

# **The Geography of Race, Legal Institutions, and Attorneys in Consumer Bankruptcy**

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- ▶ 53% of the time, Black Americans who file for bankruptcy file Chapter 13
- ▶ 22% of the time, white Americans who file for bankruptcy file Chapter 13
  
- ▶ Chapter 13 is:
  - More costly than Chapter 7
  - Unsuccessful at discharging debt more often than Chapter 7
  - Chapter 13 can offer the ability to exempt assets such as a home from bankruptcy, however the homeownership rate is lower for Blacks than it is for whites
  
- ▶ **This paper:** Helps us understand drivers of Black vs white bankruptcy filing choices

## This Paper's Contribution

- ▶ Provides fairly simple model that correctly predicts Chapt. 13 filing 96.8% of the time
- ▶ Uses XGBoost - an off the shelf boosted tree model

$$1(\text{ChapterChoice} = 13)_i = f_4(X_{\text{balancesheet}}, X_{\text{current inc}}, X_{\text{future exp}}, X_{\text{future inc}})$$

- ▶ Finds that future income adds the most explanatory power.

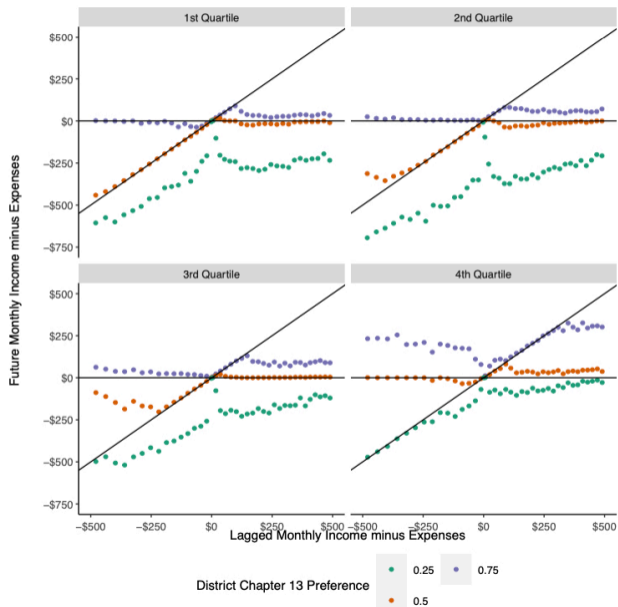
# Non-negative Future Net Income Predicts Chapter 13 Filing

- ▶ plots past 6 month net income vs future expected net income
- ▶ positive future net income explains chapter 13 filing even when it is above historical net income

Figure 5: Expected net income, current net income and chapter choice



# Net Future Income vs. Net Past Income by Chapt. 13 Preference



## How is Income Related to Bankruptcy Attorney?

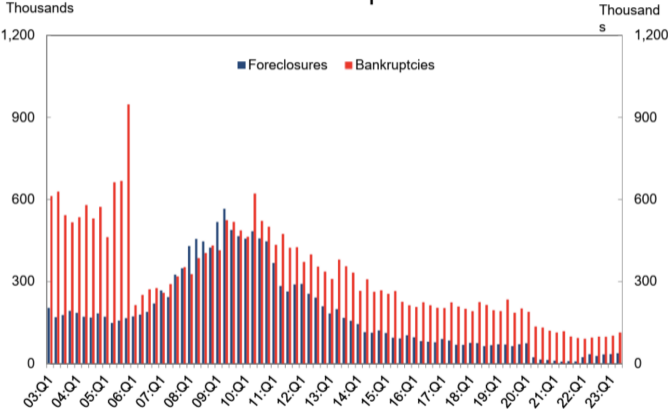
- ▶ Since future income adds the most explanatory power, paper explores it:
  - Paper sets up borrower's and attorney's incentives to report future income
  - High Chapter 13 preference attorneys are consistent in their preferences and often specialized
  - Black filers pair more frequently with these attorneys
  - Because future income can be audited, but is not verified, and is subject to risk shocks, it is uncertain  $\Rightarrow$  most filings fail because of failure to make required payments under Chapter 13 due to income being too low
  - **Implication:** Future income is recorded after choosing an attorney, suggesting that if these borrowers went to a different attorney they would have reported different future income

## Comments

- ▶ Would like to see even anecdotal evidence on some of these large attorneys are borrowers steered to them?
  - Why do they encourage borrowers to report higher income than they have today?
  - Why do borrowers pair with them?
  - Could you survey them? What role does precedent play?
- ▶ Can you impute the race of the attorney and see if the effect attenuates?
- ▶ Are there any filers in the data who appear more than once?
  - Either they file more than once, or needed to switch attorneys for some reason?
  - Can you exploit this variation to see if changing attorney changes reported income and how this varies by race?
- ▶ What fraction of filers in Chapter 13 had homes? - Could merge onto deeds records to check

# Use Data from 2008-2009 - High Point of Bankruptcies Post Financial Crisis

## Number of Consumers with New Foreclosures and Bankruptcies



Source: New York Fed Consumer Credit Panel/Equifax