Bankruptcies hit record in Michigan

Personal filings are up 38% from 2001, as job loss, credit debt, medical bills and divorce take toll.

By Karen Dybis / The Detroit News

Personal bankruptcy rates in Michigan rose to an all-time high last year as working-class families struggled with unemployment, credit card debt and medical bills.

More than 63,700 Michigan residents sought protection from their creditors last year, according to state bankruptcy court records, up 2.3 percent from 2003 and 38 percent from 2001. The majority of the Chapter 7 and Chapter 13 filings came in the state's Eastern District, which includes Metro Detroit.

And early numbers from this year are even grimmer: Filings in January were up 8 percent over last year.

The bankruptcies are taking a toll both on the thousands of families left with broken credit and scores of creditors -- including many local companies -- stuck with unpaid bills.

Sabrina Kinney was one of about 100 people who jammed into a federal courtroom last week in Detroit to file for bankruptcy. "I'm trying to keep an apartment, feed myself, pay my bills," said Kinney, 25, a nursing assistant from Detroit who amassed significant medical bills after a car accident. "I don't have any health insurance and no one wants to give you any."

Bankruptcy attorneys and trustees say much of the rise can be attributed to Michigan's economic woes, including the state's shrinking manufacturing base, cuts in overtime and the high unemployment. Most vulnerable are those families who rely on credit to pay bills and lack the income to build up a nest egg that can see them through an emergency.

"We're always the first to get hit when we have a recession and the last to recover," said Walter A. Metzen, a Detroit attorney who handles about 1,000 bankruptcy cases annually. Metzen's one-man shop is so busy that he recently added two staffers to help him.

In contrast to Michigan, personal bankruptcies nationwide declined 2.6 percent in the 12-month period ending September 30, 2004, according to the Administrative Office of the U.S. Courts.

Court officials worry bankruptcies could increase locally and nationally if proposed bankruptcy reform becomes law.

This month, two bills were proposed in Congress that makes it more difficult for individuals to file a Chapter 7 bankruptcy.

The majority of filings locally are Chapter 7, which allow people to eliminate most of their debts, compared to Chapter 13, which establishes a repayment plan over time.

Pushing more financially troubled people to file Chapter 13 could result in people who can't pay their debts coming back to file bankruptcy all over again within a few years.

Many Michiganians wind up in bankruptcy court due to changes in their job status, including everything from a reduction of overtime pay to getting laid off.

The state's unemployment rate for December tied Alaska for the highest in the country at 7.3 percent, according to the U.S. Labor Department. The nation's unemployment rate was 5.4 percent for the same period.

Some families are spending beyond their means, running up credit cards and paying the minimum balance as interest and fees pile up. Metzen said he has seen mortgages with interest rates topping 15 percent and credit card charging more than 29 percent when a person's credit starts going south.

"The credit-card industry will have you believe people plan to go into bankruptcy. But for most it's a last resort," Metzen said. "They just want the phone calls to stop."

Medical bills are another trigger. A Harvard University study released this month found that medical debt caused half of all personal bankruptcies. The research found that even families with medical insurance often couldn't afford to pay out-of-pocket expenses.

"The increase is medically as well as economically related in the state of Michigan," said Stuart A. Gold, a Chapter 7 bankruptcy trustee and partner at Gold, Lange & Majoros, a Southfield-based bankruptcy law firm. "We're seeing more and more people seeking relief under the bankruptcy code to deal with medical problems."

It isn't necessarily huge medical losses either, said Jeffrey Morris, a University of Dayton School of Law professor and resident scholar at the American Bankruptcy Institute in Alexandria, Va.

"It's the person who gets behind by $3,000 or $5,000. Their income levels typically are not that high, so those debts are insurmountable," Morris said.

"It could be job loss, medical costs, financial mismanagement or divorce. Sometimes, all those things conspire to force individuals to seek bankruptcy protection."

Gold, Morris and other bankruptcy experts agree there are those cases where people have lived outside their means, buying boats, houses or trinkets they could not afford. But "by and large, it's not the high rollers" you see in court, Morris said.

The bankruptcy institute predicts personal bankruptcies will continue to climb in 2005 based on increasing consumer debt levels and credit-card default rates. Gold said most people try to pay their medical and other bills through credit cards, which then pile up to unmanageable levels.

Court officials say the situation could become more complicated through recent legislation aimed at reforming bankruptcy law. Bills introduced in the U.S. Senate and House of Representatives hope to decrease the number of Chapter 7 bankruptcies by requiring more filers to seek Chapter 13 protection.

Congress has tried since 1997 to update this provision of the nation's bankruptcy law, which will turn 25 this year, said David Ruskin, one of three Chapter 13 bankruptcy trustees for the Eastern District of Michigan.

Ruskin said the reforms fail to address how people's lives have changed during the past two decades.

More people have based their lifestyles on two incomes, setting higher expectations for the number of conveniences their families expect, Ruskin said. So, for example, while his parents might have lived with one telephone, today's households have multiple lines, cell phones and the bills to show for it.

"A lot of folks are not in as good a financial position as they were 25 years ago," Ruskin said.

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