

20505

120036

BY THE U.S. GENERAL ACCOUNTING OFFICE

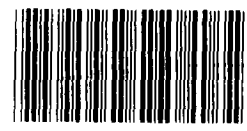
Report To The Chairman Committee On The Judiciary House Of Representatives

Not to be distributed outside the General Accounting Office without approval by the Office of General Accounting

RELEASED

A Profile Of Selected Personal Bankruptcy Cases

GAO examined five specific personal bankruptcy cases to gather information on the financial status and other characteristics of the bankruptcy petitioners and to ascertain the major reasons the individuals filed for bankruptcy. Generally, where it could be determined, bankruptcy petitioners' decisions to file bankruptcy were prompted by such factors as an overextension of credit, high medical bills, and/or poor financial management.



120036

GAO/GGD-83-16
NOVEMBER 4, 1982

523837

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-205847

The Honorable Peter W. Rodino, Jr.
Chairman, Committee on the
Judiciary
House of Representatives

Dear Mr. Chairman:

In your June 28, 1982, letter, you requested that we examine five specific personal bankruptcy cases to determine certain characteristics of the persons involved and the major reasons for their decisions to file bankruptcy. Our analysis of the five bankruptcy cases is summarized below, and a detailed analysis for each case is included in the appendix.

In three of the five cases, the debtors agreed to meet with representatives of our Office to discuss why they filed for bankruptcy. In the three cases the debtors' decisions to file bankruptcy were prompted by one or a combination of the following:

- an overextension of credit,
- high medical bills, and/or
- poor financial management.

We also examined financial data from the bankruptcy court case files for all five cases. Financial data as contained in court documents at the time of the debtors' initial petitions is summarized on the following page.

<u>Case</u>	<u>Annual income level</u>	<u>Debts</u>	<u>Assets</u>
1	\$20,000	\$15,688	\$ 7,580
2	\$22,000	\$11,507	\$ 6,090
3	\$24,400	\$31,708	\$26,050
4 (note a)	\$30,820	\$13,979	\$ 5,290
5 (note a)	\$20,000	\$ 9,616	\$ 1,466

a/The debtors in cases 4 and 5 would not agree to meet with our representatives to discuss their bankruptcies.

In four of the five cases, the debtor was granted a discharge of his/her debts. Bankruptcy trustees and the courts had determined these to be "no asset cases," (that is, after Federal or State exemptions were claimed, no assets were available for liquidation and distribution to creditors). Such exemptions are authorized under Federal and State law and allow the debtor to protect certain property from liquidation and distribution to creditors so that the debtor might have a better chance at a "fresh start" after bankruptcy. The debtor in the fifth case had not been granted a discharge as of September 30, 1982.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

We trust the information provided will be useful to you in your continuing evaluation of personal bankruptcy issues.

Sincerely yours,



William J. Anderson
Director

PROFILE OF SELECTED PERSONAL BANKRUPTCY CASESOBJECTIVES, SCOPE, AND METHODOLOGY

The Chairman, House Committee on the Judiciary, requested that we review five specific personal bankruptcy cases to determine all facts pertaining to the cases, such as the debtors' ages, education levels, occupations, and debt and income levels. The Chairman also requested that we interview the debtors to determine the principal factors which led to their decisions to file personal bankruptcy.

For each of the five cases, we requested and received, through the Administrative Office of the United States Courts, a copy of the complete bankruptcy file from the appropriate Federal bankruptcy court. We reviewed each case file in detail and followed up, where necessary, with bankruptcy court officials to update the status of the cases and to resolve questions that arose during our review.

We also contacted the debtors involved in each of the five cases either directly or through their attorneys. The debtors involved in three of the cases agreed to meet with representatives from our Office to discuss their decisions to file bankruptcy and to provide certain information not contained in the court case files, such as their ages and education levels. The debtors involved in the remaining two cases declined to discuss their bankruptcies with us. Consequently, we were unable to obtain any supplementary information for them.

