

Prospectus

Bankruptcy Fraud; Bankruptcy Costs

A Study of Personal Bankruptcy Statistics & Cases

- **Suspicious Statistics: Personal Assets, Debts, Incomes, & Expenses**
 - **Case Studies: Wild Claims; Needless Filings**
 - **Costs by Type of Debt: Frequency & Dollars**
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**Important information about a new SMR Research
study on personal bankruptcy filings**

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SUMMARY OF THE STUDY

SMR has done several studies on the bankruptcy epidemic, as many clients know. **But this one is different.**

There are lots of reasons for bankruptcies. **The one that's been hard to pin down is the degree to which filings result from fraud, abuse, and "bankruptcies of convenience," where debtors could pay but won't.**

We gathered a random sample of Chapter 7 petitions in 24 states, all filed the same day: June 5, 2002. It was the day in the middle of the worst year for filings. Our sample size was about 7.9% of all the Chapter 7 filings of that day. All the cases we studied were successfully discharged.

We created a database of asset, debt, income, and living expense numbers and looked at the statistical results. We also did something judges don't always do: We read some of the petitions carefully.

The FBI estimates that 10% of bankruptcy filings involve fraud of some kind. But fewer than 0.1% of filers are convicted. And our statistical analysis suggests that even the 10% fraud estimate is probably low.

For instance, in what amounts to a wild supposed coincidence, nearly one-third of filers say they spent their very last cash on their legal and filing fees.

Among individual petitions, one after another stretched credibility to its limits. We illustrate with **30 case studies**, all pretty clear stuff. Check **James**, who had \$800,000 of unsecured debt but claimed the assets he acquired were gone after being struck by lightning. **Russ** in California had no job, no income, and no cash but somehow maintained his monthly gym membership. **Brian** owed money on a hot tub he claimed was stolen (by a gang of patient thieves, apparently; it takes hours to drain one and at least six large men to lift the shell.)

Bob and Susan had \$120,000 of annual income but couldn't pay their debts for one big reason: \$826 per month they spent on a SeaRay boat. Still, they reaffirmed the boat loan. **Alexis** filed, owing only \$2,088 in total debt, even though she had a good job and could have paid half the debt with what she spent on lawyer and filing fees.

On cost issues, we compiled more than 5,000 different debt claims of the petitioners. The study classifies debts by type, and evaluates the frequency, cost distribution, and total cost of each.

We offer a new idea to attack the fraud issue. Risk management executives also can use this study to benchmark their costs against national averages. Legal and government affairs executives may find it helpful in Washington.

The study is 80 pages, spiral-bound. An Order Form is enclosed. Thanks.

HIGHLIGHTS

BANKRUPTCY FRAUD & FILINGS OF CONVENIENCE

Most bankruptcy fraud involves hidden assets, the FBI says. **So, if you merely study what the filers do report, can you learn anything about fraud or “filings of convenience?” Yes, you can:**

- **Average debt per petition for recently made store and other credit card charges was \$21,576. But the average value per petition of all household-type assets accumulated over a lifetime was \$2,009. What happened to all the other stuff they just bought?**

- **More than 28% of filers, by their own admission, have take-home income higher than their monthly living expenses.**

This is true even though “take-home” income is often reduced by voluntary deductions, and expenses often seem inflated. Check Jerry, a single New Jersey teacher. He moves income into a “tax shelter” and spends hundreds of dollars a month on bowling, other recreation, and unspecified “emergencies.”

- **9.5% of filers claim that, in a wild coincidence, their bankruptcy fees of about \$1,000 were their last cash, down to the penny. Nearly one-third of filers claimed they were nearly penniless after paying these fees.**

- **In some cases, filers reaffirm debts they cannot pay, if you believe the rest of their petitions. See Case Study #30 on Louise.** She reports total life savings of \$300. Her only income for years has been \$500 per month in social security. Yet, she reaffirms two mortgages and a loan on a Chevy van. She owns a pickup truck, too, but that’s paid off.

Using statistics from petitions and vignettes from real cases, this study paints a clear picture of bankruptcy abuse from just one day’s filings.

THE COST OF BANKRUPTCY

The SMR staff created 22 categories for secured and unsecured debts owed by Chapter 7 filers in our sampling.

Some findings will not surprise you. General-purpose credit cards are the most common debt type by far. **But they are not the largest debts in total.**

In utilities, telephone-related debts have grown huge. Many filers now have three telecom debts: home phone, cell phone, and Internet. Medical debts are common, but were the largest single category for only 2.4% of filers.

In each debt category, we show the distribution of debts owed per petition, and total amounts owed, for creditor risk control benchmarking.

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Cost of Driving - To The Casino?	Bad Movies
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When You Need a Vacation	Bankruptcy of Convenience
Shotgun Preacher Loved Plastic	Holding That Low-Pay Job?
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