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CONSUMER BANKRUPTCY: A CONTINUING PROBLEM

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Although a great deal has been written about consumer bankruptcy, neither the bankrupt nor his creditors have been satisfactorily identified. Little is known about the bankrupt's characteristics or the sources of his credit. Is a particular segment of society subject to bankruptcy, or is it a malady of the general population? Do all creditors share the responsibility, or, as frequently asserted, does the consumer loan company play an important role in the consumer's flight toward bankruptcy? This paper attempts to answer these questions and to supply a workable solution to the ever-increasing number of consumer bankruptcies.

The consumer bankrupt shall be defined as an individual who uses the Bankruptcy Act to discharge his debts, none of which are the result of past business endeavors. In fiscal 1965, filings of 135,386 consumer bankruptcies were recorded, a record representing a 5.8 per cent increase over the previous year and 214 per cent increase in the past decade.¹ Adequate data and the amount of debt involved on a national level are not available;² however, data developed in the writer's study, as well as in other studies, indicate that the typical bankrupt owes about \$3,200 of non-real estate debt.³ Based on this figure, consumer bankrupts held about \$433 million of debt at time of bankruptcy in 1965. Perspective may be obtained by comparing the debt to the amount of consumer credit outstanding. Consumer bankruptcy debt, in 1965, represented approximately 0.5 per cent of consumer credit outstanding. Thus, although consumer bankruptcy is growing at a rapid rate, it still involves a relatively small amount of consumer credit.

The study providing data for this paper was done in Flint, Michigan, county seat of Genesee, and covers 482 consumer bankruptcy petitions, all petitions filed in 1963 in that county. The area is a highly industrialized automobile based economy. It should be typical of many industrial communities of the nation, and, thus, lend some degree of generality to the data.

CHARACTERISTICS OF THE CONSUMER BANKRUPT

The bankrupt's identity may be briefly summarized in the following manner. He typically is a white male thirty years old with a family of five. With a tenth-grade education, he works at a blue-collar job for an income of \$4,656. Although the bankrupt in terms of his social and income characteristics is atypical of the general population, he is typical of a large part of contemporary society. A closer look at the underlying data reveals several interesting characteristics.

¹ These figures indicate a slightly slower rate of growth of bankruptcies than usually reported, due to the exclusion of Chapter XIII cases. Although Chapter XIII cases are provided for in the Bankruptcy Act, they usually provide for debt repayment rather than discharge; therefore, they are not considered bankruptcies in this paper.

² The Administrative Office of the United States Courts reports the amount of debt recorded on the petitions filed in bankruptcy, but does not classify the data so that consumer bankruptcy debt can be distinguished from business bankruptcy debt.

³ Note, in this paper, real estate is excluded due to the inaccuracy of available data and because it is the only type of debt in consumer bankruptcy on which little is lost by creditors. See the following studies for average debt estimates. Robert Dolphin, *An Analysis of Personal and Economic Factors Leading to Consumer Bankruptcy*, Bureau of Business and Economic Research, Michigan State University, 1965; George A. Brunner, *Personal Bankruptcies: Trends and Characteristics*, Bureau of Business Research, Ohio State University, 1965; John J. Brosky, *A Study of Personal Bankruptcy in the Seattle Metropolitan Area*, Retail Credit Association of Seattle, 1965.