This review was performed in accordance with generally accepted Government auditing standards.

THE PERSONAL BANKRUPTCY PROCESS

Chapter 7 and Chapter 13 of the Bankruptcy Code provide the ordinary framework for personal bankruptcy. Chapter 7, entitled "Liquidation," is the "straight bankruptcy" chapter and provides for the liquidation and distribution of the assets of the debtor and discharge of the debtor's remaining debts. Chapter 13, entitled "Adjustment of Debts of an Individual with Regular Income," differs from Chapter 7 in that it does not require that all property be surrendered for liquidation and distribution to creditors. Instead, it provides the debtor the opportunity to retain his/her assets when he/she agrees to pay creditors over time, usually 36

months. A repayment plan is prepared and submitted to the bankruptcy court for its approval.

A bankruptcy proceeding begins with the debtor filing a petition in the bankruptcy court. The debtor must also file a schedule of all debts, creditors, assets, and in the case of Chapter 13, a proposed repayment plan which generally shows (1) monthly income, (2) monthly expenses, and (3) the amount which the debtor proposes to repay his/her creditors. When the debtor files the petition, a trustee is appointed to oversee the Chapter 7 or Chapter 13 case. 1/ The trustee is the representative of the debtor's estate and is thus required to (1) recover and liquidate assets not exempt 2/ under law for the benefit of the debtor's creditors in Chapter 7 cases and (2) review and oversee the debtor's Chapter 13 repayment plan. This responsibility includes receiving the debtor's monthly payments and distributing them to creditors.

Within 30 days after a bankruptcy petition is filed, a meeting of all creditors listed by the debtor is held by the trustee to provide information about filing proof of claims. Creditors file this document with the bankruptcy court to substantiate the debts owed by the debtor. Creditors must file their claims within 6 months of the meeting of creditors. If claims are not filed within this period, the creditors are barred from participating in any distributions made by the trustee of (1) assets liquidated during a Chapter 7 proceeding or (2) payments made by the debtor pursuant to a Chapter 13 repayment plan. During the meeting of creditors, the creditors have the right under a Chapter 7 proceeding to elect a trustee of their choice. When the creditors fail to elect a trustee, the interim trustee becomes the trustee. In Chapter 13 cases, a Chapter 13 trustee is appointed and the creditors do not have the right to elect a trustee of their choice.

1/In a Chapter 7 case an interim trustee is initially appointed, and in a Chapter 13 case a Chapter 13 trustee is appointed. The trustees are appointed by the bankruptcy court in 76 districts and by a U.S. Trustee in the 18 Federal districts which are participating in the U.S. Trustee Pilot Program.

2/Both Federal bankruptcy law and State law allow a debtor to exempt certain property from liquidation and distribution to creditors so that the debtor might have a better chance at a "fresh start" after bankruptcy.

After completing the Chapter 7 or Chapter 13 proceeding, the debtor receives a discharge from the bankruptcy court. The discharge under Chapter 7 relieves the debtor from legal liability for the payment of all provable debts owed at the time of bankruptcy with certain exceptions contained in the bankruptcy law. Once a Chapter 7 discharge has been granted, the debtor cannot file another Chapter 7 for 6 years. However, the debtor can file under a Chapter 13 at any time. A Chapter 13 discharge is similar in that the debtor is relieved of his/her remaining debts not paid in full under the Chapter 13 repayment plan. A debtor who receives a Chapter 13 discharge can file another Chapter 13 at any time. However, depending on the amount repaid unsecured creditors, the debtor may be prevented from filing under Chapter 7 within 6 years.

PROFILE OF CASE 1

On August 17, 1981, the debtors (husband and wife) filed a joint Chapter 7 petition in the U.S. Bankruptcy Court for the district of South Carolina. The couple listed debts of \$15,688 and assets totaling \$7,580. The bankruptcy trustee and the court determined this case was a no asset case because after allowable State exemptions were claimed, no assets were available for liquidation and distribution to creditors. The court granted the couple a discharge of their debts on November 20, 1981.

