

Personal Bankruptcy Decisions of Lower-Income Homeowners

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Motivation

**What Drives
Bankruptcy Decisions
of Lower Income Homeowners:
Financial Gain
and Adverse Events?**

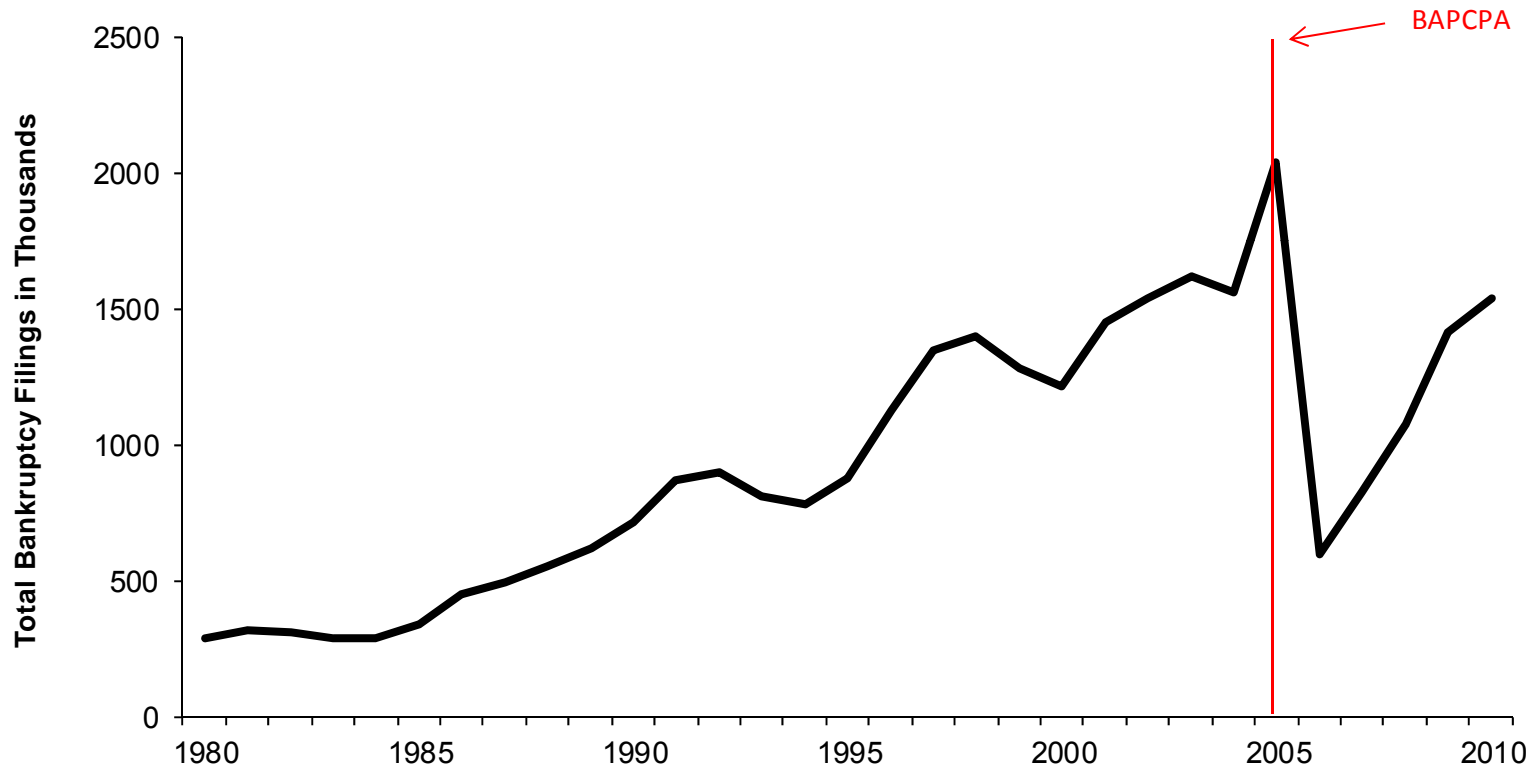


Bankruptcy Primer

- Mortgages of primary residences can not be adjusted in bankruptcy
- Filers choose Chapter 7 or 13
- BAPCPA (2005)
 - Income-Driven Means Test
 - New Requirements for Debtors & Lawyers



