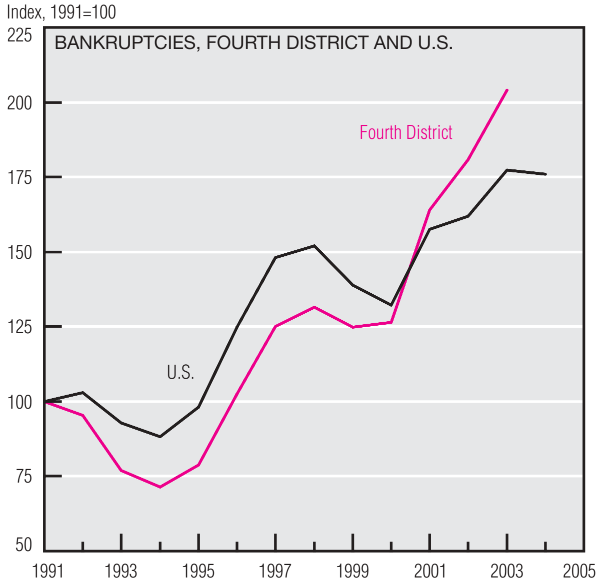
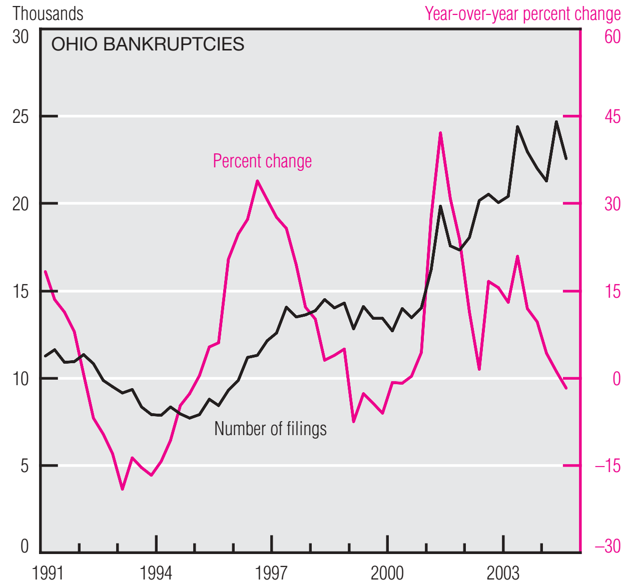
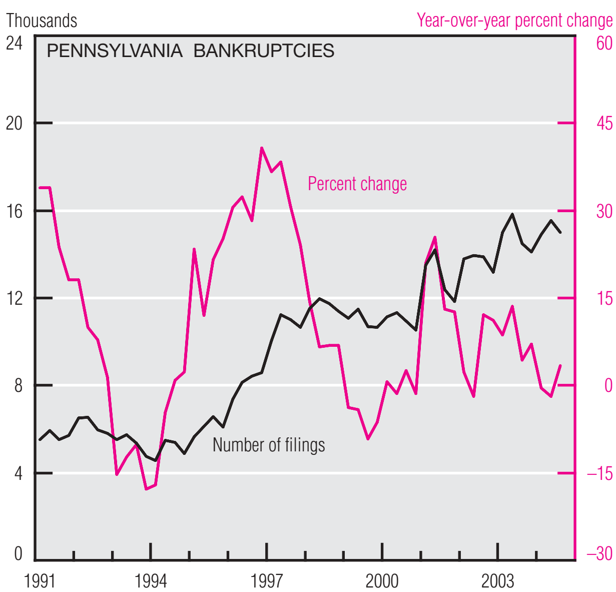
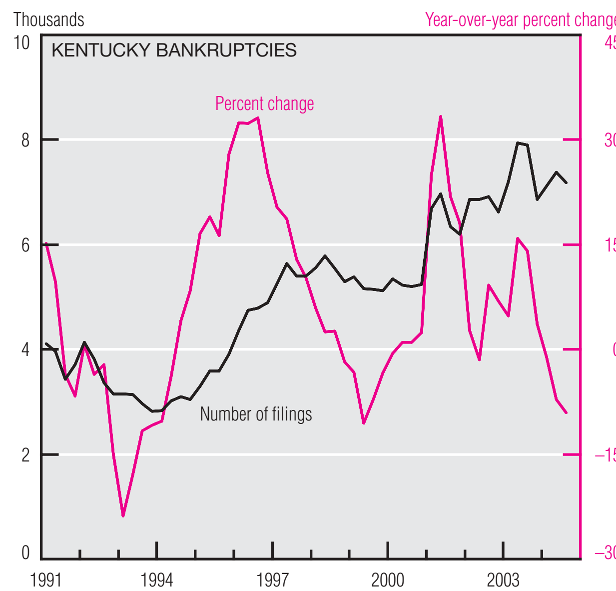
Bankruptcies in the Fourth District









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

Bankruptcies cost businesses and consumers billions of dollars every year, but they also offer essential protection for debtors. The two main types of bankruptcies are Chapter 7 and Chapter 13. In a Chapter 7 bankruptcy, individuals' or businesses' debts are abolished, but their nonexempt assets are liquidated. Nonexempt assets (property that creditors can take as compensation) differ from state to state. In a Chapter 13 bankruptcy (Chapter 11 for businesses), the debtor, creditors, and court agree on a plan for repayment, usually within three to five years.

Bankruptcies in the Fourth District have tracked the national average closely over the past decade. Although it is true that the number of bankruptcies filed is influenced primarily by economic conditions, such as consumer debt and labor market changes, it is also a function of legislation. For example, large year-over-year increases in bankruptcy filings in 2001 were caused by both economic conditions and proposed bankruptcy reform legislation that would have made it more difficult to file after 2001. Although the reform never passed into law, talk of it caused an increase in filings, designed to beat the proposed legislation. As economic conditions improved and talk of reform quieted, the acceleration in bankruptcy filings fell off a bit.

Bankruptcy filings in the Fourth District states generally rose throughout the last decade. For all four of these states, bankruptcy levels are at about the same level as a year ago.