The debtors agreed to discuss their bankruptcy proceedings with us. At the time of filing, the husband had been employed as a machinist by the same employer for about 8 years. He reported an annual salary of about \$20,000 on the petition. His wife was not employed. The husband and wife's ages were 29 and 26, respectively. They have one child and were renting a mobile home. The husband was a high school graduate and the wife completed the tenth grade of high school.

Factors leading to financial difficulty

Both debtors told us that several factors caused them to file bankruptcy: they had incurred high medical bills, borrowed from finance companies at high interest rates, and traded a reliable car for one that was not.

The couple told us that their financial difficulties began in about June 1980, when the wife had an operation which was not covered by the husband's medical insurance. The

medical bills, which the debtors estimated were about \$4,000, added to their existing debts and made it difficult for them to keep current in paying their creditors. When the couple fell behind in their payments to creditors, they borrowed money from finance companies at high interest rates to pay their creditors.

The debtors also said that their decision in March 1981 to trade their 1977 Oldsmobile Cutlass for a sporty, 1979 Chevrolet Camaro Z-28 contributed significantly to their financial difficulties. The purchase of the car was on an impulse. According to the wife, the new car was very costly to operate, requiring about \$60 per week for gasoline. The car also had major mechanical problems which were expensive to repair. In addition, the purchase increased their monthly car payment from about \$180 to \$207. These expenses added to their existing financial difficulties.

The couple stated that the constant pressure of creditor harassment made them decide to file for bankruptcy. Neighbors in their trailer park explained that they had similar problems which subsided after they filed bankruptcy. After discussing the matter with the neighbors, the couple decided to consult an attorney. The attorney explained the difference between the bankruptcy chapters and advised them to file a Chapter 7, which they did. They paid the attorney \$450 for his services.

Both the husband and wife believe that they are better off because they filed for bankruptcy. Since filing, they have not made an effort to obtain credit, have decided to avoid finance companies, and now use a household budget. However, they told us that they are currently experiencing serious problems because the husband has muscular dystrophy and is unable to work. They added that the wife now has a job which pays \$715 a month and they have moved into a trailer with the wife's parents and sister in order to reduce their expenses.

Financial data of the debtors

The following data, extracted from court records, shows the debts and assets at the time the bankruptcy petition was filed. The petition did not cite the specific assets to be exempted. It merely contained the statement "Debtor claims all exemptions as provided by South Carolina Law." Because the bankruptcy trustee and the court declared this a no asset

APPENDIX

APPENDIX

case, all equity in assets was protected by the allowable State exemptions and the assets were not available for liquidation and distribution to the creditors.

Priority debts

Federal income taxes	\$ 1,000
State income taxes	<u>459</u>
Total	\$ <u>1,459</u>

Secured debts

Ford Motor Credit Company	\$ 8,000
Loans from four finance companies	3,085
Retail account	<u>1,100</u>
Total	\$ <u>12,185</u>

Unsecured debts

Credit union	\$ 1,300
Seven medical bills	620
Retail account	100
Cable television	<u>24</u>
Total	\$ <u>2,044</u>

Assets (note a)

Automobile	\$ 6,000
Household items	1,300
Personal effects	200
Cash	<u>80</u>
Total	\$ <u>7,580</u>

a/Asset values represent the market value of debtors' interest without deduction for secured claims.

The court records did not indicate that any of the creditors filed proof of claims in this case. However, the court memorandum informing the creditors of the bankruptcy petition and setting the date for the meeting of creditors stated that there appeared to be no assets from which any dividend could be paid to creditors. It also informed creditors that it was unnecessary to file proof of claims at that time. If there

were assets from which payments could be paid, it stated, creditors would be notified and given an opportunity later to file proof of claims.

