. Overall, debtors showed strong behavioral improvement post-bankruptcy, raising their total behavior score, on average, by 30 percent. The results show that, while pre-bankruptcy behavior is still by far the strongest predictor of post-bankruptcy behavior, debtors' post-bankruptcy financial behavior also depended on their socio-economic status and current financial circumstances. Further analysis using quantile regression revealed that prior behaviors and recent financial "shocks" had the largest effect on those with the poorest post-bankruptcy behavior scores. Additionally, debtors reported very high rates of satisfaction with, and self-perceived benefit from, the mandatory counseling. Together, these results suggest that the educational provisions of BAPCPA yielded significant benefit to debtors without imposing on them an undue administrative burden.

## **References**

Lyons, A. C., Scherpf, E., & Howard, S. (2010). In search of a fresh start: Can credit counseling help debtors recover from bankruptcy? Urbana, IL: University of Illinois at Urbana-Champaign.

## **Endnotes**

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