

Bankruptcy Trends in Virginia



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If you or your business are getting to the point where bills go unpaid, bankruptcy may be the best resort to protect what you can. Many people and businesses file for bankruptcy every year and some even file multiple times depending on their circumstances. If you are considering filing personal or business bankruptcy, you are not alone and it is helpful to know more about bankruptcy, the current trends, and statistics. Below, we will explore the area in depth and ways that you can find relief when you need it the most.

Personal bankruptcies saw a large spike in numbers when the economy took a turn for the worse as people lost their jobs, homes went into foreclosure, and money became harder to hold onto. According to Debt.org, in 2005, bankruptcy was at the highest it had ever been with roughly one out of every 55 households filing for relief. The total number of filings jumped to 2 million open cases alone during this year.

As the real estate market and economy began to gain traction again, bankruptcy filings for both personal cases and businesses continued to decline at a steady rate. For instance, at the year-end in 2013, filings were down by 12 percent from the year prior. In addition, in 2014, filings were down another 12 percent from the year 2013.

What Causes People to File Bankruptcy?

When it comes to personal bankruptcies, people will file for financial relief when they become overextended and can no longer pay their obligations. Whether something significant happened in the person's life or they simply made bad decisions, there are a number of reasons why.

Two of the most common reasons for bankruptcy are high credit card debt and bills related to medical conditions or events. Even as the economy continues to improve, it may not happen fast enough to relieve everyone's debt obligations and people still file for the same reasons. The government has worked hard to try and protect these two areas, but many people still find themselves in difficult situations

In 2013, it was predicted that roughly two million people would have unpaid medical bills, which essentially made health care the front running reason for bankruptcy filings. To top it all off, many of the people who have medical bills have health insurance. According to NerdWallet, their predictions for 2013 showed that ten million adults who have medical insurance would still accumulate medical bills they could not pay.

With Obamacare in place and new health reforms going on all the time, why are medical bankruptcies still a problem? Well, because Americans cannot afford their out of pocket expenses and

deductibles. Many people must meet a certain minimum before they can receive help paying their bills.

It should also be noted that even when good health insurance covers a significant portion of medical bills, it does not cover the expenses of being out of work, or the cost of a family member or professional caretaker during extended conditions.



Business Bankruptcy: What Happens?

Business bankruptcies only account for a small percentage of all bankruptcy filings and in 2013, filings for businesses dropped a total of 24 percent, which made this number the lowest since back in 2006.

Not much has changed in the way businesses take care of things on the financial side, but one interesting note is that banks are able to increase their profits by borrowing low from the Federal Reserve and then charging much more in the way of interest rates and fees, thus profiting. Although the banks borrow low, there is not much relief for small businesses who struggle to stay above water for the first year or two. Small businesses quickly learn that the first couple of years are the hardest hurdle to get over as startup costs, inventory, and infrastructure are eating them alive. Forbes has estimated that roughly nine out of every ten startup businesses fail. Wow!

Understanding Bankruptcy: Chapter 7, Chapter 13, and Chapter 11

To fully understand what the statistics mean above, you need to have a better understanding of what bankruptcy is. When you think of the term bankruptcy, you probably think it describes the situation where you cannot pay off the debts you owe. While clearly the precursor to bankruptcy, the correct term for the situation where you are unable to pay a debt is actually referred to as insolvency.

Insolvency is what many people think bankruptcy is – that is to declare a state of complete inability to pay debt.

The two main types of insolvency are:

(A) Balance Sheet Insolvency, meaning the company or person's liabilities are greater than the assets or properties owned.

(B) Cash flow insolvency, meaning you cannot pay your debts as they become due. This is also called equity insolvency.

However, cash flow insolvency can eventually lead to balance sheet insolvency. What often happens is that a company has to cease conducting business because it cannot pay its bills.

While insolvency is the term to describe the financial situation, bankruptcy is the legal term used to describe a situation where a person or company is considered insolvent. If you find that you are contemplating bankruptcy, you do have options available.



Chapter 7 Bankruptcy

Chapter 7 bankruptcy is a subsection and filing of the bankruptcy code where most or all debt is canceled out. During the filing, it is not uncommon for assets to be sold off or liquidated to help pay back some of the debt.