PROFILE OF CASE 2

On November 9, 1981, the debtor filed a Chapter 7 petition in the U.S. Bankruptcy Court for the District of Columbia. The debtor listed 10 debts totaling \$11,507 and assets totaling \$6,090. She had been employed by the same employer for about 10 years as a corrections treatment specialist and had a 1980 gross income of \$22,000. The bankruptcy trustee and the court determined this case was a no asset case because after allowable Federal exemptions were claimed, no assets were available for liquidation and distribution to creditors. The debtor was granted a discharge of her debts on March 1, 1982.

This debtor is 34 years old. She is single and has no dependents. She has a college degree and has earned 15 hours towards a Masters Degree.

Factors leading to financial difficulty

This debtor agreed to discuss her bankruptcy proceedings with us and describe the factors leading to her financial difficulties. For approximately a 10-year period (1970-1980), she had no difficulties with credit. She acknowledged that she liked to buy quality items and go to restaurants and the theater but had no difficulties in paying her bills. In 1980, however, several events occurred that changed her position. She moved to a different apartment in a better neighborhood. She was prepared to pay an additional \$90 per month in rent but did not expect the higher electric bills she faced. Also, her car, on which she had no monthly payments, was demolished in an accident. She received some money from the insurance company and used it to pay some bills. She bought a used car on which she had to make monthly payments of \$146. As a result of such events, in 1980 and 1981 she began to miss payments to creditors.

The debtor said that after she began to miss payments she received form letters and phone calls from creditors. Creditors phoned her both at home and at work and several became "nasty." The phone calls at work disturbed her a great deal and she began to "worry constantly" about paying her bills. During this period a friend told her of a financial advisor. The debtor visited the advisor and signed up for his bill paying

service. Because she was continuing to receive letters and phone calls from creditors, her financial advisor told her to file bankruptcy and referred her to an attorney. She paid the attorney \$450 for representing her in the bankruptcy proceedings. She still belongs to the debt paying service and has an allotment from her paycheck sent to her financial advisor who then pays her bills and invests some money for her in a savings account and investment club.

In discussing her bankruptcy, the debtor pointed out that she feels bad about not paying her bills and would not want to file bankruptcy again. She acknowledged that in retrospect she probably used credit too freely and believes that today there is a greater awareness about the potential problems with credit. She also said that she made some mistakes, such as loaning \$500 to a friend who only repaid her \$50. The debtor indicated that she did not foresee any problems with obtaining future credit because at the time of bankruptcy she maintained some major credit cards on which she had little or no balance due. She also indicated that she is hesitant to use these and will be more selective in their use than she was in the past.

Financial data of the debtor

The debtor's financial data, as contained in the court files at the time her petition was filed, is presented below.

Secured debt

Ford Motor Credit Company (this debt was reaffirmed during the bankruptcy proceeding)	<u>\$3,600</u>
--	----------------

Unsecured debts

Bank	\$2,046
Loans from two finance companies	3,205
Bills from three credit card companies	2,174
Bills from three retail stores	<u>482</u>
Total	<u>\$7,907</u>

APPENDIX

APPENDIX

Assets (note a)

Cash (including deposits)	\$ 30
Household goods	1,800
Clothing and personal possessions	800
Automobile	3,200
Accrued wages	<u>260</u>
Total	<u>\$6,090</u>

Federal exemptions claimed (note b)

Household goods	\$1,800
Cash	30
Personal effects (clothing, jewelry, and other possessions)	800
Accrued wages	260
Estimated 1981 Federal and local income tax refunds	<u>3,000</u>
Total	<u>\$5,890</u>

a/Asset values represent the market value of debtor's interest without deduction for secured claims.

b/The debtor exempted all assets shown above except for the automobile. The debtor reaffirmed the debt for the automobile in order to retain its possession. With the court's approval, she made an agreement with the creditor not to have this debt discharged and to continue to make payments on the car after the bankruptcy process was completed. In addition, the debtor claimed exemptions for estimated 1981 Federal and local income tax refunds, although these were not listed as specific assets. According to a bankruptcy court official, these items should have been listed as assets but sometimes they are inadvertently left off bankruptcy petitions. However, this official said these are allowable exemptions.

