

Personal Bankruptcies Hit Record *Growth Spurred in Credit Counseling Industry*

by Paul Lewis

Personal bankruptcy filings in Massachusetts reached a record 14,863 cases in the 12 months ended June 30, 1996, according to statistics from the federal government's U.S. Courts bankruptcy division.

The increase follows two years in which filings dropped slightly, which had raised hopes that bankruptcy rates had finally leveled off after a 1991-93 spike.

Over the longer term, the government figures show that personal bankruptcy filings in the Bay State have been running at much higher levels during the 1990s than in the previous decade. Starting in 1990, total cases leapt to five-digit figures and have stayed at 12,000-plus levels ever since (see table, page x).

The upward trend shows no sign of abating. For the first nine months of 1996, total statewide personal filings of 12,858 were up 17 percent from the same period in 1995, according to data from the Massachusetts district of the U.S. Bankruptcy Court. Chapter 7 cases—the most severe category of bankruptcy, entailing liquidation of an individual's unprotected assets—led the increase, rising 19 percent.

In contrast, business bankruptcies in the state have dropped steadily since peaking in 1992, according to federal government statistics. The 1,079 business cases filed in the year ended June

1996 made up less than 7 percent of the period's total and were less than half the number filed four years ago.

The surge in Massachusetts personal filings mirrors national trends. For the country as a whole, personal bankruptcies hit a record 989,172 cases in the year ended June 30, 1996, at the same time that business filings held steady at 52,938. Personal filings this year nationwide are projected to exceed the one million mark for the first time in U.S. history, according to American Banking Association chief economist James Chessen [as reported by Reuters, 9/12/96- testimony before the House Banking Committee]

Furthermore, consumer credit card delinquencies have climbed steadily over the past 1_ years, reaching levels previously only seen in recessions, says Chessen. According to Bankcard Holders of America, a consumer group, Americans now owe an average \$3,900 per person on credit cards. [as reported in the 10/28/96 Boston Globe].

These disturbing numbers form a sharp contrast to the glowing picture painted in recent months by both state and national government agencies of healthy rates of job creation, low unemployment and rising levels of production.

As the number of financially distressed consumers continues to rise, the business of counseling them is booming.

“Our agencies are having a record year,” says Bill Furmanski, spokesman for the National Federation for Consumer Credit, a Silver Spring, Md.-based umbrella organization of 200 nonprofit credit counseling services. NFCC agencies saw 816,000 clients in 1995 and Furmanski says that the 1996 total is expected to reach one million.

Nonprofit counseling agencies such as those affiliated with NFCC typically offer budgeting advice, debt management services, debt mediation to renegotiate credit terms, and referrals to attorneys and other social service agencies when appropriate to, for example, pursue absent parents for child-support payments or file for bankruptcy protection.

Creditors usually welcome the intervention of these services, which are mainly funded by tax-deductible “donations” from creditors, often 5 percent to 15 percent of what is recovered from clients, according to agency sources. For creditors, the nonprofit services act essentially as a kinder, gentler type of collection agency, rewarding consumers who are proactive in seeking help, and also provide preventive education to help consumers from sinking too deeply into debt in the first place.

Boston-based Consumer Credit Counseling Services, a NFCC-affiliated organization with 20 offices throughout the state, expects to have seen 10,000 financially distressed clients in 1996, versus 6,000 in 1995 and 4,800 in 1994, according to its executive director, Mel Stiller. “Our clients come from employee assistance programs, government and social service agencies, the educational presentations we make” and other sources, says Stiller.

“The number of people calling us for help has skyrocketed” says American Credit Counseling Service vice president Mark Higgins. ACCS has seen three times as many client clients over the past year as it did the year before, says Higgins. The Foxborough-based nonprofit, which now has five offices in Massachusetts and other locations scattered along the eastern seaboard, just added two staffers, and, with several new offices in the works, is actively recruiting counselors, according to Higgins.

Lee Bourque, founder and director of Credit and Debt Consulting of America, is planning an aggressive expansion to 20 offices from the current four in Cambridge, Somerville, Walpole, and Manchester, N.H. After a dip in client volume a few years ago, Bourque says his agency has experienced a resurgence, with “several hundred” clients seen this year. Unlike the other agencies interviewed for this article, Bourque says his organization collects its fees directly from the client, with no contribution from creditors. “This way, clients are forced to take responsibility for the management of their finances,” says Bourque.

Speculating on why more and more people are running into severe personal financial problems while the economy, at least as reported in production and employment statistics, seems to be in good health, CCCS’s Stiller comments that “there’s lots of consumer confidence, and creditors are confident too,” leading to excessive personal borrowing and lending. ACCS’s Higgins adds that “it’s easy [for young people] to get credit cards, yet there’s no financial education for the young,” That is why he wants to launch a pilot program of financial education at Foxborough High School.