Bankruptcy filings spike

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By JIM KINNEY

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SPRINGFIELD - The number of Hampden County residents who turned to Chapter 7 bankruptcy as the only way to get out from under their debts jumped 51.5 percent last year.

"When times are tight people put food on credit cards, they put their gas on the credit cards, all that comes back to haunt you," said Justin H. Dion, a lawyer with Bacon & Wilson in Springfield and chairman of the bankruptcy section of the Hampden County Bar Association.

"I think we are going to see more of this with the economy," he said.

He said he sees people in his practice with debts that are two or three times greater then their annual incomes. Once they miss a payment they face late charges and interest.

"It's very hard, if not impossible to dig your way out," Dion said. "It's like a snowball rolling down a mountain."

There were 985 Chapter 7 filings from Hampden County in 2008 compared with 650 in 2007, the Warren Group said Thursday. It is a Boston-based collector of real estate data and publisher of Banker & Tradesman newspaper.

In Hampshire County, the number of Chapter 7 filings increased 58.6 percent from 150 to 238. In Franklin County, the number of Chapter 7 filings increased 26.3 percent from 114 to 144, also according to The Warren Group.

Across the state, the number of Chapter 7 filings increased 41.2 percent from 8,245 in 2007 to 11,638 last year. There were 4,968 filings in 2006, The Warren Group said. Bankruptcies spiked in 2005, just before new federal laws making it more difficult and expensive to file went into force.

In the past year the number of Chapter 13 bankruptcies fell 31.4 percent in Hampden County from 376 in 2007 to 258 in 2008. That drop mirrored a trend across the state.

The Warren Group statistics didn't include Chapter 11 business bankruptcies.

Dion said Chapter 13 buys time for the debtor to reorganize.

The Warren Group said federal law requires people to file under Chapter 13 if their income exceeds the median income in their state. While Chapter 7 wipes away debt, Chapter 13 requires debtors to arrange a three- or five-year repayment plan.

"You need some income to use Chapter 13," Dion said. "With Chapter 7, these are people who are throwing in the towel."

Under Chapter 7, debtors are allowed to keep very basic possessions such as furniture or an older car.

Bankruptcies damage credit ratings, he said. But by the time most people are seriously considering bankruptcy, their credit is already very bad, Dion said.

"After the bankruptcy, if you are responsible and pay your bills, for most of my clients their credit bounces right back," he said.

Bankruptcies stop counting against applicants for Federal Housing Administration, or FHA, mortgages after two years, Dion said.

"I have clients who file for bankruptcy and two years later are buying a house," he said.

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