The court records did not indicate that any of the creditors filed proof of claims in this case. However, the court memorandum informing the creditors of the bankruptcy petition and setting the date for the meeting of creditors stated that there appeared to be no assets from which any dividend could be paid to creditors. It also informed creditors that it was unnecessary to file proof of claims. If there were assets

from which payments could be paid, it stated, creditors would be notified and given an opportunity later to file proof of claims. The trustee and the court approved the above exemptions which effectively protected claimed property from liquidation and distribution to creditors.

PROFILE OF CASE 3

On June 9, 1981, the debtors (husband and wife) filed a joint Chapter 13 petition in the U.S. Bankruptcy Court for the middle district of North Carolina. Five months later (November 1981), they converted to a Chapter 7. Their debts were \$31,708, including an \$18,777 home mortgage. Their assets totaled \$26,050, and their combined annual gross income was about \$24,400. The bankruptcy trustee and the court determined it was a no asset case because all assets were exempt under Federal exemptions. The couple received a discharge of their debts on February 25, 1982.

The debtors spoke with us about themselves and the circumstances that led to their filing bankruptcy. When they filed, they were both employed. He was a textile inspector and she was a nurse. They had each worked for their employers about 2 years. The ages of the husband and wife were 28 and 27, respectively, at the time of filing. He had a high school diploma and she had completed 2 years of technical college beyond high school. They had no dependents.

Factors leading to financial difficulty

The debtors indicated that several factors caused them to file bankruptcy, including poor financial management, medical problems, and the purchase of a home in February 1980 that they could not afford. Both agreed that the home purchase was the chief cause of their financial problems. Initially, they could not qualify for a mortgage loan so the real estate agent who sold them the house loaned them \$1,800. They used the money to pay off some debts and to make the down payment and thereby qualified for their mortgage. After moving into the house in February 1980, they found that the house needed some plumbing work and a gas line extension which they had not anticipated. They also purchased some household goods and appliances on credit.

Soon they were unable to meet their monthly payments and creditors began to pressure them. As the pressure from creditors increased, the husband began to drink heavily and the

wife experienced health problems and had to be hospitalized. During this time, the wife lost her job and was unemployed for about 2 months. Both agreed something had to be done to relieve the situation. They decided to file bankruptcy after seeing a story about it on television. They consulted an attorney who suggested they file a Chapter 13 and pay \$200 per month to their creditors. They agreed to this because they wanted to pay their debts. At the time their Chapter 13 repayment plan was confirmed, however, they were informed by the court that their payments would be \$315 per month for 48 months, which included about \$677 for attorney fees.

All the above factors put a strain on their marriage and they separated for a couple of months. When they reconciled, the attorney that the wife had consulted during the separation suggested that they file a Chapter 7. Before converting to a Chapter 7, they voluntarily returned their home to the mortgage holder. Also, during the 3 months from the time the Chapter 13 plan was confirmed until conversion to Chapter 7, the debtors paid \$636 to the Chapter 13 bankruptcy trustee. The money was distributed as follows: a secured creditor, \$303; the debtors' attorney, \$242; the trustee, \$57; filing fee, \$30; and the register of deeds, \$4. They also paid \$400 to the attorney who handled the conversion from Chapter 13 to Chapter 7.

Both debtors believe they are better off because they filed bankruptcy and have learned that they must limit their expenses. They have made a couple of credit purchases since receiving their discharge and have been turned down only once by a mail order credit firm. The husband told us he thinks that a possible solution to the bankruptcy problem is for the Congress to fund a program to teach financial management to people who get into financial difficulty.

