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Bankruptcy Reform Act drives increase in filings

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Bankruptcy filings in Wichita are up 25 percent this year, say members of the Klenda, Mitchell, Austerman & Zuercher law firm.

The firm's bankruptcy specialist, attorney Mark Lazzo, says many people are choosing to file now in anticipation of tighter rules affecting consumer bankruptcy.

He suspects that the Bankruptcy Reform Act of 2001, now expected to be enacted in 2002, will make it more difficult and expensive for people to file.

But there are whispers that the bill might be off the agenda. Ed Nazar, partner with law firm Redmond & Nazar, says rumors around Washington, D.C. suggest that in a realignment of priorities following Sept. 11 events, bankruptcy reform could be postponed indefinitely.

Fred Jamison, clerk of the Kansas District of the US Bankruptcy Court, says this bill will have to start from scratch as a new bill if it is not passed later this year.

Fraudulent filings

Lazzo says long-awaited changes to the bankruptcy act will provide welcomed relief to those companies directly linked to the credit industry. Direct beneficiaries may include credit card issuers, car finance companies and personal finance companies.

Industry sources estimate that around 5 percent of bankruptcy filings are fraudulent. But Jamison says if the new act can weed out 1 percent it would return tens of millions of dollars to the credit industry.

The most obvious impact for the credit industry, says Lazzo, will be a reduction in the industry's bankruptcy losses through fewer filings. What drives three quarters of all consumer bankruptcy filings, says Lazzo, is an inability to pay off debt.

Pay what's owed

Under current bankruptcy law, consumers can keep a car they owe money on by paying what the car is worth instead of the full amount owed. The new law means consumers will have to pay what is owed, if the car was purchased less than three years earlier.

"Some say the revised law will buoy the credit industry to extend credit to marginal borrowers. Especially if the option for bankruptcy, at least in the minds of the credit issuers, is deemed less realistic," says Lazzo.