

Life After Bankruptcy: The Role of Credit Counseling in Helping Debtors Obtain a Fresh Start

A. C. Lyons, E. Scherpf, and S. Howard





Motivation: 2005 BAPCPA Legislation

- 2005 Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA).
- Two educational requirements.
 - Pre-filing credit counseling session.
 - Post-filing (pre-discharge) financial education course.
- Reasons behind legislation.
 - Help debtors make an informed choice about bankruptcy.
 - Provide debtors with the financial skills necessary to better manage their money and avoid future financial problems.



2



“I was hit by a financial tidalwave and now I’m drowning in debt. Is it too late to get flood insurance?!”

Copyright 2004 by Randy Glasbergen

MMI Multi-Phase Research Study (2009)

Debtors tracked through the entire bankruptcy process:

- **Phase 1:** Credit counseling session
- **Phase 2:** Financial education course
- **Phase 3:** Post-bankruptcy (3-12 month follow up)



4

Research questions

- What happens to debtors today after they file bankruptcy?
 - ✓ Do they change their financial behaviors?
- Which debtors are more likely to engage in positive financial practices post-bankruptcy?
- Is there value in BAPCPA's educational requirements?
 - ✓ Do debtors perceive value?



5

Key findings

- Overall, significant and positive improvement in debtors' financial behaviors post-bankruptcy.
- Financial behaviors, for the most part, seem to be holding over time.
- Prior financial behaviors matter most.
- Bankruptcy filing status plays an important role.
- Lower socioeconomic status and related negative shocks affect financial recovery.
- Barriers to financial recovery still exist.



6

Why should we care?



7

Policy Implications

- While it's difficult to isolate the impact of the educational program, evidence from this study suggests debtors are benefiting from the educational requirements.
- Counseling and education may be viable mechanisms to help debtors obtain the "fresh start" they need.
- Provides debtors with the financial skills necessary to better manage their money and avoid future financial problems.



8

Debtors perceive value....

- Over 97% of debtors felt more knowledgeable about the bankruptcy process and options available to deal with their financial problems.
- Over 91% felt their overall ability to manage their finances had improved.



9

Educational Implications

- Two groups of debtors still seem particularly vulnerable:
 - ✓ Those starting with more severe financial behavioral deficiencies.
 - ✓ Those still facing financial shocks/barriers post-bankruptcy.
- May need more ongoing support and education to implement and maintain positive financial behaviors over time.
- Could benefit from establishing a longer-term post-bankruptcy financial action plan.
- One counseling and education session may not be enough.



10