Financial data of the debtors

The debtors' financial data, as contained in the court files at the time they filed under Chapter 13, is presented on the following page.

APPENDIX

APPENDIX

Priority debt

County tax	\$ <u>81</u>
------------	--------------

Secured debts

Bank mortgage	\$18,777
Individual loan	1,711
General Motors Acceptance Corporation (this debt was reaffirmed during the bankruptcy proceeding)	5,036
Loans from four finance companies	4,168
Bills from three retail stores	<u>1,681</u>
Total	<u>\$31,373</u>

Unsecured debts

Three medical bills	\$ 241
Retail account	<u>13</u>
Total	<u>\$ 254</u>

Assets (note a)

House	\$20,000
Automobile	4,000
Household goods	1,550
Clothing and personal effects	<u>500</u>
Total	<u>\$26,050</u>

a/Asset values represent the market value of debtors' interest without deduction for secured claims.

For the Chapter 13 bankruptcy, 11 proof of claims were filed by creditors--10 from secured creditors and 1 from an unsecured creditor. Two more proof of claims were submitted after creditors were notified that the debtors had filed under Chapter 7. One was from the priority creditor and the other was from the General Motors Acceptance Corporation, which had also filed a claim for the Chapter 13 bankruptcy. Prior to their discharge after converting to a Chapter 7 bankruptcy, the debtors reaffirmed the debt for their automobile. With the court's approval, they made an agreement with the creditor not to have this debt discharged and to continue to make payments on the car after discharge. The debtors claimed exemptions totaling \$3,050 under Federal provisions. This consisted of \$1,000 worth of

equity, or monetary interest, claimed in their automobile; and household goods, personal effects, and clothing with a market value of \$2,050.

PROFILE OF CASE 4

On June 29, 1981, the debtor filed a Chapter 7 bankruptcy petition in the U.S. Bankruptcy Court for the district of Maryland. The debtor listed debts totaling \$13,979 and assets totaling \$5,290. The bankruptcy court clerk's office told us that this district has experienced a backlog of personal bankruptcy cases and as of September 30, 1982, the court had not granted the debtor a discharge of his debts.

This debtor declined to be interviewed by representatives of our Office; therefore, we could not determine the principal factors that led to his decision to file a Chapter 7 bankruptcy or identify other information such as his age and education level. Information in the court records showed that at the time he filed bankruptcy the debtor was employed and had an annual income of \$30,820. He had been employed by the same employer for approximately 35 years. He was single, having been divorced. We also determined that the debtor was working as an institutional administrator and he did not own any real estate.

Financial data of the debtor

The debtor's financial data, as contained in the court files, is presented below. An attorney's fee of \$500 was paid by the debtor to handle the bankruptcy case.

Priority debt

State income taxes	<u>\$2,200</u>
--------------------	----------------

Secured debt

Finance company with lien on an automobile (this debt was reaffirmed during the bankruptcy proceeding)	<u>\$2,203</u>
--	----------------

APPENDIX

APPENDIX

Unsecured debts

Bank loan	\$1,515
Credit union	1,120
Bills from two major credit card companies	1,587
Bills from three retail stores	1,482
Finance company	2,700
Medical expenses	<u>1,172</u>
Total	<u>\$9,576</u>

Assets (note a)

Household items	\$2,287
Cash (including checking, credit union account, and rental deposit)	1,190
Personal effects (clothing and works of art)	659
Accrued wages	<u>1,154</u>
Total	<u>\$5,290</u>

a/All assets were claimed as exempt from distribution to creditors under allowable Federal exemptions contained in the Bankruptcy Code. A discharge had not been granted as of September 30, 1982, and, consequently, the bankruptcy trustee and the court had not ruled on the propriety of the exemptions claimed as of that date. The court documents showed that the debtor did not list his automobile as an asset because he had no equity.

