



Highlights of GAO-08-697, a report to congressional requesters

June 2008

## BANKRUPTCY REFORM

### Dollar Costs Associated with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005

#### Why GAO Did This Study

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Bankruptcy Reform Act) made significant changes to the administration of bankruptcy relief, affecting (1) the U.S. Trustee Program (Trustee Program), which oversees the bankruptcy process; (2) the federal judiciary, which includes bankruptcy courts and a central administrative support office; (3) consumers filing for bankruptcy; and (4) private trustees—individuals who administer bankruptcy cases and are supervised by the Trustee Program but are not government employees. The number of new personal bankruptcy filings declined after the act—about 600,000 people filed in 2006 as compared to an average of 1.5 million annually between 2001 and 2004.

GAO was asked to examine (1) new costs incurred as a result of the Bankruptcy Reform Act by the Trustee Program and federal judiciary, (2) new costs to consumers, and (3) the impact of the act on private trustees. GAO reviewed budget information from the Trustee Program and federal judiciary, and collected data on attorney fees from a random and projectable sample of personal bankruptcy cases. GAO also obtained documentation and interviewed staff from these entities, as well as from organizations representing consumers, bankruptcy attorneys, creditors, and private trustees.

#### What GAO Found

The Trustee Program estimated that its costs to carry out responsibilities resulting from the Bankruptcy Reform Act were approximately \$72.4 million for fiscal years 2005 through 2007. These costs were mostly for staff time for ongoing activities related to the means test, debtor audits, data collection and reporting, and counseling and education requirements. The federal judiciary could not isolate all costs related to the act since it broadly affected nearly all bankruptcy court staff and operations, but estimated about \$48 million was incurred in one-time start-up costs for such things as training and revisions of rules, forms, and procedures. These estimates do not incorporate the effect of the decline in bankruptcy filings since the act, which presumably has helped reduce the Trustee Program's and judiciary's overall costs, but has also reduced fee revenues. Trustee Program filing fee revenues declined from \$74 million to \$52 million between fiscal years 2005 and 2007, and federal judiciary filing and miscellaneous fee revenues declined from \$237 million to \$135 million.

Consumers filing for bankruptcy pay higher legal and filing fees since the Bankruptcy Reform Act went into effect. Based on a random sample of bankruptcy files, GAO estimated that the average attorney fee for a Chapter 7 case increased from \$712 in February-March 2005 to \$1,078 in February-March 2007. For Chapter 13 cases, the standard attorney fees that individual courts approve rose in nearly all the districts and divisions with such fees that GAO reviewed, and in more than half the cases the increase was 55 percent or more. As a result of the act and subsequent budget legislation, total bankruptcy filing fees have risen from \$209 to \$299 for Chapter 7 and from \$194 to \$274 for Chapter 13. GAO estimated that the proportion of Chapter 7 debtors filing without an attorney had declined and did not find a significant change in the proportion of such debtors receiving free legal assistance. In addition, fees to meet the act's credit counseling and debtor education requirements are typically about \$100, although some clients receive a fee reduction or a full waiver.

Private trustees told GAO that new Bankruptcy Reform Act requirements related to documentation, verification, and reporting have increased the time and resources they spend administering each case. The caseload of some private trustees has declined in concert with the significant decline in bankruptcy filings that has occurred since the act went into effect, but trustees' overall rate of attrition has not changed significantly.

To view the full product, including the scope and methodology, click on [GAO-08-697](#).  
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