Bankruptcy Filings Fall Nationally

November 8, 2012 - Federal bankruptcy filings have fallen signiciantly over the past fiscal year; which ended on September 30th. In fact, they were down 14% when compared to 2011. That brings them down to 2008 levels and is an encouraging sign that consumers are getting their personal finances in order. But there are other reasons for the drop that tell a different story.

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The drop in bankruptcy filings isn't just because of actions taken by consumers to make sure they can pay their bills. It is also a result of the actions of lenders.

Since the collapse of housing markets in 2007, lenders have tightened their lending standards significantly. This has made it significantly more difficult for consumers to gain access to new lines of credit. Whether that credit is for the purchase of a home or for a simple credit card, consumers are finding that they are much less likely to be approved today than they were six or seven years ago.

Creditors have also been much less aggressive in recent years when it comes to pursuing delinquent payments. This is especially true with regard to delinquent mortgage payments. This delay in debt collection activities has made it unnecessary for some consumers to file for bankruptcy. But that reprieve may only be temporary.

Since the settlement of a law suit between the nation's five largest lenders and 49 states, banks have stepped up their foreclosure activity. This accelerated activity could very well lead to another increase in bankruptcy filings for the current fiscal year but it is too soon to know that yet.

Credit card companies have also been less aggressive in pursuing bad debt over the past couple of years. In fact, they currently write off more than 50% of the bad debt on their cards rather than suing. The economy has influenced this behavior. Lenders don't want to throw good money after bad chasing people who simply can't afford to pay them anything. While this has given some consumers a reprieve from debt collectors, this too could be temporary as many of these debts will be sold for pennies on the dollar and the new owners may decide to pursue collection. Depending upon which state the debtor resides in, these debts could come back to haunt them years from now.

byJim Malmberg
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