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Bankruptcy filings drop 11 percent

Local numbers trail national figures; attorneys say statistics are positive economic indicator

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Bankruptcy filings have dropped 11 percent nationally from a year ago, a decrease two local lawyers say can be attributed to an improved U.S. economy.

The Administrative Office of the U.S. Courts reported that bankruptcy filings totaled 1,038,280 cases for a one-year period ending March 31, compared to 1,170,324 during the 12 months prior to that.

Business bankruptcies totaled 31,671 — down 15.6 percent from the 37,552 filed in the previous year.

Non-business bankruptcy filings, in which the debts are primarily personal or consumer in nature, totaled 1,006,609, a 11 percent decline from the 1,132,772 filings in the previous 12-month period.

Locally, bankruptcy filings in the Northern District of Illinois fell 5.5 percent, or about half the national rate, said Chief U.S. Bankruptcy Judge Bruce Black. Bankruptcy cases in that district totaled 53,679, down from the 56,788 filings in the previous 12 months.

John R. Weiss, a Duane, Morris LLP partner who represents lenders in bankruptcies, said the drop in filings follow the typical up-and-down pattern of such matters.

"The bankruptcy world is cyclical and, as these statistics indicate, the bankruptcy



Bruce Black

(business) is slowing down to some extent," Weiss said. "But for the past five years, we have been busier than we were the five years before that. So it comes and goes."

The drop in non-business filings is due an economic cycle, he said.

"As the recession has ended and unemployment has gone down, there are fewer individuals that need to go into bankruptcy," Weiss said.

As for business bankruptcy filings, Weiss said those are down by 50 percent since 2010.

"Troubled businesses have already closed, and there aren't as many of them," he said. "If you are a healthy business, you can borrow money at really low interest rates and maintain your business without the pressures of rising interest rates."

Richard S. Lauter, a Freeborn & Peters LLP partner and the leader of its bankruptcy and financial restructuring practice group, said consumer bankruptcy cases are down due to improvements in the job market and the overall economy.

Lauter, though, had a slightly different take on the state of business bankruptcies. The



John R. Weiss

decline isn't guaranteed to be steady, he said.

"Even though the economy is still improving, there will be some fits and starts," he said. "You will see improvement and also see a slight drop-off. It won't be a smooth ride to the top."

Filings under U.S. Bankruptcy Code Chapters 7, 11, 12 and 13 fell during the reporting period, according to the report available at uscourts.gov:

- Chapter 7 exempts certain assets while a debtor's property is sold to repay creditors. Those filings dropped 13 percent to 699,982, down from 804,885 a year ago.

- Chapter 11 of the U.S. Bankruptcy Code allows a business to continue operating while it establishes a plan to repay creditors.

For the year ending March 31, Chapter 11 filings dropped 13 percent to 8,564.

- Filings brought under Chapter 12, which covers family farms and family fishing businesses, fell by 16 percent, down to 388 from 463.

- Under Chapter 13, creditors get paid, in full or part, in installments spread out over three to five years. Such filings decreased



Richard S. Lauter

by less than 1 percent, to 329,256.

To Black, the bankruptcy judge, the most important statistic in the report is the rise in Chapter 13 cases in the Northern District, which includes the Chicago and Rockford areas. There, filings jumped 5.9 percent, from 17,552 to 18,672.

Though the number increased, that's actually a positive sign for the local economy, he said.

"When people are filing more Chapter 13 cases, that indicates that more people are optimistic about their economic situation," Black said. "They think they can get current with their mortgage or car payments."

Weiss predicted that bankruptcy filings will continue to decline nationally for the rest of this year.

But 2015 and 2016 could be another matter.

"Once the interest rates creep back up again," Weiss said, "I think you are going to see a rise in bankruptcy filings — mainly because businesses that borrow money at floating rates of interest will start to experience interest rate pressures on their financial performance," he said.