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Vt. bankruptcies spike upward in 2008

By Bruce Edwards

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The number of Vermonters filing for bankruptcy last year soared 43 percent, according to the U.S. Bankruptcy Court in Rutland.

There were 1,256 bankruptcies filed in the state in 2008 compared to 876 the year before.

Chapter 7 cases led the way with 935 filings, up nearly 49 percent from 2007 when 629 cases were filed. Of the Chapter 7 cases filed last year, 32 were business bankruptcies. That's down from the prior year when there were 43 business Chapter 7 cases.

There was also a big jump in Chapter 13 cases, which allows consumers to reorganize and pay off a portion of their debts.

Chapter 13 cases increased from 234 to 315 last year, a jump of 35 percent.

Consumers can use Chapter 13 to pay off their debts within three to five years, which allows a homeowner to keep their home, provided they stay current on their mortgage payments.

There were only two Chapter 11 reorganization cases filed in 2008, one personal and one business bankruptcy. There were no Chapter 11 cases filed the year before.

Chapter 12 or family farm bankruptcies totaled four last year compared to three the prior year.

Bankruptcy lawyers in the state say the increase reflects the condition of the economy with more people losing their jobs and just having trouble making ends meet, including their mortgage payments.

Last year saw the largest number of bankruptcies in the state since the record year of 2005 when 2,616 personal and business bankruptcies were filed.

Lawyers attributed the surge then to more Vermonters filing before a tough new

national bankruptcy law took effect in the fall of 2005.

Vermont is hardly alone when it comes to the soaring number of bankruptcies. According to the American Bankruptcy Institute, the 292,291 bankruptcies filed during the third quarter nationally represented a 34 percent increase over the 218,909 cases filed over the same period in 2007.

Total filings for the first nine months of 2008 were up 35 percent to 841,496, compared to the 622,999 filings during the same period in 2007.

"The dramatic spike in both personal and business bankruptcies reflects an economy in distress, with worried consumers over-extended and unable to supply the spending typically needed to keep the national economy going," ABI Executive Director Samuel Gerdano said in a statement.

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Definitions:

Chapter 7 — Available to both individual and business debtors. Its purpose is to achieve a fair distribution to creditors of the debtor's available non-exempt property. Unsecured debts not reaffirmed are discharged, providing a fresh financial start.

Chapter 11 — Available for both business and consumer debtors. Its purpose is to rehabilitate a business as a going concern or reorganize an individual's finances through a court-approved reorganization plan.

Chapter 12 — Designed to give special debt relief to a family farmer with regular income from farming.

Chapter 13 — Available for an individual with regular income whose debts do not exceed specific amounts; it is typically used to budget some of the debtor's future earnings under a plan through which unsecured creditors are paid in whole or in part. Source: American Bankruptcy Institute

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