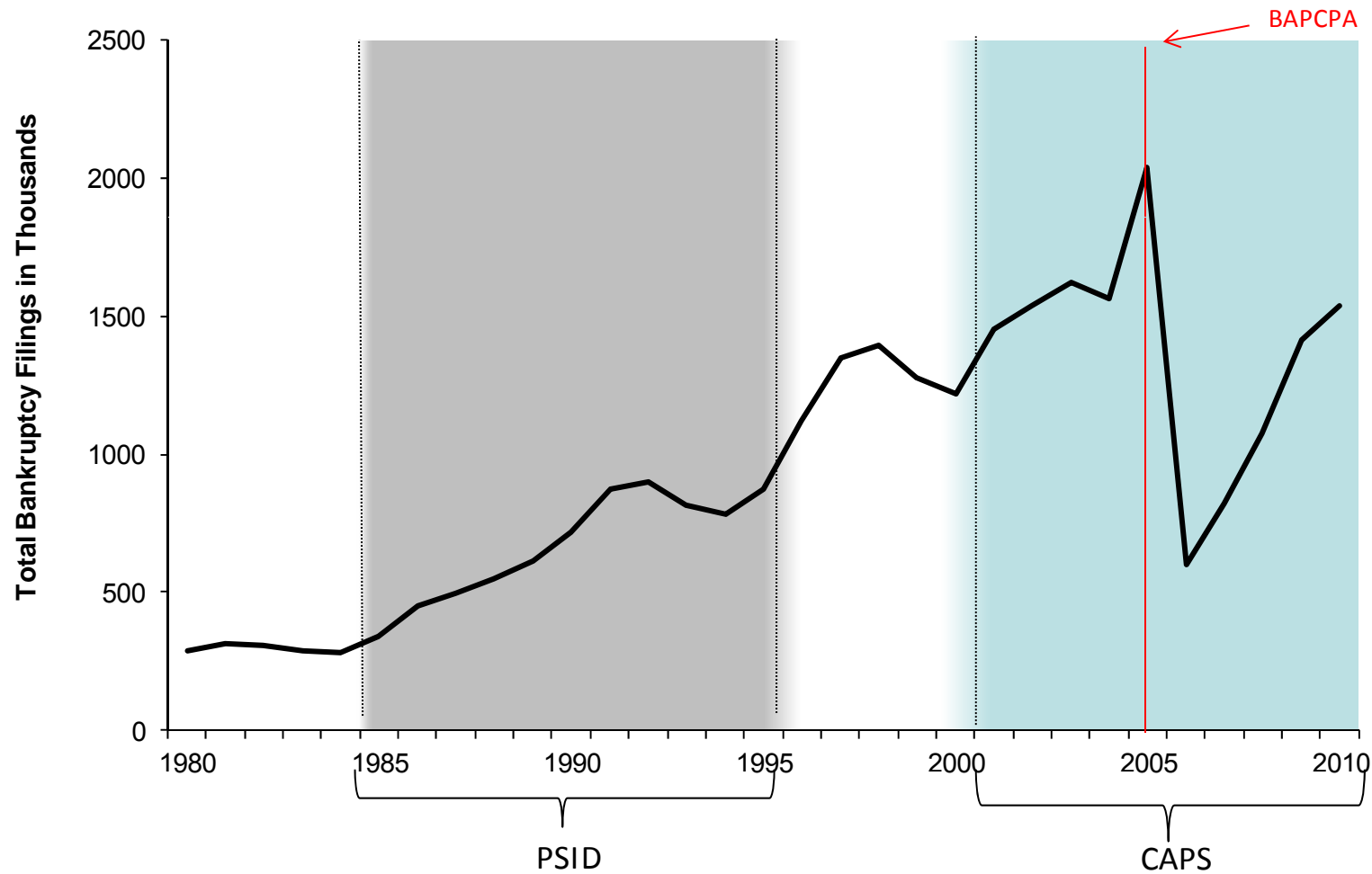
U.S. Bankruptcies Spike in 2005



Background



Bankruptcy Decisions Data, 1980 - 2010





Community Advantage Program

Affordable Housing Goals