The cost to file for this type of bankruptcy varies and you can typically only file once every eight years, should you need to file again for any reason. Also, to file using Chapter 7, you must meet certain income guidelines.

If you do meet the guidelines, you can have your debt written off by the court. Once your debt is wiped out, you will have a clean slate with existing creditors, but you must slowly rebuild your credit rating before other creditors will lend you money again.

One thing to make note of is that even after a Chapter 7 bankruptcy, not all debts will disappear. You may still be responsible for some debts, such as student loans, child support payments, and taxes.

Chapter 13 Bankruptcy

Chapter 13 bankruptcy is different than Chapter 7 and with this filing, you do not lose your property or assets. A filing under Chapter 13 will allow you to pay back some, or all, of your debt over a set period of three to five years.

To file for chapter 13 under the bankruptcy code, you must meet certain income guidelines as well, since you will be responsible for paying back your debt. You must be able to maintain your monthly living expenses and be able to pay off the debt at the same time, otherwise, you may be required to file for Chapter 7.

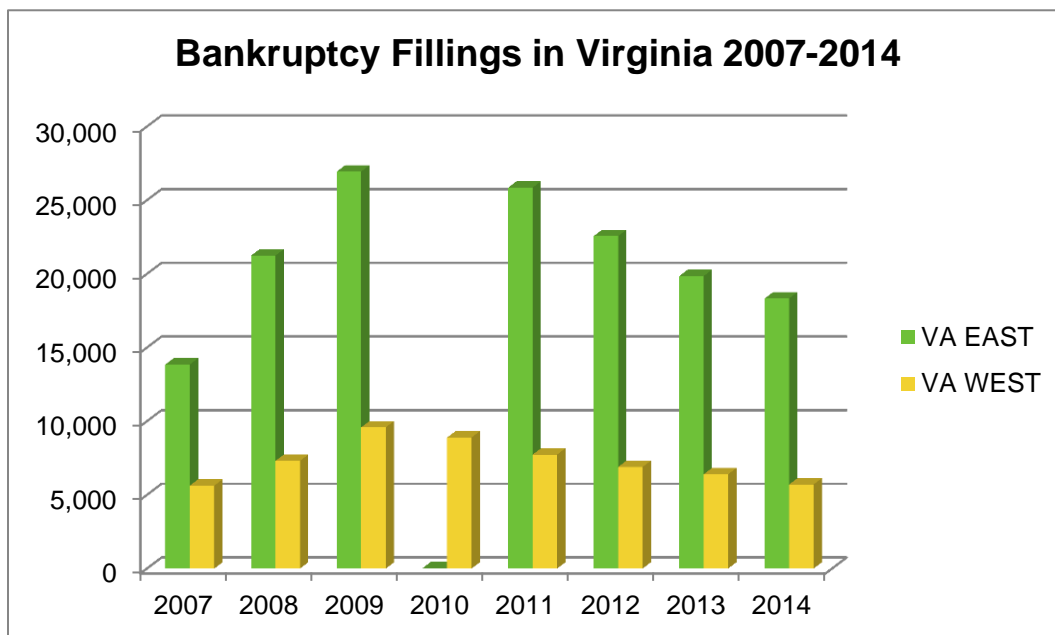
Chapter 11 Bankruptcy

Chapter 11 bankruptcy is used for businesses who need to declare a bankruptcy status. Many business owners are hesitant to file this type of bankruptcy as the process is long and can be cumbersome.

During this filing, debt is reduced or modified and the person responsible for the debt will restructure their payments to pay it off. This type of filing is often relied upon when a company needs help paying down debt to begin making profits again. One noteworthy fact about Chapter 11 is that the business owner is still in control of their business and they can continue to run the business as normal.