PROFILE OF CASE 5

The debtor filed a Chapter 13 petition on March 18, 1981, in the U.S. Bankruptcy Court for the eastern district of Tennessee. He listed debts totaling \$9,616; assets of \$1,466; and annual income, including his wife's, of about \$20,000. After paying \$2,100 under the Chapter 13 repayment plan, he converted to Chapter 7 in February 1982. On April 6, 1982, the Chapter 7 bankruptcy trustee reported that it was a no asset case because there was no property, over and above that allowed by the State exemptions, available for liquidation and distribution to creditors. The court agreed and the debtor was granted a discharge of his debts on June 3, 1982.

The debtor declined to speak with us about his case. However, on the basis of the court's bankruptcy case file, we learned that at the time the debtor originally filed he was married. The couple had one child and the husband also made monthly support payments for a second child from a former marriage. Both he and his wife were employed, and they owned no real estate. The debtor was working as a window washer and had been employed by the same employer for about 6 years. The bankruptcy petition contained no specific employment data for the wife except that she earned an income.

Court documents showed that the Chapter 13 repayment plan was based on an estimated monthly income of \$1,161. The plan allotted \$944 a month for living expenses, leaving a balance of \$217. Of that amount, \$215 was to be paid monthly to the Chapter 13 trustee for a period of 44 months for distribution to creditors. Up to the time of conversion to Chapter 7, the debtor paid \$2,100 to the trustee which was distributed as follows:

Chapter 13 trustee	\$ 210
Debtor's attorney	300
Unsecured creditors	<u>1,590</u>
Total	<u>\$2,100</u>

Other information about the debtor contained in the Chapter 13 petition shows that creditors had sued him, garnished his wages, and repossessed his automobile. Furthermore, both the debtor and his wife had prior bankruptcy filings. The debtor had previously filed for bankruptcy in October 1975. He and his wife filed jointly in October 1980. However, 6 years had not elapsed since his previous bankruptcy and his petition was dismissed on the joint filing. His wife proceeded with her bankruptcy. Subsequently, in March 1981, the debtor filed a Chapter 13 petition.

When the debtor converted from Chapter 13 to Chapter 7, his application requested that he be allowed to include nine additional debts totaling \$1,357 which were not included in the Chapter 13 petition. Court documents indicated that he had excluded them because he believed he could pay them independently of the Chapter 13 repayment plan. The court approved his request.

Financial data of the debtor

The debtor's financial data, as contained in the court files at the time he filed his Chapter 13 petition, is presented below.

Priority debt (note a)

Attorney fee	\$ <u>300</u>
--------------	---------------

Secured debts

Loans from two finance companies	\$ <u>3,679</u>
----------------------------------	-----------------

Unsecured debts

Loans from three finance companies	\$3,106
Credit union	1,355
Ten medical bills	685
Bills from three retail stores	<u>491</u>