Self-Help, Ford, Fannie, CCC

Mortgage Originations

Prime 30-year fixed

Loans: 97% of House Value

54% w/Credit Score ≤ 680

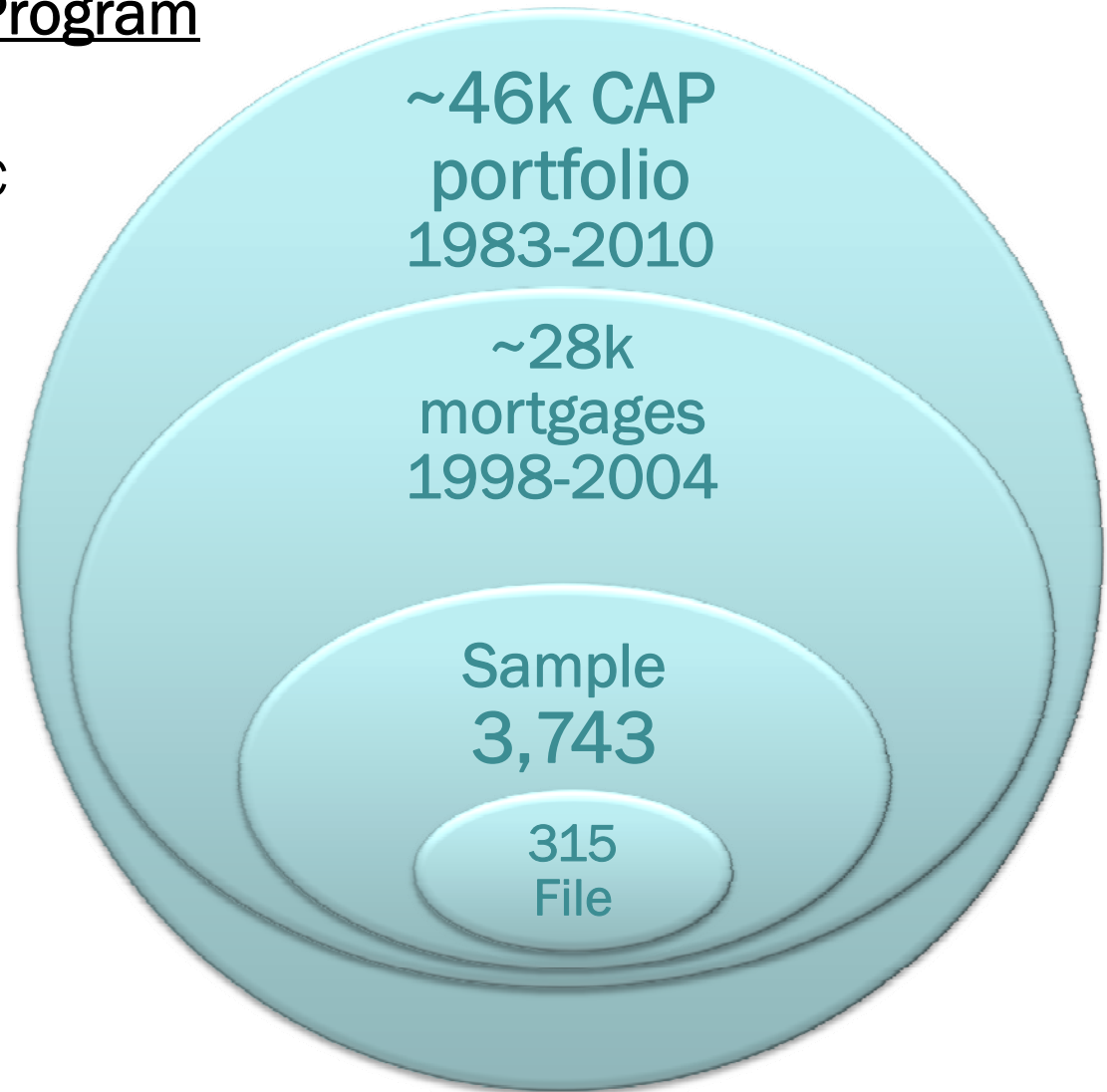
Sample:

