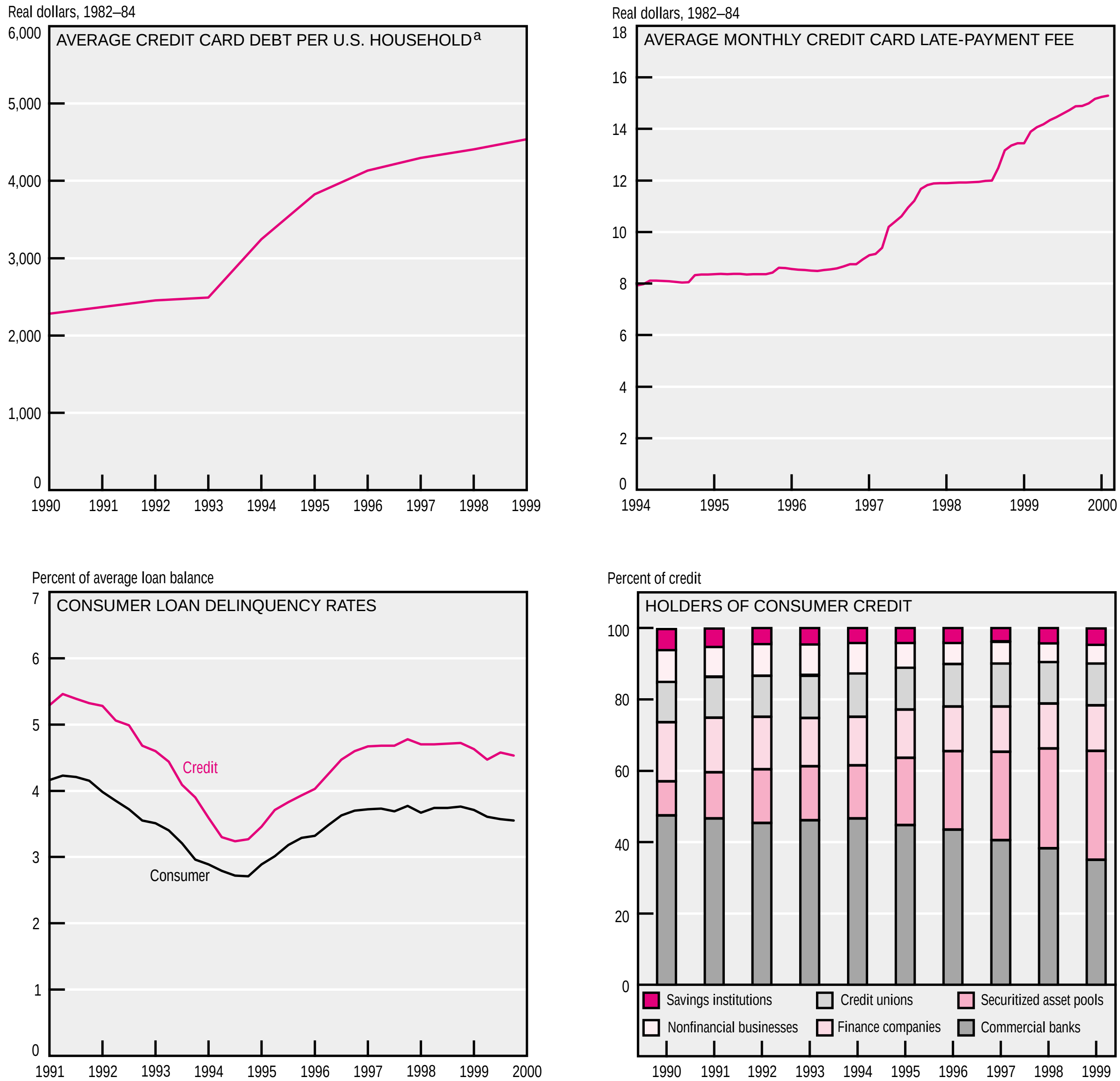
Household Financial Conditions



a. Average of households with at least one credit card.
SOURCES: Board of Governors of the Federal Reserve System; and CardWeb, Inc., *CardWeb News Release,* March 21, 2000.

The increased number of bankruptcy filings in recent years is often attributed to rising levels of consumer indebtedness. Since 1990, average credit card balances per household (adjusted for inflation) have more than doubled. Delinquency rates for consumer loans rose markedly in the mid-1990s but have remained stable in recent years.

Holders of consumer debt have changed considerably over time. A decade ago, commercial banks held nearly 50% of all consumer credit. This proportion declined steadily throughout the 1990s, so that today banks hold only 35%. Savings institutions have also become less important as sources of consumer credit. Throughout the 1990s, pools of securitized assets absorbed an increasing proportion of outstanding consumer credit.