Local Statistics for Bankruptcy Filings in Virginia

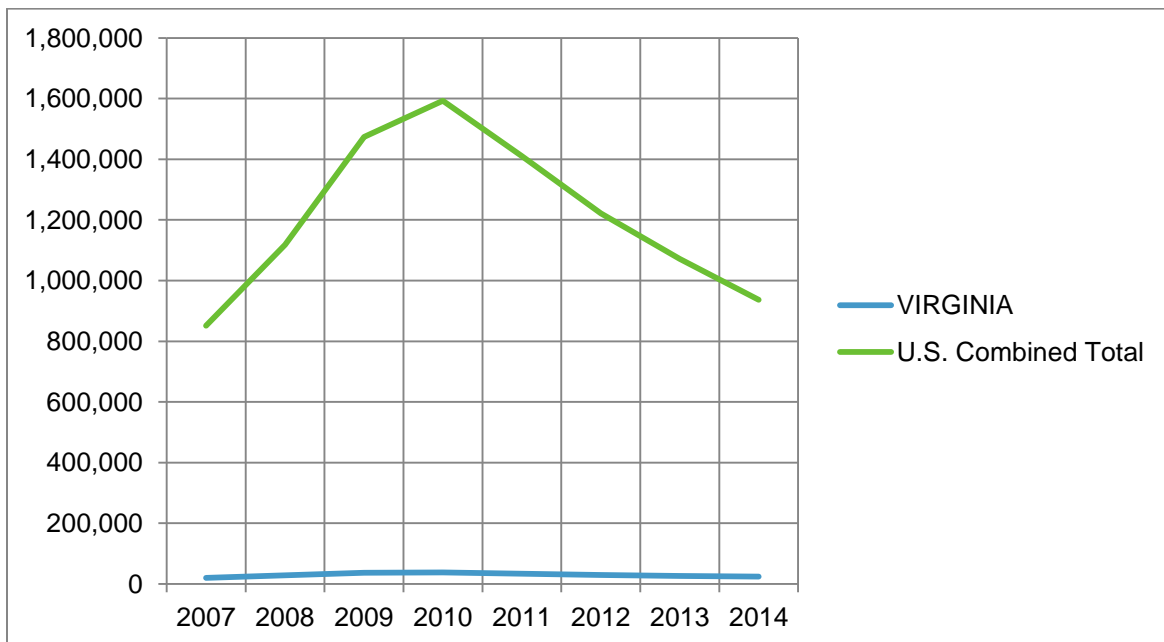
As a whole, Virginia is one of the states that has a lower number of bankruptcies than many other states. For instance, docket records show that roughly 2,980 bankruptcies were filed in the Western District of Virginia in the first half of 2014 and roughly 3,357 in the first half of 2013. The Eastern District of Virginia shows even fewer filings with many previous years falling under 500. Lastly, a compilation of all filings in the Eastern District, shows that the number of bankruptcies filed continues to fall. Stats show in 2013, 20,419 bankruptcies were filed and in 2014, only 18,341. The projected number for 2015 falls around 11,900.



For a period of July 2011 until June 2012, the Virginia Eastern District saw a total of 15,239 Chapter 7 bankruptcies, 21 Chapter 11, and 8,519 Chapter 13 filings.

From July 2011 until June 2012, the Virginia Western District saw a total of 4,996 Chapter 7 bankruptcies, 1 Chapter 11, and 2,222 Chapter 13 filings.

To give you an idea of how low those numbers are compared to other states, in 2011, Florida alone had 94,815 filings and California had 240,151, according to Debt.org.



Future Trends in Bankruptcy

The future trends for bankruptcy throughout the United States and in Northern Virginia are getting better. As the economy is finding itself back on track, the number of Chapter 7 and Chapter 11 bankruptcies is steadily declining and have been for a few years now. Although people throughout all areas of the US will continue to struggle with medical debt, student loans, and credit card debt, we will still see a large decline in filings.

Arlington residents and those throughout all of Virginia can look forward to new businesses being able to better sustain themselves, an improvement in the real estate market, and less bankruptcy filings throughout households.

How TBRC Can Help You

If you are facing bankruptcy in Vienna, Falls Church, Fairfax, or any other city in Virginia, you are not alone and TBRC can help you. At-risk businesses and people who have a large amount of debt should look for ways to restructure their obligations and set up a plan for financial freedom. Whether you are considering bankruptcy or not, contact TBRC today for a free legal consultation.

Contact us

today at

(703) 549-5000

www.tbrclaw.com

Resources:

<https://www.debt.org/bankruptcy/statistics/>

<http://www.uscourts.gov/news/2013/10/24/bankruptcy-filings-drop-12-percent-fiscal-year-2013>

<https://www.debt.org/bankruptcy/statistics/>

<http://www.nolo.com/legal-encyclopedia/chapter-11-bankruptcy-small-business-owners.html>

<http://www.vsb.org/site/publications/the-bankruptcy-process>