Earned 62% AMI

40% minority

46% female head

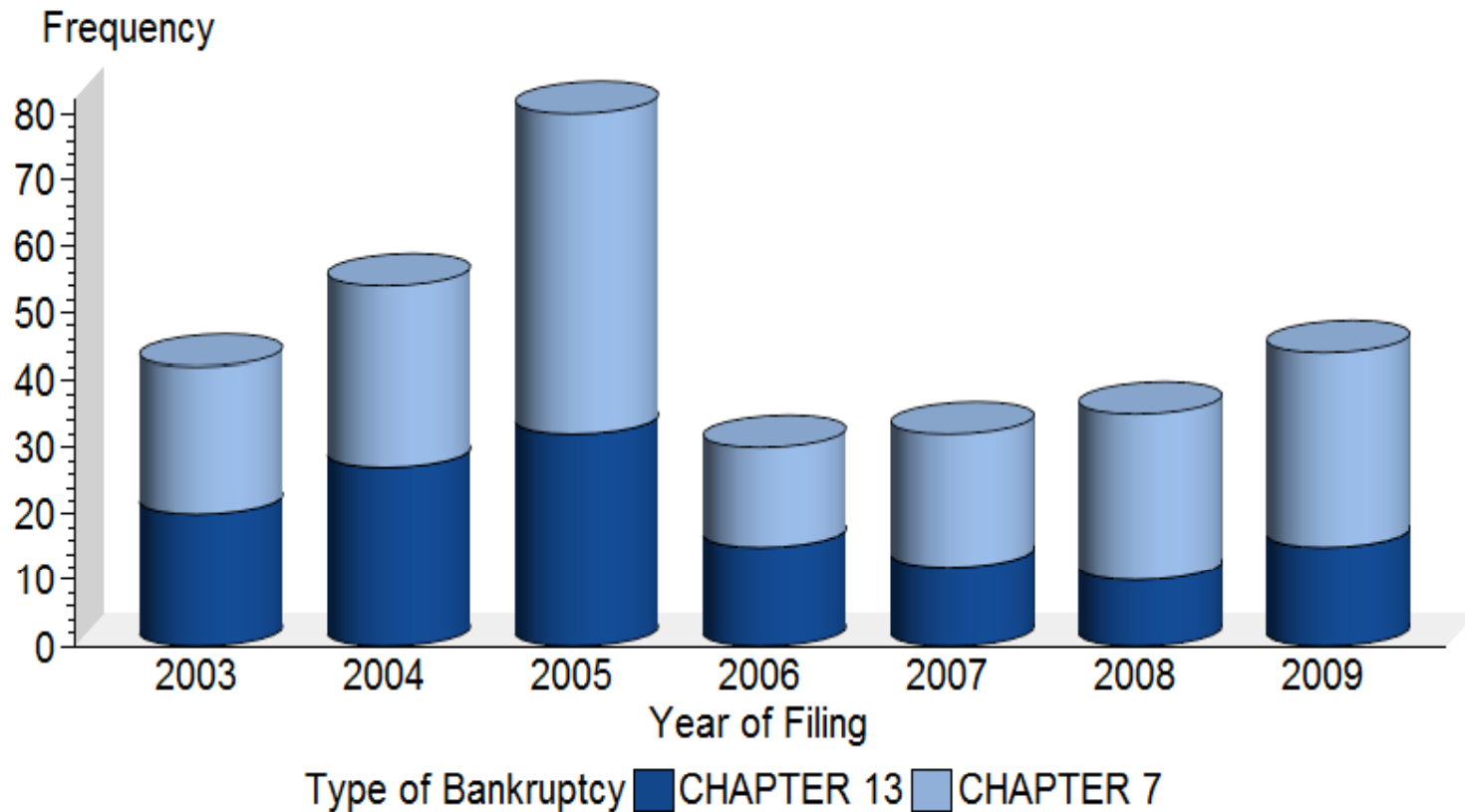
53% have children



