

Going bankrupt

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Layoffs, rising mortgages and a tight credit market have combined to push an increasing number of people over the financial edge into bankruptcy.

As of the end of April, 4,792 bankruptcies had been filed in Mississippi this year. That's more than double the 1,972 filed during the first four months of 2006.

Bankruptcy is a legal proceeding for an individual or business when they can't fully pay their debts. It is designed to distribute funds to those owed money and allow the filer to make a fresh start.

Attorneys who help clients seeking bankruptcy protection attribute the increased filings to the country's dismal fiscal climate.

"People are being laid off and downsized, and because of that they're forced into bankruptcy," said attorney Tylvester Goss, who sees people filing bankruptcy to keep the bank from foreclosing on their homes.

Even those who were in debt management programs sought bankruptcy protection after layoffs, Goss said.

Actual bankruptcy filings provide no insight into those feeling stressed enough to consider the option.

"There are a ton of people who are in financial trouble who really don't want to file bankruptcy, and they are trying to avoid it," Goss said.

Stephanie Fields said it's not unexpected that so many are filing bankruptcy. The 32-year-old Jackson resident filed in 2005 after separating from her husband. A single mother of four, Fields said her \$7-an-hour job left her unable to pay her bills and buy groceries.

She became increasingly depressed. "I didn't have the energy to get off the couch," she said. "It puts a lot on you when you know you can't get the money."

Unable to work out a hardship deal with her mortgage company, Fields filed bankruptcy to avoid losing her home.

The economy has not only driven individuals to that decision, but businesses faced with tightened credit markets and slumping sales are seeking bankruptcy protection in hopes of returning to profitability.

"Previously, if you had a pulse, there was plenty of credit available for you to do whatever you wanted to do, if that meant refinancing or whatever you wanted," said Doug Noble, an attorney who handles bankruptcy cases. "There was no need for a restructuring process in bankruptcy because there was plenty of capital or debt or whatever you wanted out there."

In 2006, 187 businesses in Mississippi filed bankruptcy. During 2008, 357 filed.

Bankruptcy has become an alternative for all types of businesses from airlines to retailers. Investment firm Lehman Brothers filed last September and Chrysler filed last month.

Baldwin-based Hancock Fabrics emerged from bankruptcy last August. The retailer was able to secure financing, shed unwanted stores and see sales increase in 2008.

The company reported a \$12.4 million loss for 2008, down from the \$33.3 million lost a year earlier.

Bankruptcy filings hit a record high in 2005 before falling substantially in 2006, after the Bankruptcy Abuse Prevention

and Consumer Protection Act of 2005 went into effect. Nationally, bankruptcy filings were about 2 million in 2005. Last year, there were 1.1 million.

The American Bankruptcy Institute projects the number will reach 1.4 million this year.

"Anytime the economy turns down, you're going to see more bankruptcies and more layoffs," said Bill Shughart, professor of economics at the University of Mississippi. "When business turns down, both unemployment rises and bankruptcies go up. It's inevitable."

Although the recession appears to have slowed, Shughart said it's a government-funded reprieve that likely won't last.

"It's an artificial stimulus, not based on upon any fundamental changes in the underlying economy," Shughart said. "To have a permanent rebound, we need to find the bottom of where we are now and then allow the market to adjust to falling asset values - the falling values of home, the falling values of companies - so it can get on its feet again. "We have not hit bottom, yet," he said.

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BY THE NUMBERS

Nationally, bankruptcy filings hit a record high in 2005, and they're on the rise again. The number dropped substantially in 2006 after tighter bankruptcy laws went into effect. Given the state of the economy, the numbers are on the rise again.

Personal bankruptcies

2006 2008 Mississippi 8,826 12,350

United States 617,660 1,117,771

Business bankruptcies

2006 2008

Mississippi 187 357

United States 19,695 43,546

Bankruptcies in first quarter in Mississippi

2006 1,972

2009 4,792

Source: U.S. Bankruptcy Court

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Abstract (Document Summary)

laraye.brown@clarionledger.com Layoffs, rising mortgages and a tight credit market have combined to push an increasing number of people over the financial edge into bankruptcy. The economy has not only driven individuals to that decision, but businesses faced with tightened credit markets and slumping sales are seeking bankruptcy protection in hopes of returning to profitability.

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