

## Oct. 2020 YTD Change in Ch. 7 and Ch. 13 Filings

National Average of -37%

(statics provided by <https://www.aacer.com>)

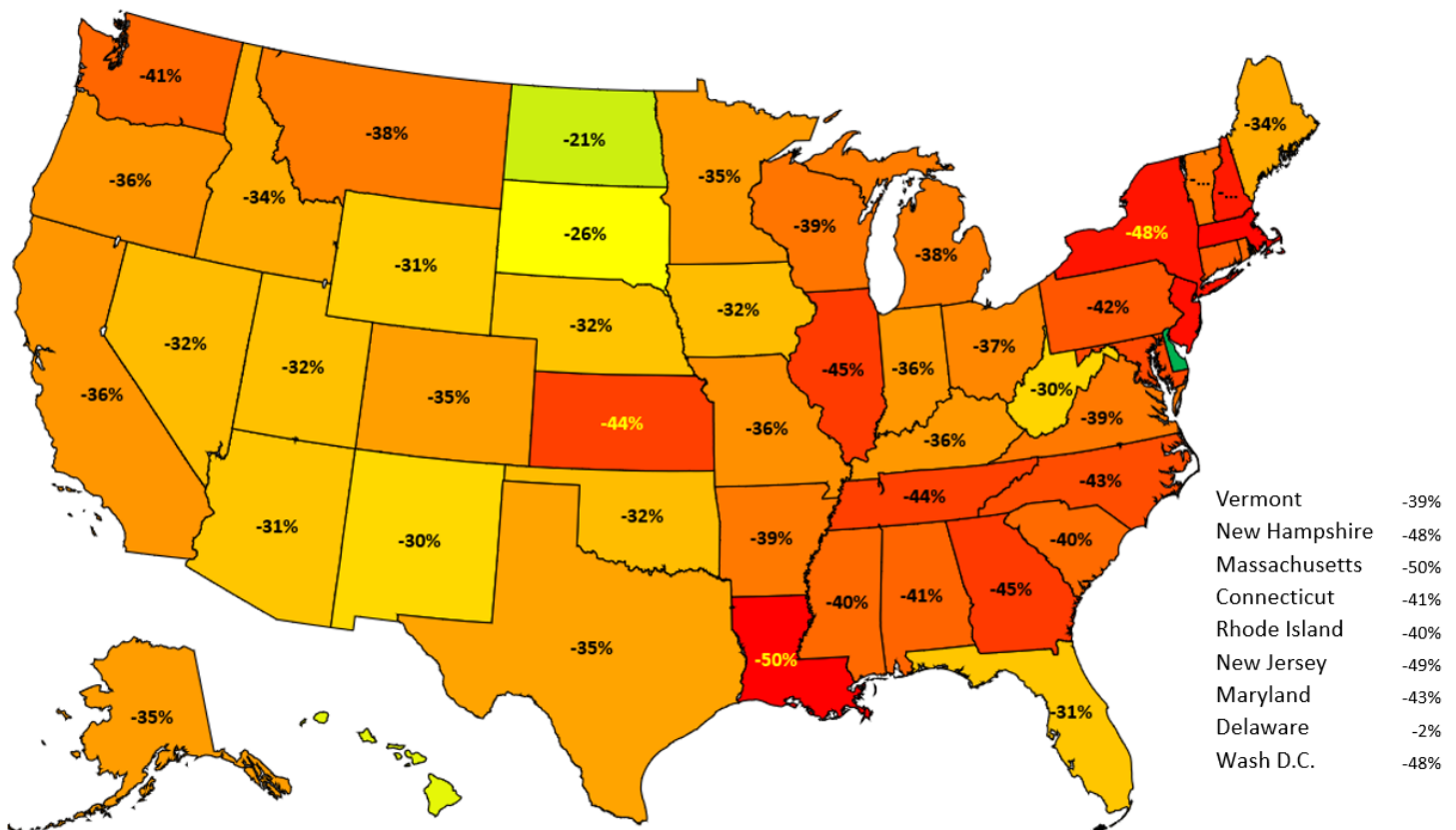
Consumer bankruptcy filings continue their counterintuitive decline in light of the ongoing economic impact of the COVID pandemic. Here are some possible explanations for this phenomenon.

Individuals usually do not seek bankruptcy relief until they experience a triggering event such as a notice of foreclosure, vehicle repossession, or garnishment. In light of the CARES Act and mandatory and voluntary forbearance programs, many have not yet been hit with a triggering event. But this cannot continue. According to the Mortgage Bankers Association,<sup>1</sup> properties in foreclosure are at their lowest rate since 1982 (likely due to forbearance programs), but properties with a delinquency of 90 days or greater (and not in foreclosure) are at their highest level since 2010. But unlike the 2008 Great Recession, home prices during the COVID Recession have not declined. Indeed, in many areas home prices have increased. Perhaps these home equity cushions are providing greater motivation to stay current and offering consumers credit options in the form of home equity loans that were not available in 2008.

As a corollary to this, consumers may be waiting to see if additional government assistance will be forthcoming. And if lenders are not yet pulling their bankruptcy triggers, consumers may be so preoccupied with other COVID stresses that meeting with a bankruptcy attorney is not a priority.

Second, since the pandemic, personal savings have increased by almost \$3 billion, and credit card debt has declined by \$110 billion.<sup>2</sup> Did folks learn from the 2008 Great Recession that at the first sign of trouble in early March, it was time to stop spending and start saving?

One thing is certain, these numbers do not evidence a decreasing need for bankruptcy relief. Rather, like the ocean receding as a portent to a tsunami, these declines signal a building bankruptcy wave that in the coming months will wash over our country and perhaps test the capacity of our bankruptcy system like never before.



<sup>1</sup> <https://www.mba.org/2020-press-releases/november/mortgage-delinquencies-decrease-in-the-third-quarter-of-2020>

<sup>2</sup> <https://fred.stlouisfed.org/>