Data Overview



CAPS Bankruptcies Spiked in 2005, despite Incomes below BAPCPA's Means-test

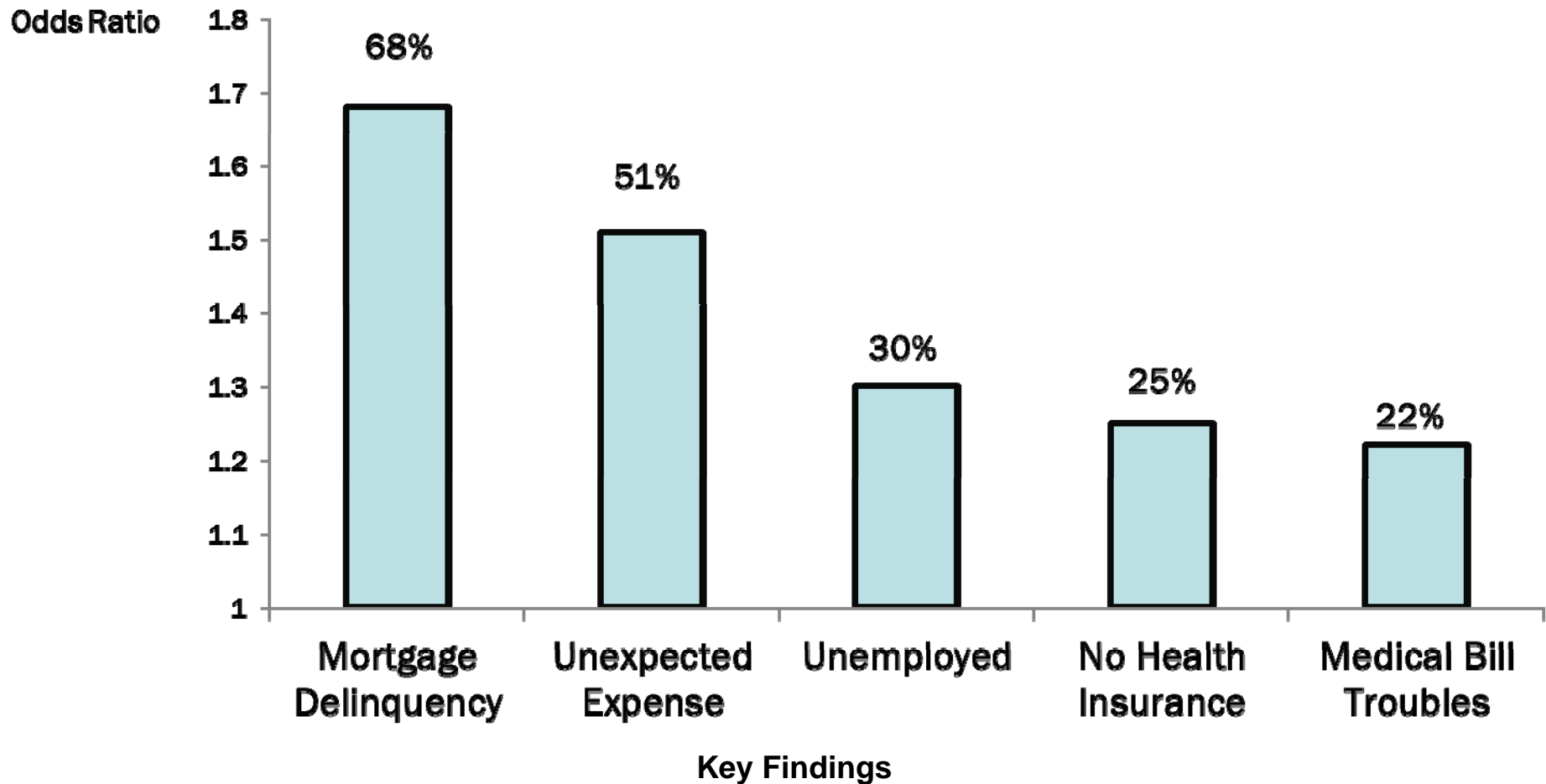


• N=315 Bankruptcies



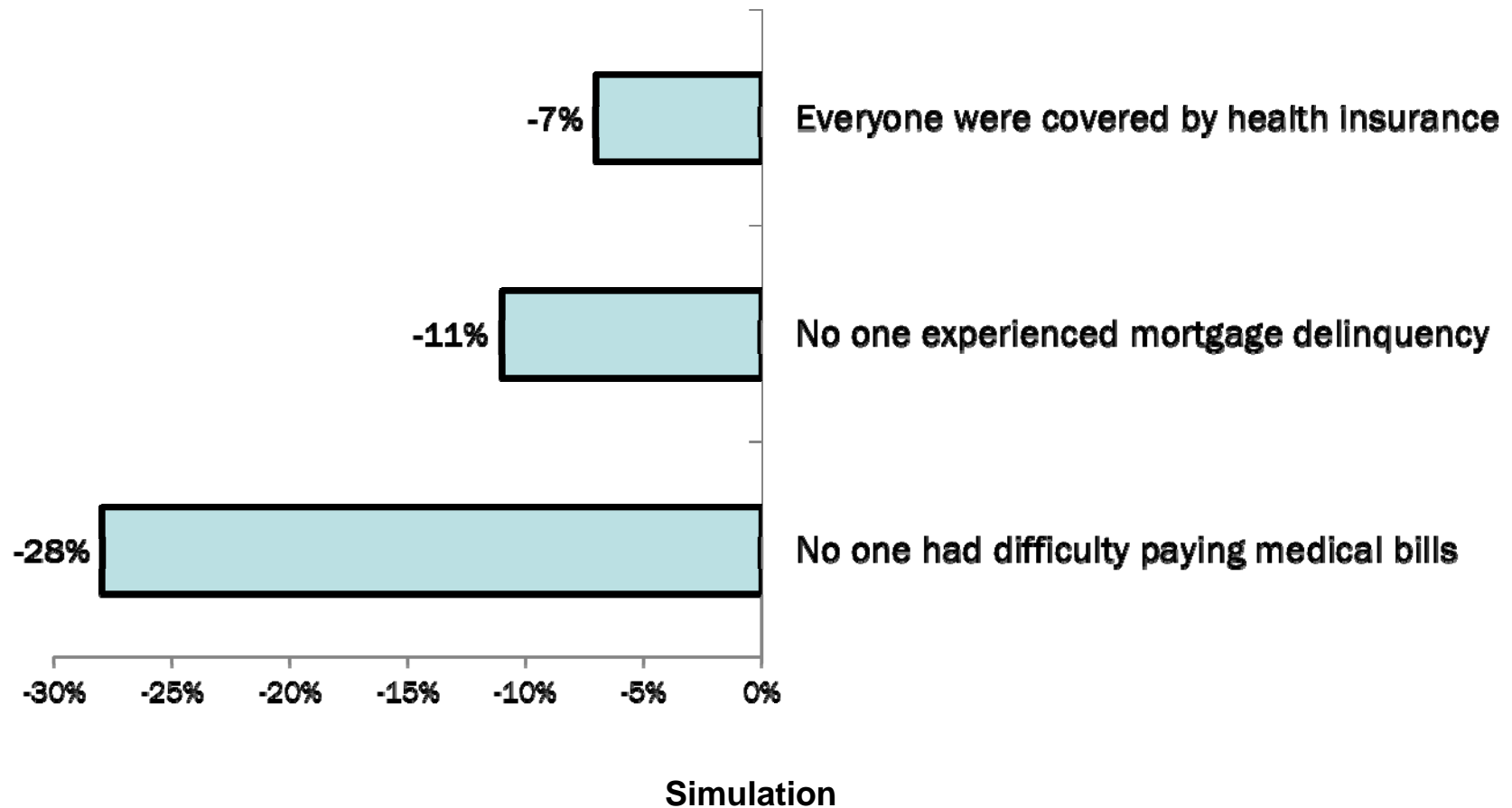
Adverse Events Matter:

% more likely to file when experiencing...





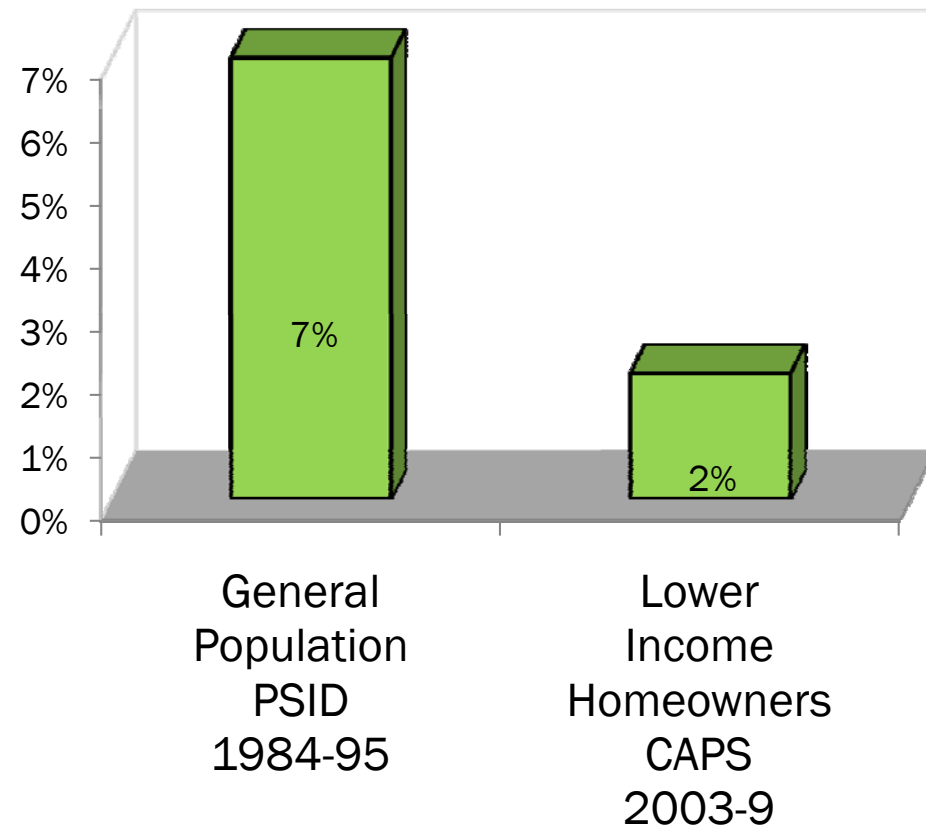
How Bankruptcy Rate Would Change IF...





Increasing Financial Benefit of Filing by \$1,000

Smaller impact in
raising bankruptcy
rate among lower
income households



Simulation



Future Research

- Why Don't More People File for Bankruptcy?
 - Does stigma discourage debtors from filing?
- Bankruptcy Chapter Choice: 7 vs. 13
- Mortgage Performance and Bankruptcy
 - Does bankruptcy save homes from foreclosure?
- Researchers Need Better Data



Policy Relevance

- Health Insurance Coverage
- Unemployment Aid
- Change Financial Benefit of Filing?
 - Exemptions and filing fees
- Bankruptcy Law
 - Should homeowners be allowed to modify mortgages on primary residences in bankruptcy?