The Bankruptcy Reform Act of 1994 increased the value of assets protected from seizure by creditors. This may have contributed to the upward trend in bankruptcy filings by individuals since its passage. Last year, however, their number declined, both across the U.S. and

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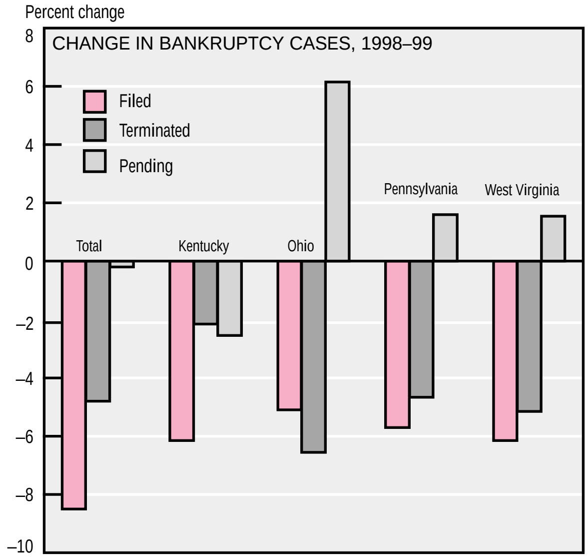
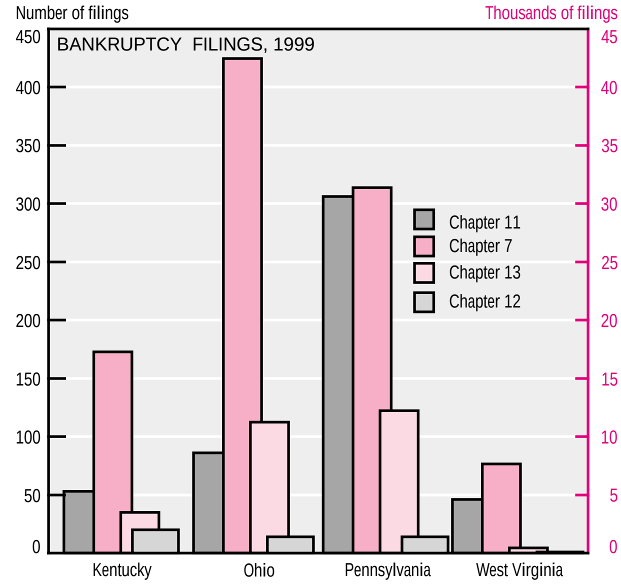
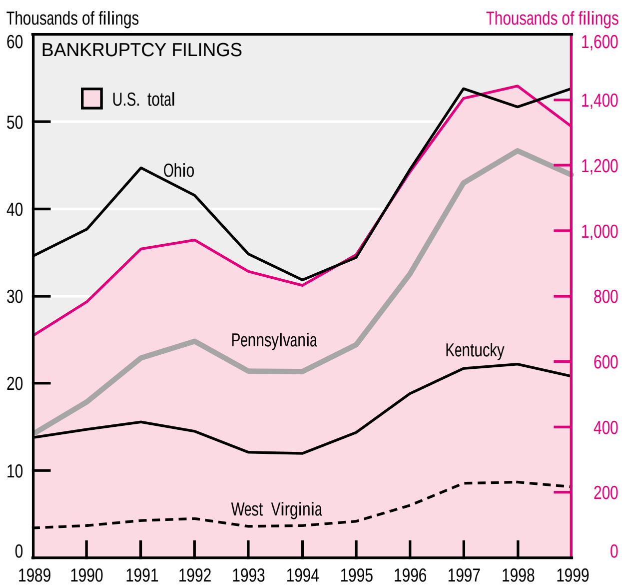
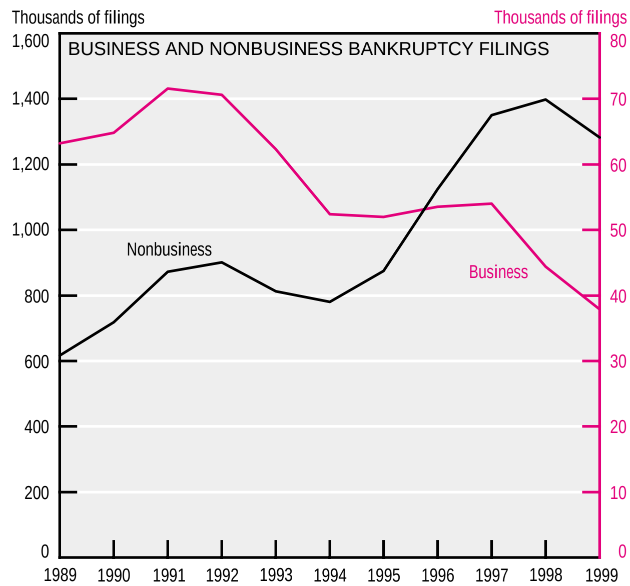
Household Financial Conditions (cont.)









SOURCE: Administrative Office of the U.S. Courts.

within Fourth District states. In 1999, national consumer filings dropped more than 8% from their record levels of the previous year. Bankruptcy filings by businesses continue to follow the downward trend initiated in the early 1990s.

Congress is now considering some changes in the bankruptcy laws. Legislators, alarmed by the increase in bankruptcy filings in recent years, proposed a law to reduce the number of filings by restricting the use of Chapter 7 provisions. On February 2, the Senate overwhelmingly passed a reform bill that would allow judges of bankruptcy cases to force Chapter 13 filing by debtors who can afford to pay $15,000 or 25% of unsecured credit over five years. Creditors could also ask judges to require debtors to file for Chapter 13 reorganization instead of Chapter 7. The House passed a similar, but stricter, version in May 1999.

Under Chapter 13, debtors repay creditors in full or in part through installment payments. With Chapter 7, certain debtor assets are liquidated, creditors are paid from the proceeds, and the remaining debt is at least partially erased. Some assets are exempt from liquidation, and certain debts cannot be erased. Filers currently choose the heading under which they will file, and more than 72% of them opt for Chapter 7. The proposed changes would limit their degree of choice.