THE LURE OF EASY BANKRUPTCY

Here is a true story about bankruptcy, and the advantages it offers. A husband and wife team of practicing psychiatrists, with a joint income of $78,000 per annum, accumulate personal debts totaling $22,000, and also have outstanding a $33,000 mortgage on their comfortable suburban New York home. They are not in arrears, nor even over their heads. They simply seek more discretionary spending power.

Their solution to the problem? They file for bankruptcy and are able to immediately reduce their debt load to a mere 10 cents on the dollar, repayable on an extended schedule in very small amounts. An officer in one of their finance companies notes that they could refinance the mortgage or even sell the house. But you will see in a moment why that was not necessary.

Traditionally, personal bankruptcy has been a desperate last resort for those so deeply in debt and harried by creditors, that there really seemed to be no other solution. The typical profile included low-income, under-educated clerical workers or laborers, or perhaps transient non-homeowners. Common age groups were those who were in their twenties, or those over sixty five years of age.

This is no longer the case. Today's profile includes people with good jobs, even families with two incomes. It is not surprising to find those with six-figure incomes declaring bankruptcy. The process comes no longer out of a dire necessity, but it is now a means by which people can rid themselves of debts that cramp their lifestyle.

The most common applicants for bankruptcy include recent college graduates who file in order to avoid paying back government-guaranteed student loans. Their rationale? They feel society owed them an education.

You will also find older, "keep up with the Joneses" types filing for bankruptcy. For suburban executives to Wall Street professionals, they are unwilling to live within their means.

The passage of the Federal Bankruptcy Act of 1978 made the whole process much easier. This change significantly liberalized personal filing procedures in the name of consumer rights.

Chapter 7 makes no reference at all to the debtor's income. It permits debtors to clear the slate by turning over all their assets except those specifically exempted to creditors. Among the exemptions: Up to $7,500.00 equity in the debtor's house (15,000 if both file); $4,000.00 in accrued dividends; $1,200.00 in automobile equity; $500.00 in jewelry; $200 per category of household items (including clothing, books, etc.) and more!

Chapter 13 requires that debtors show only a regular income to handle a reasonable three-year pay-back plan. The court's definition of reasonable happens to be as little as 1% to 10%, even when a payment of 50% could easily be managed.