Total	<u>\$5,637</u>
-------	----------------

Assets

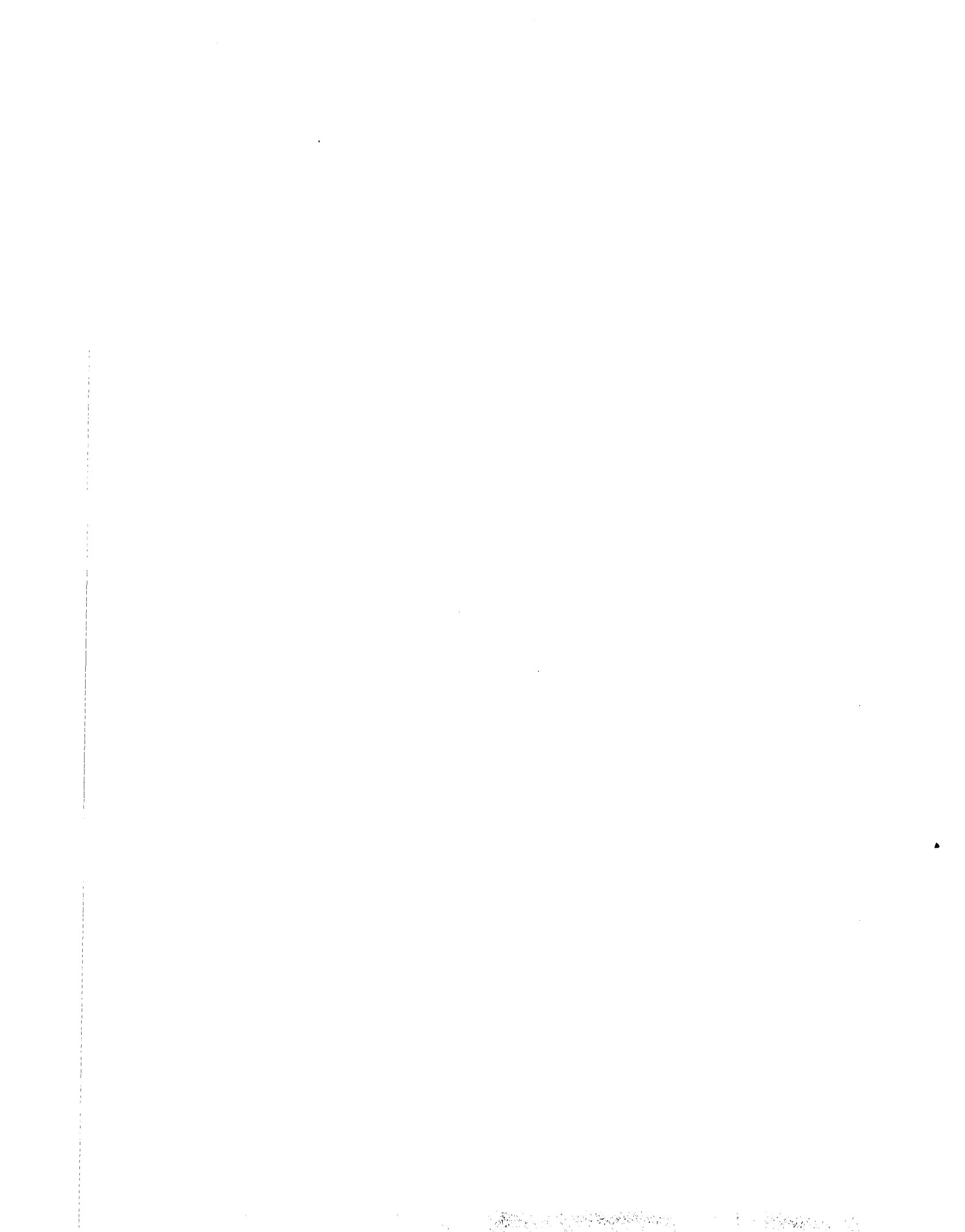
Household items	\$ 800
Tax refund	364
Personal effects	230
Cash	<u>72</u>

Total	<u>\$1,466</u>
-------	----------------

a/Priority debt for the \$300 attorney fee was for the attorney representing the debtor during his Chapter 13 bankruptcy.

At the time the debtor converted to Chapter 7, he had reduced his original debts by \$1,890 through payments under the Chapter 13 repayment plan. These payments were to the debtor's attorney (\$300) and to six unsecured creditors who had filed proof of claims (\$1,590). The remaining 13 creditors did not file proof of claims, according to court documents.

At conversion, the debtor owed \$9,083. Of this total, \$3,679 was secured debt originally scheduled and \$5,404 was unsecured debt, which included \$4,047 not paid under the Chapter 13 and \$1,357 which the debtor added upon conversion. He claimed Tennessee State exemptions totaling \$1,466, which exempted household items, personal effects, cash, and an estimated Federal income tax refund, thereby leaving no assets for liquidation and distribution to creditors.





23503

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS