



A comparison of bankruptcy in six Montana cities fiscal 1973
by Carol Ann Kallio Hughes

A thesis submitted in partial fulfillment of the requirements for the degree of MASTER OF SCIENCE
in Home Economics

Montana State University

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Abstract:

The purpose of this study was to compile a picture of the bankruptcy situation in Montana and to compare the bankruptcies in six Montana cities. Three cities have a Consumer Credit Counseling Service and three do not have a service available.

A total of 449 bankruptcy files were examined and this represented a 100 percent total of the bankruptcies filed in the six cities during the 1973 fiscal year. Data gathered included total bankruptcies per 1000 population, types and dispositions of the cases, occupations of the bankrupts, incomes for a two-year period prior to filing, losses incurred, bankruptcy exemptions, and reasons for filing bankruptcy.

It was found that causes of Montana bankruptcies closely paralleled national causes. The leading causes were found to be unemployment and high medical expenses without adequate insurance.

In Montana, there is a non-use of Chapter XIII filings with only two cases in operation in the study area. There are indications of need to reform bankruptcy practices and need to publicize Consumer Credit Counseling Services so that more persons would have an additional possible solution to their financial problems without opting for bankruptcy.

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Date August 6, 1974

A COMPARISON OF BANKRUPTCY IN SIX MONTANA CITIES
FISCAL 1973

by

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A thesis submitted in partial fulfillment
of the requirements for the degree

of

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in

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ABSTRACT

The purpose of this study was to compile a picture of the bankruptcy situation in Montana and to compare the bankruptcies in six Montana cities. Three cities have a Consumer Credit Counseling Service and three do not have a service available.

A total of 449 bankruptcy files were examined and this represented a 100 percent total of the bankruptcies filed in the six cities during the 1973 fiscal year. Data gathered included total bankruptcies per 1000 population, types and dispositions of the cases, occupations of the bankrupts, incomes for a two-year period prior to filing, losses incurred, bankruptcy exemptions, and reasons for filing bankruptcy.

It was found that causes of Montana bankruptcies closely paralleled national causes. The leading causes were found to be unemployment and high medical expenses without adequate insurance.

In Montana, there is a non-use of Chapter XIII filings with only two cases in operation in the study area. There are indications of need to reform bankruptcy practices and need to publicize Consumer Credit Counseling Services so that more persons would have an additional possible solution to their financial problems without opting for bankruptcy.

CHAPTER I

INTRODUCTION

Importance of the Study

Credit, when it is wisely used, is a growth-promoting force in the American economy. Widespread use of credit in the United States is one of the factors which has enabled us to raise our standard of living beyond that of any other peoples in the world. Consumer debt has meant more material comfort for people and also more jobs through increased production (Black, 1961).

Credit is a democratizing force in that people with modest incomes do not usually have the cash to buy cars, furniture, homes and appliances. Time-buying allows people to marry earlier, raise families while they are young, and enjoy many benefits that would otherwise be reserved for upper-income families (Black, 1961).

The use of credit brings responsibility and if its use is wisely controlled, the consumer can plan and project his buying beyond the purchasing power of a single paycheck. However, the misuse of credit can bring financial difficulties (Campbell, Journal of Home Economics, 1968).

The original function of consumer credit was to sell merchandise and services. That purpose has been changed because of the huge profits to be made by selling debts. Sell-

ers of credit have found that more profit can be made from the debt itself than from the goods sold. Consumers, for the most part, do not understand the cost of credit and they are sold more debt than they can afford at exorbitant prices, of which they may not even be aware (Black, 1961).

In many cases, debts are too overwhelming and bankruptcy seems the only way to get out from under. People often do not learn from their experience, as is evidenced by the fact that nationally seventeen percent of those declaring bankruptcy are repeaters (Daly, Better Homes and Gardens, June, 1974).

The high bankruptcy and debt rates in the United States show that there is a definite need to help those in financial difficulties. These losses ultimately affect not only the bankrupt, but also, through increased costs, the people who follow sound financial practices. Businesses, industry, government, and private citizens feel the repercussions of unwise spending.

As far as it can be determined, there have been no systematic studies of bankruptcy in Montana nor have there been any studies which have compared bankruptcy in cities which have a Consumer Credit Counseling Service and cities which do not have this service available. This indicates a need for such a study and it is hoped that this study will present a clearer picture of the bankruptcy situation in Montana and

that it will supply insights into possible methods of reducing the bankruptcy rates and the bankruptcy losses in Montana.

Purpose of the Study

The purpose of this study was to compare the bankruptcy rates in three Montana cities which have Consumer Credit Counseling Services available and three Montana Cities, similar in nature, which do not have these services available. This comparison was done to find out if the cities that have the service available have a lower bankruptcy rate than the other cities.

There have been three studies done evaluating the three Consumer Credit Counseling Services in Montana. In 1970, Lola Krueger evaluated the Butte operation. The following year, Cynthia Bryson completed a parallel study in Missoula. Sereta Taylor completed the trio of studies in 1973 with her thesis on the Cascade County (Great Falls) service. It is hoped that this study on bankruptcy added to the three above studies will provide a more complete picture of the credit situation in Montana. The four studies may prove useful to persons who might be thinking of starting a Consumer Credit Counseling Service in their communities. They also would be beneficial in providing good background material for school

districts setting up a curriculum for a money management or consumer education class.

CHAPTER II

REVIEW OF LITERATURE

Introduction

The act of declaring bankruptcy has been described as "fortune that goes the other way . . . from riches to rags" (Sullivan, 1968). To the cognoscenti, bankruptcy is known as "taking a bath" or "going through the wringer". The bankrupt himself may state that he has "crashed and burned". Others feel that bankruptcy is the "great national cop-out". Whatever the feelings involved, the classical definition of bankruptcy is that it is "a law for the benefit and relief of creditors and their debtors in cases in which the latter are unable or unwilling to pay their debts" (Sullivan, 1968).

In 1970, financial counselors estimated that twenty million families were so seriously in debt that they were virtually bankrupt by ordinary standards. This group represents many of the nation's poor as well as many belonging to the affluent society (Ebony, December, 1970).

History of Bankruptcy

Bankruptcy legislation had its roots in Mosaic law in approximately 1500 B.C. in connection with releasing a person from his indebtedness at the end of every seven years. An early liberal attitude was developed in the twenty-fifth

chapter of Leviticus. This was in connection with each fiftieth or jubilee year in which liberty was to be "proclaimed throughout all the land" and people were ordered to "return every man unto his possession" and "every man unto his family".

The Ancient Laws of the Twelve Tablets in Rome, 459 B.C., states that creditors could have a delinquent debtor put to death or they could sell him and his family into slavery. In Rome, in 239 B.C., corporal punishment for indebtedness was prohibited but imprisonment was still permitted. Until comparatively recent times, English laws permitted imprisonment for debtors and this practice was carried into the early period of the American Republic.

The nineteenth century brought a change in the views of the debtor-creditor relationship. A spirit of commercial interdependence gave rise to the idea that the creditor was a partner of the debtor. A more humanitarian feeling developed. Laws held that the debtor was responsible merely to the extent of the amount of the property he possessed at the time of the failure.

The Constitution of the United States: Article 1, Section 8, provided that "Congress shall have the power to establish . . . uniform laws on the subject of bankruptcy

throughout the United States. This was interpreted to mean that a Federal Bankruptcy Act would supersede any act of the individual states.

Early bankruptcy legislation did not prove successful. The first bankruptcy law was passed in 1800. It was repealed three years later. Congressional action occurred again in 1841. This was repealed in 1843. The third bankruptcy law was passed in 1867, amended in 1874, and repealed in 1878. Finally, 1898 saw Congress pass the National Bankruptcy Act. There have been many amendments through the years, but it is still in force to date. Because the act was revised so many times and in so many respects, it is often referred to as the Bankruptcy Act of 1938 or as the Chandler Act. This too has been amended several times, most recently in 1966. Even today, under the conditions of straight bankruptcy, the estate (if any remains beyond exemptions) of the bankrupt debtor is seized and liquidated, and, therefore, ceases to exist. In addition, a debtor can be imprisoned for nonpayment of alimony (Beckman and Foster, 1969). Perhaps our progress has not been as great as one would believe.

Bankruptcy Laws of Montana

According to John L. Peterson, District Bankruptcy Judge for the State of Montana, the bankruptcy laws of Montana are patterned so that the head of a household and his family will

not be rendered helpless after a bankruptcy but rather that he will be able to pick up the pieces and be able to make a new start. This attitude toward the bankrupt is a liberal one and allows the bankrupt more property and assets than do the laws in many states. This also alleviates an additional tax burden upon the state because the bankrupt and his family are not indigent and do not have to depend upon the State for welfare or other aid. (This information was obtained from Mr. Peterson in a personal interview.)

The complete bankruptcy laws of Montana are contained in the Revised Codes of Montana, 1947, Title 93, 5810-5820. This is a replacement volume which was revised following the thirty-seventh Legislative Assembly, 1961. In essence, a bankrupt has these exemptions: wearing apparel; all necessary household furniture, including a three-month fuel supply; certain domestic animals; an automobile with value not to exceed three hundred dollars; and all tools necessary to the trade or profession of the bankrupt. The final exemption is that of the bankrupt's homestead. This is covered under Title 33-124 and allows the bankrupt the equity he holds on his home if he has filed for the exemption.

Causes of Bankruptcy

In primitive society, there were no concepts relating

to bankruptcy or insolvency as we know these concepts today. The reason for this is that debtors and creditors were largely unknown. Primitive man had no faith in his neighbor. Payment, of necessity, had to be immediate and in full. As man's social awareness developed, the theory of credit gradually evolved. At first, this trust was held in highest regard and any violations of this trust were dealt with harshly (Sullivan, 1968).

The United States was settled partly on credit. Many of the passengers on the Mayflower bought their passage on the installment plan (Black, 1961). Early settlers in James Oglethorpe's colony in Georgia came from a debtor's prison in England. It is not the use of credit that causes bankruptcy, but rather it is the misuse and misunderstanding.

Dr. Ernest Dichter, President of the Institute of Motivational Research, has said that our society has been "shifting from a puritanical culture to a hedonistic one". We are more concerned with immediate happiness rather than delayed satisfactions in life. The credit card is a symbol of the hedonistic age. We are getting pleasures, purchases, and entertainment before we've earned them. The credit card is the modern Lamp of Aladdin. All one has to do is show it, sign it, rub it, and--presto--the thing you wish for appears and it is yours (Black, 1961).

As a result of the consumer credit explosion, total private debt today is greater than the combined private debt of man throughout history. "Never have so many owed so much." Never has so much profit been made out of debt itself (Black, 1961).

The major causes of insolvency leading to bankruptcy, in the order of their frequency, are as follows: 1) a decline in income due to a "lay-off" from work; 2) high medical expenses of families not having medical insurance or not having enough insurance to see them through a major illness; 3) a decline in family income due to a wife's leaving the employment market because of illness or pregnancy; 4) divorce, which is often partially, at least, precipitated by financial problems; and 5) fraudulent debt consolidation (Lane, 1969).

Estes Snedecor, bankruptcy referee in Portland, Oregon, and a member of the Advisory Committee on General Orders in Bankruptcy, declares that the "underlying causes of personal or consumer bankruptcy are: unemployment, over-extension of credit, deficiency claims arising from repossessions of automobiles and appliances sold on contract, excessive interest rates and unusual medical and hospital bills" (Sullivan, 1968).

To some extent, retailers are responsible for their own credit difficulties. The battle for the consumer dollar has often led to overly lenient credit policies. Rather than see

the customer go across the street to a rival store, many merchants have opened a charge account for the customer known to be a bad risk and lived to regret it (Phalon, 1963). This premise lends to a theory on the rising rate of bankruptcy that retailers are at fault by virtue of their improvident credit selling. This is coupled with the consumer and his uncontrolled itch to spend. Further complicating the picture is an evolving new morality, bringing about a lack of responsibility on the part of some people to pay their debts. The drawing is further colored by the harsh collection laws in some states and by the nature of the Bankruptcy Law itself (Sullivan, 1968).

Ebony magazine presents two schools of thought on the question of who is to blame for mass financial overextension by American consumers. Leonard Rose, President of National Accounts Systems, the nation's largest chain of collection services, blames the wage earner who cannot resist temptation to add one more monthly installment to his budget. "The major problem", says Rose, "comes from irresponsible consumers who use easy credit to buy themselves into a hole they can barely pay their way out of". Conversely, Robert E. Burger and Jan J. Slovicek, who have for years helped debt burdened families take advantage of the country's bankruptcy

laws and who authored How to Get Out from Under, believe that the creditors themselves bear at least an equal portion of the blame, having been responsible for an explosion of credit cards, easy loans, and a barrage of television blandishments inducing everyone with an urge for the better life to enter the rolls of heavy debt (Ebony, December, 1970).

The advertising industry itself has made a sizable contribution to the growing amount of bankruptcy in the United States. Appetites are so whetted for the good things of life that patience has gone. To wait a month or so for something is unheard of. To suggest waiting for years is virtually subversive. This is in great contrast to the attitude of our forefathers. They were willing to wait, not just for years, but often for generations. They were willing to build not just for themselves, but for their children. In the meantime, they would simply do without. This attitude did not destroy the nation. It gave it a depth and continuity: it gave it purpose. Today's generation likes to pretend that times have changed, that the prosperity of our country depends upon all of us spending as fast as the money comes in, perhaps faster. That pretense shows up in advertising, in textbooks, in government pronouncements, and in

editorials. All too often the pretense is not that at all; the opinion is sincerely held. "Keeping up with the Joneses" is no joke; it is the very essence of modern-day American living (Neal, 1967).

Declaring Personal Bankruptcy

In the fiscal year ending June 30, 1973, there were 155,643 non-business bankruptcies filed in the United States. The State of Montana contributed 704 of these cases. The national figure (which included the fifty states and the District of Columbia) shows a decrease of 5.5 percent from the total of 164,660 filed in the fiscal year ending June 30, 1972. During the same period, the total for Montana was 791. This is a decrease of 87 cases. Montana's 1973 figures show a great imbalance between straight bankruptcy filings and Chapter XIII filings. There were 697 of the former and only seven of the latter. This information was compiled by the Research Services Division of the National Consumer Finance Association. The following chart shows a comparison between the number of proceedings commenced in key years on the national and state levels.

	1963	1968	1970	1971	1972	1973
U.S.A.	139,174	181,241	178,118	182,143	164,660	155,643
Montana	499	628	821	863	791	704

Theoretically, anyone can declare bankruptcy. The only qualification is that the petitioner must have debts that amount to at least one dollar more than his assets. Also, he cannot have been granted a discharge within the previous six years (Sullivan, 1968).

Bankruptcy has been divided into two main types: voluntary and involuntary. Under voluntary bankruptcy, the debtor himself files a petition admitting his inability to meet his obligations. Under involuntary bankruptcy, the debtor is forced into bankruptcy by his creditors. This is presumably against his will (Beckman and Foster, 1969).

Once a borrower decides to file for bankruptcy, he can choose one of two methods. He can choose to file a straight voluntary bankruptcy and agree to let all of his attachable assets be sold off for the benefit of his creditors. Two-thirds of these are no asset cases where nothing is recovered, however. His other option is to file a Chapter XIII (Phalon, 1963).

Chapter XIII filings are sometimes referred to as wage-earner bankruptcy. The national amendment concerning this type of filing was passed in 1938. The original restriction was that persons with incomes of not over \$3,600.00 annually could avail themselves of the plan. In 1950, the limit was

raised to a \$5,000.00 annual income. In 1959, all monetary restrictions were eliminated (Sullivan, 1968).

For the plan to become operable, the majority of the unsecured creditors must give their confirmation to the plan. They must agree to recover their investment at a lower monthly rate of return, over a longer period of time, and usually without any interest. In addition, success is due, in part, to the willingness of the employers to cooperate by sending wages of the petitioner to a trustee. This allows the planned money allotments to be made by the trustee or a Consumer Credit Counseling Service (Sullivan, 1968).

Chapter XIII is legal debt consolidation. The wage-earner's plan is a way of taking existing debts, combining them, and paying them off over a long period of time. A trustee, appointed by the court, takes charge of these debts and pays them off with a fixed amount of money that the debtor has over the normal costs of living. The usual time period is three years. The cost to the debtor is relatively low, a fee of ten percent is paid off as the debt is paid off. Some Consumer Credit Counseling Centers do not charge the client any fee (Ebony, December, 1970).

Most importantly, the courts are behind Chapter XIII filings and creditors cannot put any pressure on a petitioner

once the filing has been made. Without the protection of a Chapter XIII filing, many, especially the poor, find themselves the victims of unscrupulous collection agencies who often have subpoenas signed ficticiously and then have court notices sent to the victim stating that a judgment has been won against him by default, since he failed to appear in court. Soon the sheriff appears to attach the debtor's property to settle the judgment. Often collection agencies will fire off a barrage of semi-legal bombshells to panic the debtor into paying--4:00 a.m. phone calls, threatening letters on a lawyer's letterhead, implications that friends, neighbors, and relatives will soon know that the person involved is a deadbeat. Agents may badger a man at his job. Repossession of goods and attachment of salaries are the basic weapons in the collection agency's arsenal. To the debtor, relief from harassment more than justifies filing for a Chapter XIII (Ebony, December, 1970).

The advantages of a Chapter XIII filing are obvious to both debtor and creditor. The wage earner gets relief from garnishment and other collection pressures and he receives added time to pay his debts. Throughout the program, the debtor receives basic training in money management. The creditor receives the benefit of being paid, at least in part.

(Sullivan, 1968).

The Federal Bankruptcy law is designed to protect both the individual and his creditors. The law endeavors to give the man who is hopelessly in debt a chance to start over, relieved of his debts while his creditors equitably divide his assets. However, there are certain exemptions to the complete freedom from all debts after completing a bankruptcy. Federal statutes provide that a bankrupt is obligated to pay the following:

- 1) taxes due the government
- 2) liabilities for obtaining money or property by false pretense . . . or for willful and malicious injuries to the person or property of another, or for alimony due or to become due, or for maintenance or support of wife or child, or for seduction of an unmarried female, or for breach of promise of marriage accompanied by seduction, or for criminal conversation.

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Thus, the bankruptcy laws aid and protect people from the financial consequences of only some of their sins and indiscretions. A person who attempts to secrete part of his assets and thereby profit from his own bankruptcy, or otherwise violates this law, is subject to fine and imprisonment

(Leavitt and Hanson, 1950).

Following bankruptcy, a person's credit is usually far better than it was before the filing. Some avenues of credit are closed for a time, but most merchants are willing to extend credit at once. The reason for this is because they know that the debtor cannot go bankrupt for a period of six years (Ebony, December, 1970).

Whether rooted in puritanism, pride, or ego, the general attitude toward bankruptcy is negative and a person may find that it is a difficult lifestyle to live with. There are other aspects than social ones to be considered:

- 1) Secured debts must be paid or the merchandise returned.
- 2) Co-signed loans become the debts of the co-signers.
- 3) The cost of going into bankruptcy may reach \$300.00 or more.
- 4) The bankrupt may have trouble obtaining a job, especially if it requires bonding (Nuccio, 1967).

Bankruptcy occupies a position of extreme last resort for creditors in their collection procedures and for honest debtors in seeking relief from their overwhelming indebtedness. For honest debtors, it is a way of securing permanent relief from a financial embarrassment (Beckman and Foster, 1969).

Bankruptcy is not always the chosen solution to an untenable problem. Many people appeal to their families for help. Some run away from their families and their jobs along with their financial problems. A few steal. Many adjust and remain in involuntary servitude to their creditors for all of their lives (Sullivan, 1968).

Views on Debt and Bankruptcy

The viewpoints by which debt and bankruptcy are held are many and varied. They range from one end of the spectrum to the other. The Montana Credit Unions League puts out a lesson sheet as a service to member Credit Unions. The philosophy held by this group is that bankruptcy is legal thievery in nine cases out of ten. The prevailing feeling is that the creditors of America need to harden their attitude toward the ex-bankrupt. Most bankrupts, when asked why they have found themselves in this untenable position, will give a variety of answers. Few will admit to a lack of integrity and only a few more will concede that they lack emotional maturity. Instead, a prospective bankrupt dreams about the day when he will not have to explain to a multitude of creditors nor will he have to evade them. This is faulty reasoning, for wiping the slate clean, does not keep it clean. There are actually two principal reasons why an individual elects to take bank-

ruptcy. Possibly he may be harassed with garnishments. On the other hand, some unscrupulous lender may have an arrangement with some equally unscrupulous lawyer to guarantee the court costs and legal fee if the lawyer will protect him by getting a note signed in blank to be used after the bankruptcy. Thus, fraud and deceit are involved in many instances (The Credit and Collection Lesson Sheet, May 25, 1972).

Ebony Magazine has a very different point of view concerning bankruptcy. It states that creditors, merchants, and even Federal officials have carefully cultivated the myth that bankruptcy is somehow morally wrong. They have succeeded in making this basic legal protection a punishment. They fear bankruptcy laws because widespread, free use of these protective laws could overturn the present easy credit economy. Unscrupulous lenders, too, realize that the bankruptcy laws are about the only legal weapons with which overburdened debtors can fight back against usury, fraudulent sales, and overcharging. Anyone concerned with the morality of going bankrupt should be reminded that business firms and business speculators use the bankruptcy laws freely. Motion picture stars and other public personalities feel only the slightest qualms about going to court to shake off their debts. In a sense, the family is a business and why should it feel immoral when

its business fails and it must seek relief? The "vast majority of personal bankruptcies are honest attempts by 'little people' to get a fresh start" (Ebony, December, 1970).

Bankruptcy is being made increasingly attractive to the nation's poor. In Washington, D. C., leaders of a militant civil rights organization called ACT (Associated Community Teams) campaigned to inform Negroes of the existence of the bankruptcy law and to help them in filing their petitions. Their leaflets urge people to "eliminate almost all your debts". They even point out that the fifty dollar filing fee is payable in installments with no down-payment (Sullivan, 1968).

The Role of Financial Counseling

Bankruptcy referee Ronald Walker of the Los Angeles District Court says, "Bankrupts don't know how to handle their money. They cannot budget. They cannot say no. They are a pushover for the hard-sell guys" (Sullivan, 1968).

With credit so widely used today, debt counseling is becoming an important specialty in our society. Money management is the blind spot in our educational system. Debt problems can be so pressing as to lead to divorce, drugs, alcoholism, and even suicide (Neal, 1967).

In a 1966 study in Portland, Oregon, three out of four

petitioners said their problems could have been avoided by better financial management or avoidance of credit. These individuals either did not know how to apply financial management or they did not have enough self-discipline to deny their wants. The conclusions drawn were that a lack of orientation toward the future and the inability to identify financial danger signals led to not knowing how to realistically solve the problem. Also, education for the financial aspect of family life is of great importance (Matsen, Journal of Home Economics, January, 1968).

Emphasis should be placed on getting to the debtor early before the problem has become acute. "Financial difficulties are something like medical ills--the earlier they are detected, the less painful the remedy and the more permanent the cure," stated George Sullivan in The Boom in Going Bust. Sullivan further believes that there are going to be families in debt trouble as long as credit is available, but that the number of families in crisis situations can be reduced and one way to do it is through education; not only consumer education as it is now practiced but also by means of formal instruction in high schools in family budgeting, buymanship, and the use of credit. These subjects should be mandatory for all youngsters, girls and boys, college preparatory students

and vocational trainees. In many cases, money today is easier to earn than it is to manage and it is unrealistic that an individual devote years to preparing himself for a good paying job but scarcely any time at all to the use and management of the money he plans to earn. Many young people today never stop to realize that the high standard of living they enjoy is partly the result of perhaps a decade or more of diligent saving and some self-denial on the part of their parents. Young people need instructional aid the most. Every study ever prepared shows that it is the young families that are the ones that are most bankruptcy prone (Sullivan, 1968).

It is estimated that counseling services can help about one-half of the people who come to them. Some are having money problems and many of these can be helped. Others may be involved in family or emotional problems and money problems may be the manifestation (Changing Times, July, 1966).

A Michigan State University study indicated that seventy-five percent of those declaring bankruptcy could have paid off their debts in three years. It would have taken self-discipline and a certain amount of work to accomplish this. Of this number, twenty-five percent could have pulled themselves out of debt while living comfortably (Changing Times, July, 1966). Almost without exception, the person who is

heavily in debt and a likely candidate for bankruptcy can be saved from that fate if he gets help. Before his financial tangle becomes hopeless, he needs to have someone take an objective look at his situation and help him set a course back toward solvency (Sullivan, 1968).

Often families with adequate incomes have as much trouble managing their money as poorer families do because of the role of emotions in money use. Often people with good incomes declare listing minimal debts (Journal of Home Economics, January, 1968). For others, the deeper in debt they become, often the more frenziedly they spend. One man bought four sets of encyclopedias on time (Changing Times, July, 1966).

Consumer Credit Counseling Services have kept many families away from bankruptcy courts and from other troubles when pressure from too many debts becomes unbearable. These credit clinics do not coddle deadbeats; they help delinquent debtors pay their bills and regain their self-respect (Nation's Business, December, 1967). The failure of community debt counseling programs is that they focus their service on families who are in the gravest difficulty. The person in debt usually turns to the counseling service after he has exhausted every opportunity to borrow or negotiate payments with his

creditors. The service is the "financial first-aid station that cares for the wounded". This band-aid is doing only part of the job. Prevention from enormous debt through education would be so much better (Sullivan, 1968).

There are three Consumer Credit Counseling Services located in Montana. Each of them has been the subject of a study evaluating their effectiveness. The first study was done in Butte by Lola Krueger in 1970. Cynthia Bryson followed with a study on the Missoula service in 1971, and Sereta Taylor completed a study of the Great Falls CCCS in 1973. Krueger (1970) found that the CCCS was fulfilling a serious need in Butte, Montana. The major portion of the indebtedness in Butte was the result of strikes and the unemployment caused by the strikes. She reported that the clients were satisfied with the service and that many of them were interested in taking a course on money management.

In the Missoula study, Bryson (1971) found that the major cause of indebtedness was installment buying. Unemployment was not rated as a major factor. The client response indicated a high degree of effectiveness (99 percent). Business participants also expressed a feeling of satisfaction with the program and its effectiveness.

In the Great Falls study, Taylor (1973) found that the

major causes of indebtedness included poor money management, installment buying, medical expenses, and unemployment. Both clients and participating businesses considered the program worthwhile. The board of directors evaluated the service as highly effective in money management and a financial benefit to the entire community.

Financial Counseling Clinic

There is a unique financial-counseling clinic in operation at California State University at Long Beach. Its director is Wm. Buckner, associate professor of home economics (family finance, management and consumer science). Mr. Buckner came to this position with a background as director of the central office of the Long Beach legal aid program.

Counseling is provided during the days and one evening a week. Help is free and available to everyone. The program is presently helping five hundred families per year.

Families are helped in three states:

Diagnosis of the problem followed by

Remedy; then suggestions for

Prevention of future financial difficulties.

Diagnosis: The client, with the assistance of two students, fills out a questionnaire. This is followed by a conference between Dr. Buckner and the students to explore all

possible alternatives. Then the client is called in and a three-way discussion follows. The client then makes a choice that he understands and can live with. Seventy-five percent of the clients have previously decided that they were going to opt for bankruptcy. Dr. Buckner convinces them that bankruptcy is usually the least desirable of many solutions. The initial visit is usually made by the husband but the clinic usually requests that he bring his spouse on the second visit and emphasis is placed on developing proper spending habits by all members of the family.

Remedy: The clinic assists the client in making out a realistic budget. The client with severe financial problems is counseled concerning Chapter XIII. This rehabilitative program causes the client's salary to be paid directly to the court. The court pays the client a portion to cover his budget (already worked out) and it pays the remainder to the creditors. Under this plan, no one can harass the wage earner about his bills and his assets cannot be touched.

Prevention: Originally, prevention consisted of a re-visit to the clinic at the end of a three-month period to take another look at the budget and remodify it if necessary. Additional support is now being offered in the prevention program through classes in personal and family financial man-

agement. These classes are taught by student counselors.

Benefits of the program: Benefits are many. For the student: 1) the program exposes him to the real problems in the community, 2) it broadens the student work experience to include teaching and counseling, 3) it shows management and supportive-services background, 4) it gives experience in budget work and seeking sources of funding, 5) it helps internalize the principles of good money management, and 6) it helps future teachers integrate consumer education into classes.

For the faculty: 1) the program gives additional experience in working with off-campus people, 2) it makes the home economics department a more effective learning center, and 3) it encourages an interdisciplinary approach in problem solving (law, home economics, psychology, and business administration).

For the client: 1) it is a place where he can get help, and 2) it gives him an alternative to bankruptcy.

For the community: 1) there is a reduction of the high rate of bankruptcy and this will bring about a general reduction in the cost of credit for everyone (Rader, Journal of Home Economics, May, 1973).

If, as Americans, we are to seek security and acquire a better standard of living, then we need to have education

in credit and financial management. In some instances, credit knowledge may come from the home where values should be taught. All too often, the home does not provide this information and training and the need for credit and financial education in the schools arises (Schiffer, 1962).

CHAPTER III

PROCEDURES OF THE STUDY

The purpose of this study was to compare the bankruptcies filed in the three Montana cities which have Consumer Credit Counseling Services with bankruptcies filed in three Montana cities of similar nature which do not have these services available. The history and philosophy of bankruptcy as well as results of the three previous studies of Consumer Credit Counseling Services in Montana were outlined in the second chapter.

Selection of the Sample

Because the bankruptcy files are open to the public, every file from the six cities chosen for the study was examined. The study included every non-business bankruptcy filing in these cities during the fiscal year beginning July 1, 1972 and ending June 30, 1973.

The cities of Butte, Great Falls, and Missoula were chosen for the study because each has a Consumer Credit Counseling Service. Three other cities were selected to match them as closely as possible. Anaconda was chosen to compare with Butte because its economy, like that of Butte, is based upon a one-industry minerals company. Billings was selected to pair with Great Falls as a major population center, while

Bozeman was paired with Missoula as the site of a major unit of the state university system. Neither Anaconda, Billings, or Bozeman has a Consumer Credit Counseling Service. It was felt that this format would enable the researcher to determine the impact, if any, of the Consumer Credit Counseling Service units in reducing bankruptcies in the communities they serve.

Data Collection

The State of Montana is divided into two federal court districts--eastern and western. Each district has a judge appointed as bankruptcy referee to hear and rule on all bankruptcy filings within his jurisdiction. Case records are kept on file in the Office of the Clerk of the District Court in each district. Those for the western district are located at the Federal Building in Butte, Montana, while the eastern district files are located at the Federal Building in Great Falls, Montana. The bankruptcy file records for Anaconda, Bozeman, Butte, and Missoula are in the Butte office, and in the Great Falls office are the files for Billings and Great Falls.

During the month of April, 1974, the investigator collected data from the files for these six municipalities by direct examination of the bankruptcy files in the two district

court offices. All of the 449 filings for the period July 1, 1972 to June 30, 1973 were included in the investigation. The findings are necessarily limited to the range of information provided by the bankruptcy case files. Information gathered for the six cities included the number of bankruptcies per thousand population, the occupations of the bankrupts, the types and dispositions of the cases, income of the bankrupts for a two-year period prior to filing, reasons for declaring bankruptcy, losses involved through bankruptcy (including secured, unsecured, total losses and types of losses), and bankruptcy exemptions. Unfortunately, the records contain almost no other demographic data such as age, number of children, length of marriage, educational attainment, and other personal background factors which would have been extremely useful in helping to identify and examine the probable causes of bankruptcy and characteristics of persons who declare bankruptcy.

To acquire a fuller understanding of the actual procedures involved in declaring bankruptcy, the investigator attended a session on bankruptcy hearings. Approximately fifteen cases were heard during the three-hour session. The petitioner, accompanied by his attorney, would enter the room, be sworn in, and would state that the petition he had

submitted was true in all respects. The referee would ask why bankruptcy was being sought at this time. If there were creditors present (creditors had been informed prior to this as to time, place, and date of the hearing), they were allowed to speak to the court concerning the debt owed to them. In some cases, compromises were worked out. If there were no complications or irregularities, the petitioner was allowed to leave. There were two cases with serious irregularities and the referee directed each petitioner to straighten out the matter with the aid of his attorney and to return to the court at a later date. It was extremely interesting to see the wide variety of cases and to listen to the petitioners.

CHAPTER IV

RESULTS

The purpose of the study was to find both the similarities and the differences concerning the bankruptcy situation in six Montana cities: Anaconda, Butte, Missoula, Bozeman, Great Falls, and Billings. Another objective was to ascertain whether or not cities with a Consumer Credit Counseling Service had a lower bankruptcy rate per thousand population than cities without this service.

Sample

The three cities of Butte, Great Falls, and Missoula, Montana were chosen to be represented in this study because they are, at present, the only three cities in the state which have the services of a Consumer Credit Counseling Service available. As a comparison for these cities, Anaconda, Billings, and Bozeman, Montana were chosen. These cities do not have available the Consumer Credit Counseling Service. In addition, each city in the latter category was chosen because it had a marked similarity to a city in the former category. Both Butte and Anaconda are primarily one industry towns controlled by the same industry, that of minerals, and each is subject to the same labor conditions which include three-year labor contracts and the very real possibility of

a major strike every third year. This economic condition sets these two cities apart from the rest of the cities in the study. Missoula and Bozeman house the two largest units of the university system and the influence of the university upon the town is of importance. Great Falls and Billings were matched because these two cities are by far the two largest cities in the state and their more cosmopolitan nature and varied industries make them important to the study (see Figure 1).

Information for this investigation was taken directly from the official bankruptcy forms. Because bankruptcy files are considered to be a part of the public domain, they are open to the public at all times. Therefore, the response was gathered from 100 percent of the bankruptcy cases filed in the six cities during the fiscal year beginning on July 1, 1972 and ending on June 30, 1973. For the purpose of this study, all dollar figures have been rounded off to the nearest whole dollar.

Number of Bankruptcies per 1000 Population

During the one-year period of the study, 449 bankruptcies were filed in the six participating cities. Butte contributed 78; Anaconda added 18; Missoula had 60; Bozeman listed 11; Great Falls added 123; and Billings rounded out

MONTANA

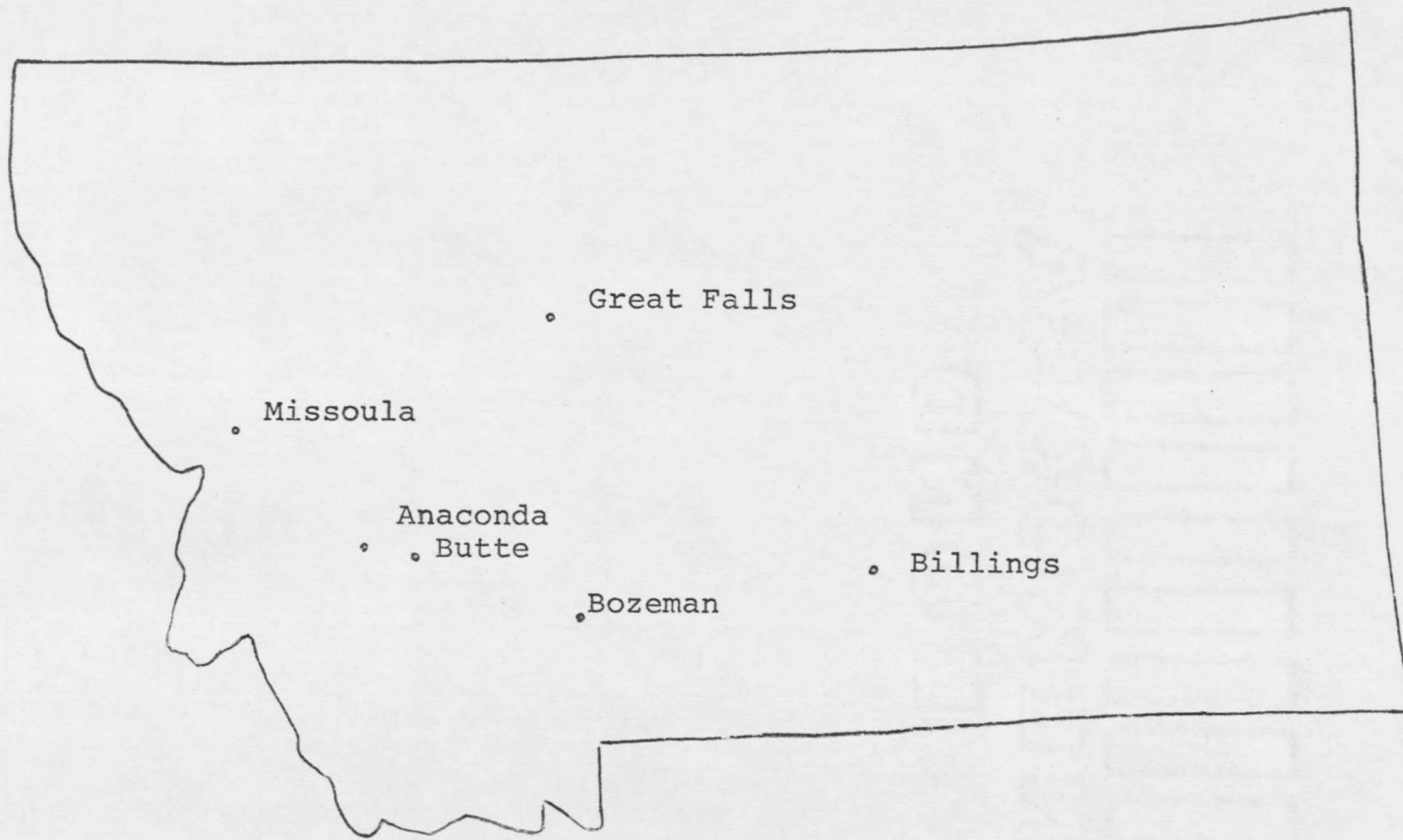


Figure 1. Location of the Montana Cities Included in the Study

the total with 159. Per 1000 population, the city with the smallest number of filings was Bozeman with .60 and the city with the largest number was Butte with 3.34 (see Table I).

TABLE I
BANKRUPTCY FILINGS PER 1000 POPULATION
IN SIX MONTANA CITIES

CITY	FILINGS	POPULATION*	FILINGS PER 1000
Butte	78	23,368	3.34
Anaconda	18	9,971	1.84
Missoula	60	29,497	2.03
Bozeman	11	18,670	.60
Great Falls	123	60,091	2.05
Billings	159	61,581	2.58

*Population based on U. S. Dept. of Commerce Bureau of Census (Nov. 1970) "Number of Inhabitants of Montana"

The number of bankruptcies per 1000 population seemed quite high for the city of Butte in comparison with the other five cities. When this difference became apparent, every tenth filing was checked from this point and it was found that of the 120 remaining filings in the Western district of Montana (including the cities of Anaconda, Bozeman, Butte,

and Missoula) five of the bankrupts had filed their previous year's income tax in the State of Montana while seven had not. Greatly contrasting this was the Eastern district of Montana (including Great Falls and Billings) where twenty-two had been residents of the state during the year prior to filing bankruptcy while only four had filed their last state income tax in a state other than Montana. This much higher rate of transiency indicates that many of the bankrupts had developed their financial difficulties in another state. They had found jobs in Montana, many being employees of the Anaconda Company in Butte and Anaconda. Their creditors had traced them and had begun harassing them about former debts. Many were threatened with garnishment and many actually had attachments on their wages. Many filed bankruptcy as soon as the Montana residency requirement had been met. This requirement states that a person has to have been a resident of Montana for the majority portion of six months: this literally means three months and one day.

Occupations of Bankrupts

The bankruptcy docket sheet lists seven general types of occupations. All the respondents were classified in just four of the seven categories. There were no farmers, merchants, or manufacturers, presumably since bankruptcies in

those occupations would normally be considered a business bankruptcy and this study was limited to personal bankruptcies. Of the professional people, there was only one listing; he was a police officer. There were twenty-four who had been businessmen and these businesses all had failed, thus causing the bankruptcy. The category, other non-business, comprised primarily of homemakers, included a light sprinkling of the chronically unemployed, students, and retired persons. The employee classification numbered 268 and this group included all wage earners working for someone else (see Table II).

TABLE II
TYPES OF EMPLOYMENT OF BANKRUPTS IN SIX MONTANA CITIES

EMPLOYMENT	GREAT					
	BUTTE	ANACONDA	MISSOULA	BOZEMAN	FALLS	BILLINGS
Farmer	0	0	0	0	0	0
Employee	40	11	35	5	75	102
Professional	0	0	0	0	1	0
Other non-business	34	6	15	2	45	54
Merchant	0	0	0	0	0	0
Manufacturer	0	0	0	0	0	0
Business	4	1	10	4	2	3

Interestingly, most of the couples who filed bankruptcy did not consider having a second income as a solution to their financial difficulties. This corresponds with the three Montana studies done of the three Consumer Credit Counseling Services. In the Butte study, Krueger (1970) found that 10 percent of the women were employed full-time, 9 percent part-time, and the remaining 81 percent listed themselves as housewives. In the Missoula study, 25 percent were full-time workers, 14 percent worked part-time, and the remaining 61 percent of the participants were housewives, according to Bryson (1971). In the Great Falls study, Taylor (1973) found the smallest percentage of women working. Eleven percent worked full-time and only two percent worked part-time.

The reasons for this phenomenon are not known. Perhaps there were small children at home to be cared for; perhaps the wife did not feel herself to be employable either through lack of education, training, or job availability; perhaps the husband felt that his wife's working would be a threat to his masculinity; or perhaps it simply never occurred to them that the wife could work to help ease the financial strain. Reasons were not given in the files, so one may only make conjectures about the explanation of this fact.

Each person filing bankruptcy is considered to be a separate case, so a household including a husband and wife is considered as two separate filings. Table III shows the number of filings where there were two members of one household filing and within this framework, the number of families where both husband and wife were employed and also the number of households with only one person employed. In most cases, it was the wife who was not employed. Exceptions included the family situation where the husband was unemployed because of a disability or retirement and the wife contributed the family income. There were three other cases of irregularities, one in Butte and two in Missoula. Three wives listed themselves as employed but each was employed in her husband's business and that business had failed, thus causing the bankruptcy.

The percentages of both husband and wife working to increase family income and decrease indebtedness ranged from a high of 50 percent in Bozeman to a low of zero percent in Anaconda. The two university cities contributed the highest percentage of two employments per household with Missoula ranking second with 35 percent. Montana's two largest cities, Great Falls and Billings, had 22 and 20 percent respectively. The two mineral industry controlled cities ranked very low

with Butte only three percentage points above Anaconda's zero.

TABLE III
NUMBER OF PERSONS EMPLOYED WITHIN
A HOUSEHOLD DECLARING BANKRUPTCY

City	Two Members of One Household Filing	Both Bank- rupts were Employed	%	One Bank- rupt was Employed	%
Butte	29	1	3	28	97
Anaconda	6	0	0	6	100
Missoula	17	6	35	11	65
Bozeman	4	2	50	2	50
Great Falls	48	11	22	37	78
Billings	61	12	20	49	80

Types of Bankruptcy and Dispositions of Cases

There are two types of bankruptcies included in the Montana filings. Chapter 4 filings, straight bankruptcy, overwhelmed Chapter 13 filings. One family, including two filings, in Great Falls petitioned for a Chapter 13 or wage-earner plan. The couple has successfully, to this point, carried out its program of repayment to its creditors because the plan

is still in operation. There were 447 cases of straight bankruptcy as opposed to two Chapter 13 filings.

The two main reasons given for this heavily lop-sided figure are that there is so much more paperwork involved in a Chapter 13 filing and that, in the past, almost all of the Chapter 13's were so hopelessly in debt that they refiled as a Chapter 4 straight bankruptcy. One might suppose that if all of the petitioners went through a Consumer Credit Counseling Service first, then many might avoid bankruptcy court altogether. Repayment could be carried out through the counseling service instead of the court, thus avoiding the two major problem areas.

Of the 449 cases of bankruptcy filed, the entire total were voluntary actions with proceedings begun by the bankrupt. There were no cases in which the creditors called for a bankruptcy proceeding against anyone. In addition, the only reasons for a failure to grant the petition were either that the petitioner failed to appear at any of the proceedings or that he had failed to pay the necessary fees involved in the action. With these two exceptions, all other petitions were granted. One case was recorded in Montana statistics but was transferred out-of-state. There are twenty-seven cases pending. The reasons for the delay in completion

of these cases include partial payment of fees (enough money paid to show goodwill and good intentions of the petitioner), possible assets which were not listed on the petition, and legal questions which must be resolved (child support, lawsuits, etc.). The two petitions involving the Chapter 13 filings are also pending as the repayment plan is still in operation (see Table IV).

TABLE IV
DISPOSITION OF DISCHARGE IN BANKRUPTCY CASES

DISCHARGE	BUTTE	ANACONDA	MISSOULA	BOZEMAN	GREAT FALLS	BILLINGS
Granted	56	14	56	10	120	142
Denied (due to non-appearance)	1	2	1	0	0	2
Dismissed (due to non-payment)	2	2	0	0	1	13
Pending	19	0	3	1	2	2
Transferred out-of-state	0	0	1	0	0	0

Payment of Fees:

It is interesting to note the method by which the fees

were paid in the filing of the bankruptcy petition. Two hundred and thirty of the petitioners paid their fees in full at the time of filing. Nearly as many petitioners, 219, had to make arrangements to pay their fees in installments. In order to do this, the person must petition the court to declare that he is a pauper and not only is he without the funds to pay his fee, but also he is without friends or relatives who can loan him the money to accomplish this. Upon receipt of this petition, the court will set a payment plan of perhaps twenty dollars a month. The petition is then placed in the status of pending until fees are paid in full. This large number of petitioners would indicate that by the time a person petitions for bankruptcy, all other avenues are blocked to him. The court fee is \$50.00 per petition which would mean \$100.00 for a couple.

In addition to this filing fee, the petitioner usually has an attorney's fee to pay. This fee varies from lawyer to lawyer, but a generally accepted figure is \$350.00. It is not necessary to have an attorney to file a bankruptcy petition, but most people either do not know this or do not feel capable of handling the matter themselves.

Billings has a legal aid attorney. This in part accounts for the high number of petitions of bankruptcy from Billings.

The legal service is free and the petitioner has only to pay the court fee. In the past, many persons filed a petition, did not carry through with the proceedings, had the case dismissed for non-payment of fees, and then filed again.

In Bozeman and Missoula, the petitioners seemed to have been better prepared financially. Only in these two cities were all fees paid in full for all filings at the time of the filings (see Table V).

TABLE V
METHOD OF PAYMENT OF BANKRUPTCY FEES

City	Paid in Full at Time of Filing	%	Paid in Installments	%
Butte	20	26	58	74
Anaconda	10	55	8	45
Missoula	60	100	0	0
Bozeman	11	100	0	0
Great Falls	42	34	81	66
Billings	87	54	72	46

Income of Petitioners prior to Filing Bankruptcy

Income is not the sole determining factor in the decision to file for bankruptcy. In Billings, Butte, Great Falls, and

Missoula, a majority of petitioners showed an increase in income for the year immediately preceding their bankruptcy as against the year before. Bozeman had equal numbers of increases and decreases. Only in Anaconda was there a drop in income. For those persons declaring bankruptcy in 1972, the income figures are from the years of 1970 and 1971. The income study for those individuals declaring bankruptcy in 1973 includes the years of 1971 and 1972. The income figures are based on a per person filing rather than a per household figure. Thus, an income amount of \$3,884.00 would reflect an average of each person filing a petition. If a married couple filed, then the figure for each household would double.

The highest income recorded by an individual was \$17,000, while the lowest rate was a loss of \$6,941. The latter was said to be a loss based on what an individual could have earned working for wages and what he did earn running his own business. The business, operating at a loss, did fail during the following year. Median incomes ranged from \$8,500 in Anaconda to \$5,652 in Missoula.

Average annual income per individual, based on both years' income prior to filing were for \$3,884 in Butte, \$4,505 in Anaconda, \$4,082 in Missoula, \$3,994 in Bozeman, \$3,745 in Great Falls, and \$3,521 in Billings. In two cases in

Butte the information was missing and the income was not listed for the two Chapter 13 filings in Great Falls (see Table VI).

Reasons for Declaring Bankruptcy

Reasons for declaring bankruptcy were available only in the Western Montana District. This question does not appear on the bankruptcy petition and the information was available only because the referee asked for it. The bankruptcy causes, then, relate to persons in Anaconda, Bozeman, Butte, and Missoula.

As has been previously indicated, insufficient income was given as a cause in only eleven cases, seven of them occurring in Butte, which had the third lowest average annual income.

The leading cause of bankruptcy was unemployment; it was listed as a cause fifty-six times. Again, a disproportionately large number of listings were found in Butte, where there were thirty-one mentionings of unemployment. In Butte, it was only partly a case of present unemployment. Frequently, the family had been unemployed in its former home town. The family moved to Butte where the husband found employment with the Anaconda Company and soon creditors from back home began harassing the family. Also occurring in Butte was the in-

TABLE VI
TOTAL, AVERAGE, RANGE, MEDIAN, AND CHANGE IN INCOME OF BANKRUPTS

	BUTTE	ANACONDA	MISSOULA	BOZEMAN	GREAT FALLS	BILLINGS
Total income (both years)	\$590,514	\$162,192	\$485,795	\$87,882	\$906,506	\$1,155,051
Average annual income (both years)	3,884	4,505	4,082	3,994	3,745	3,521
Range high	16,072	13,000	14,113	10,192	16,284	17,000
low	-0-	-0-	-0-	-0-	6,941	-0-
Median income one year before filing	6,000	8,500	5,652	6,000	6,280	6,000
two years before filing	6,000	6,000	6,000	6,000	6,300	6,400
Change in income increase	20	1	22	2	35	49
decrease	12	9	8	2	23	26
no change	13	2	12	3	12	29
			2 not given Chapter 13		2 not given	

ability of the family to recover from a copper strike and the prolonged unemployment during that strike. Tying in with this, out of the thirteen mentions of wage attachments, both real and threatened, nine occurred in Butte.

The most tragic reason given for declaring bankruptcy was that of medical expenses too great for the family to be able to cope with successfully. The gravity of this was shown frequently when the family's unsecured debts would show many doctor, hospital, and prescription bills followed by debts owed to a funeral home, a cemetery, and a florist. To these people, there was no other solution to their plight than bankruptcy.

Too much credit was listed as a chief cause in twenty-one instances. This occurred most frequently in Missoula, where it was listed ten times. It is very interesting to note that the blame was always shifted to the merchants. They gave too much credit, thus forcing too many debts upon the consumer. There was never any indication that the person declaring bankruptcy went out and sought credit beyond the limits of his income to repay. Also, it was never indicated that the person had handled his credit badly. In no case on record was there a statement by a bankrupt where he said bankruptcy was (his) own fault through mismanagement of money.

Also listed twenty-one times was business failure as the prime cause of personal bankruptcy. Again, the heaviest occurrence was in Missoula where thirteen bankrupts listed this cause. Marital problems, often ending in divorce, were a cause in twelve instances. This cause was given a fairly even distribution among the four cities.

In lesser amounts, causes included injury or ill health of the bankrupt, mentioned five times; government execution on property resulting in loss of income caused a Bozeman couple to declare bankruptcy; and in six instances, including the transfer to out-of-state, the cause was not listed.

The only other cause mentioned was an adverse legal judgment which affected a couple from Missoula. In this instance, the couple was found responsible in an automobile accident and the courts found them liable in excess of \$180,000. To relieve themselves of this responsibility, the couple declared bankruptcy (see Table VII).

TABLE VII

PRIMARY REASONS FOR DECLARING BANKRUPTCY

	BUTTE ANACONDA		MISSOULA BOZEMAN		TOTAL
Unemployment	31	8	17	0	56
Medical ex- penses	13	1	14	3	31
Too much credit	5	4	10	2	21
Business failure	5	1	13	2	21
Wage attachments real and threat- ened	9	2	2	0	13
Marital problems	4	1	5	2	12
Insufficient in- come	7	1	1	2	11
Injury - ill health	0	0	5	0	5
Government exe- cution on prop- erty resulting in loss	0	0	0	2	2
Adverse legal judgment	0	0	2	0	2
Not given	3	2	1	0	6

The causes of bankruptcy in Western Montana seem to correspond fairly well with the nation's major causes which were discussed in Chapter II. Nationally and in Montana, the major

cause is connected to unemployment or work layoffs. Second in both the country and state is high medical expense without adequate insurance. The third major cause nationally is a decline in family income because the wife left the employment scene due to illness or pregnancy. This does not affect Montana's bankruptcy causes because so very few wives were employed outside the home before the bankruptcy. Fourth nationally and sixth in Montana is the problem of divorce causing bankruptcy. Fraudulent debt consolidation, which was mentioned fifth nationally, was not indicated at all in Montana.

Losses Involved in Bankruptcy

Secured Losses

A secured debt is a debt involving some form of collateral which the lender holds until the debt is paid. With regard to bankruptcy losses, these debts most commonly involved automobiles. Some loan companies required collateral with a loan and some bankrupts had secured loans for such items as motorcycles and snowmobiles. In Great Falls many large debts involved mobile homes. Some college loans were included.

Although the average number of secured debts per filing was small, ranging from .54 in Bozeman to 1.70 in Missoula,

the dollar amount was high, ranging from \$1,146 in Bozeman to \$4,589 in Missoula (see Table VIII). The highest amount of secured debt by far was an amount of \$174,795 in Billings. This was personally held by an individual after a partnership had been dissolved. Many petitioners had no secured debts (see Table IX). Median dollar amounts of secured loans ranged from a low in Bozeman of \$1,000 to a high in Great Falls of \$2,864.

Unsecured Losses

Unsecured debts include those debts which do not carry collateral. They include purchases at stores under a charge account system, signature loans from banks and finance companies, charged items from catalog houses, charge accounts through bank cards and oil company credit cards, and most medical expenses.

Unsecured debts made up a much larger part of the total debt figure than did secured debts. Individual amounts are smaller dollar-wise, but the totals are sizable. Small amounts were recorded for Butte with \$264,158 and Anaconda with \$72,965. Missoula had \$494,364 and Bozeman had \$103,059. Great Falls contributed \$522,481 and Billings had a dollar amount double that for a total of \$1,100,119 (see Table X).

The average number of unsecured debts per filing ranged

TABLE VIII

AVERAGE DOLLAR AMOUNT OF SECURED DEBT PER FILING

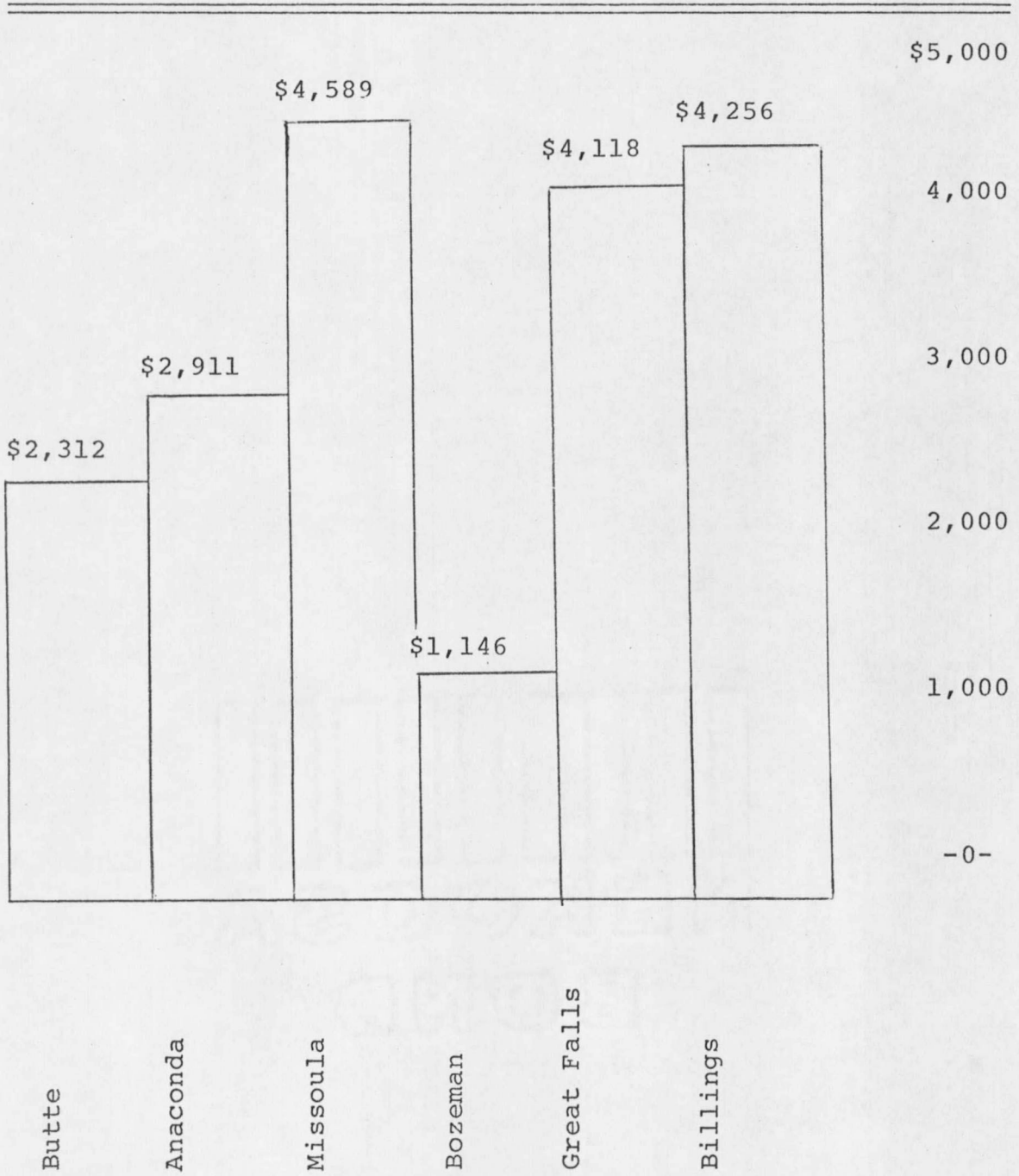
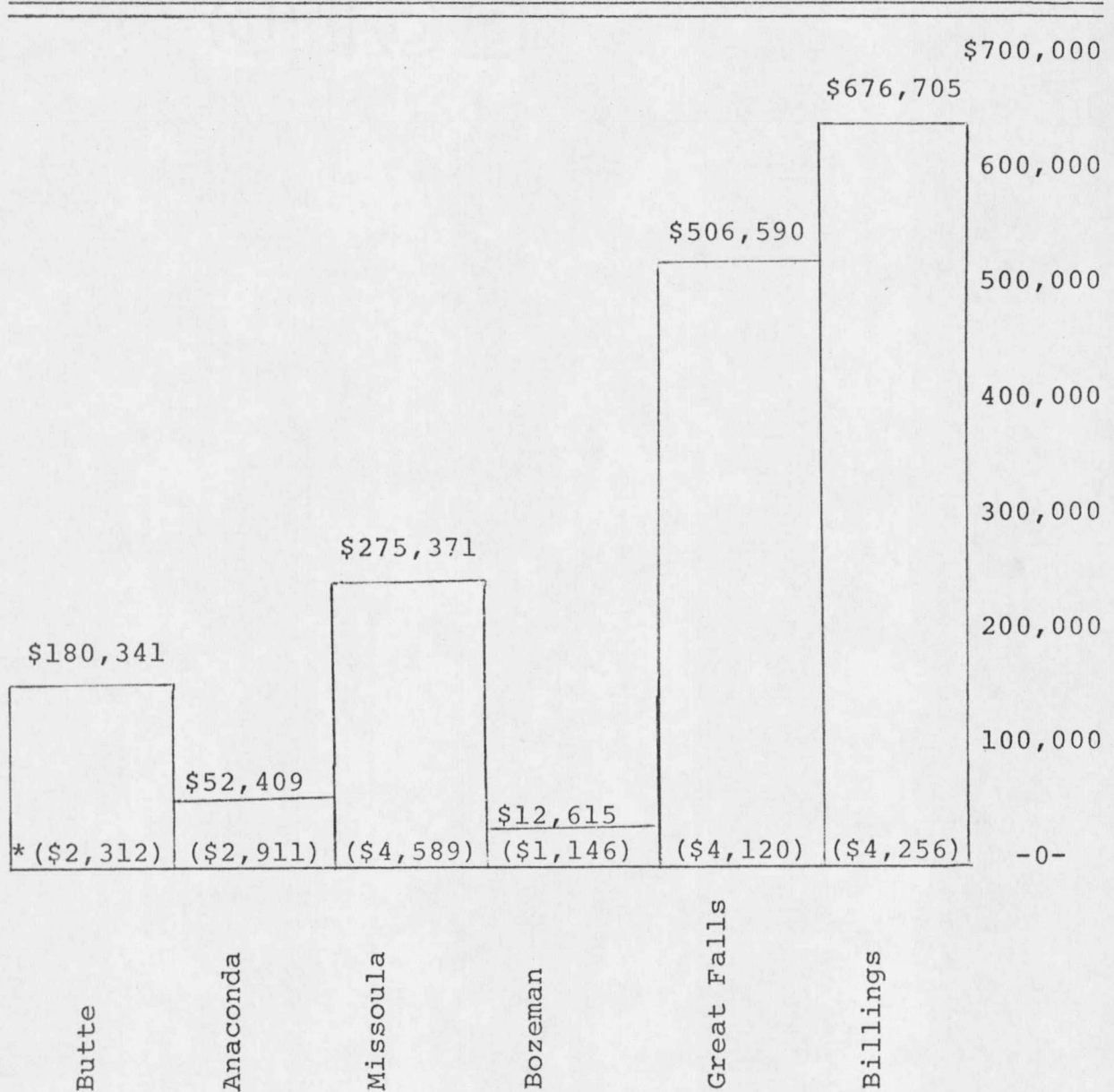


TABLE IX

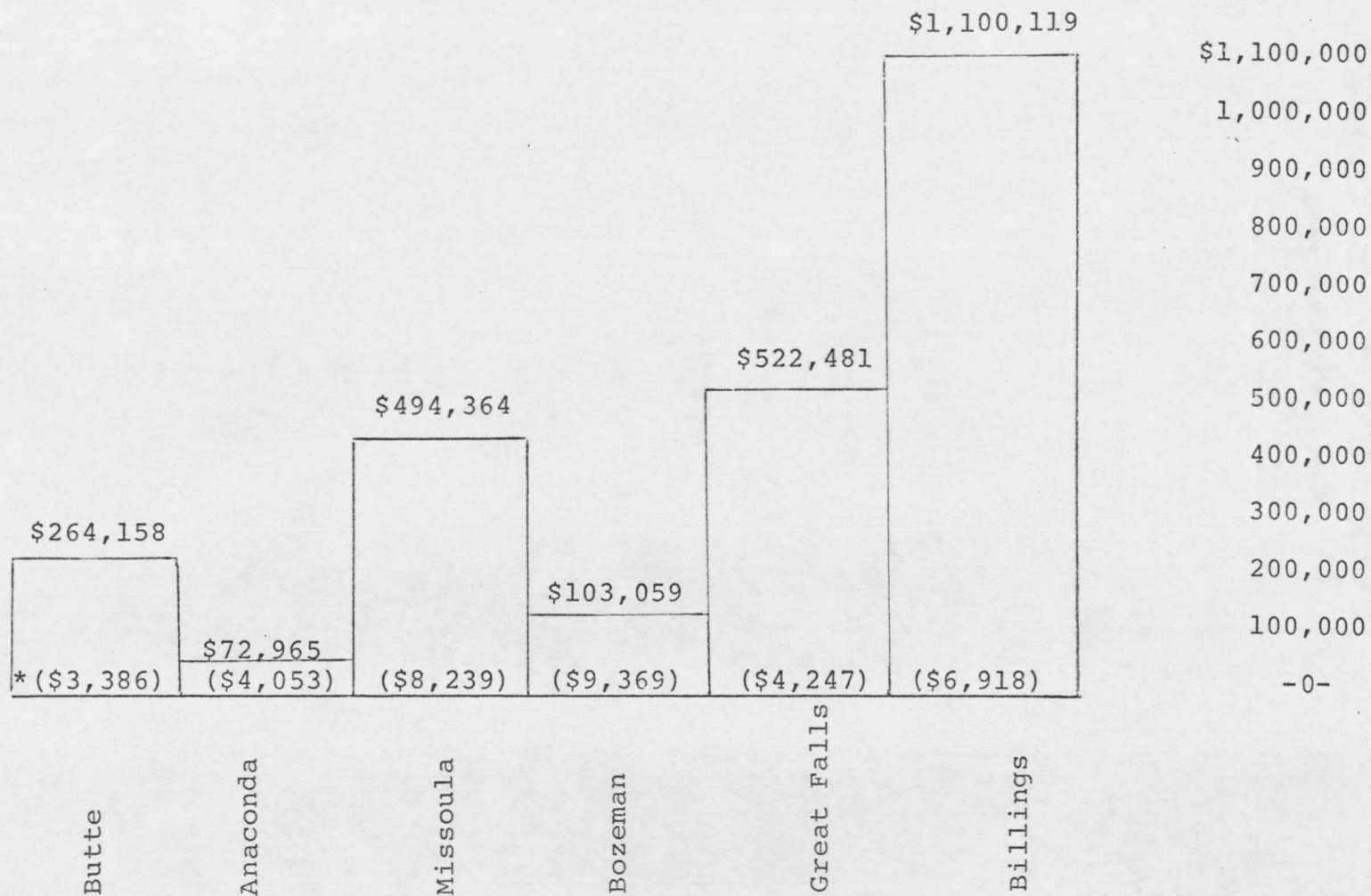
TOTAL DOLLAR AMOUNTS OF SECURED DEBTS



*Figures in parentheses indicate average figures per filing

TABLE X

TOTAL DOLLAR AMOUNT OF UNSECURED DEBTS



*Figures in parentheses indicate average amount per filing

from a high at Missoula of 17.20 to a low of 10.98 at Great Falls. The average total debts per filing ranged from a high of \$9,369 in Bozeman to a low of \$3,386 in Butte (see Table X). The highest unsecured indebtedness per filing was in Missoula in the amount of \$176,626 to a low in Great Falls of zero. The highest number of unsecured debts per filing was 121 in Billings and the lowest was zero in Great Falls. Median figures ranked from \$6,722 in Missoula to \$3,103 in Butte.

Total Losses

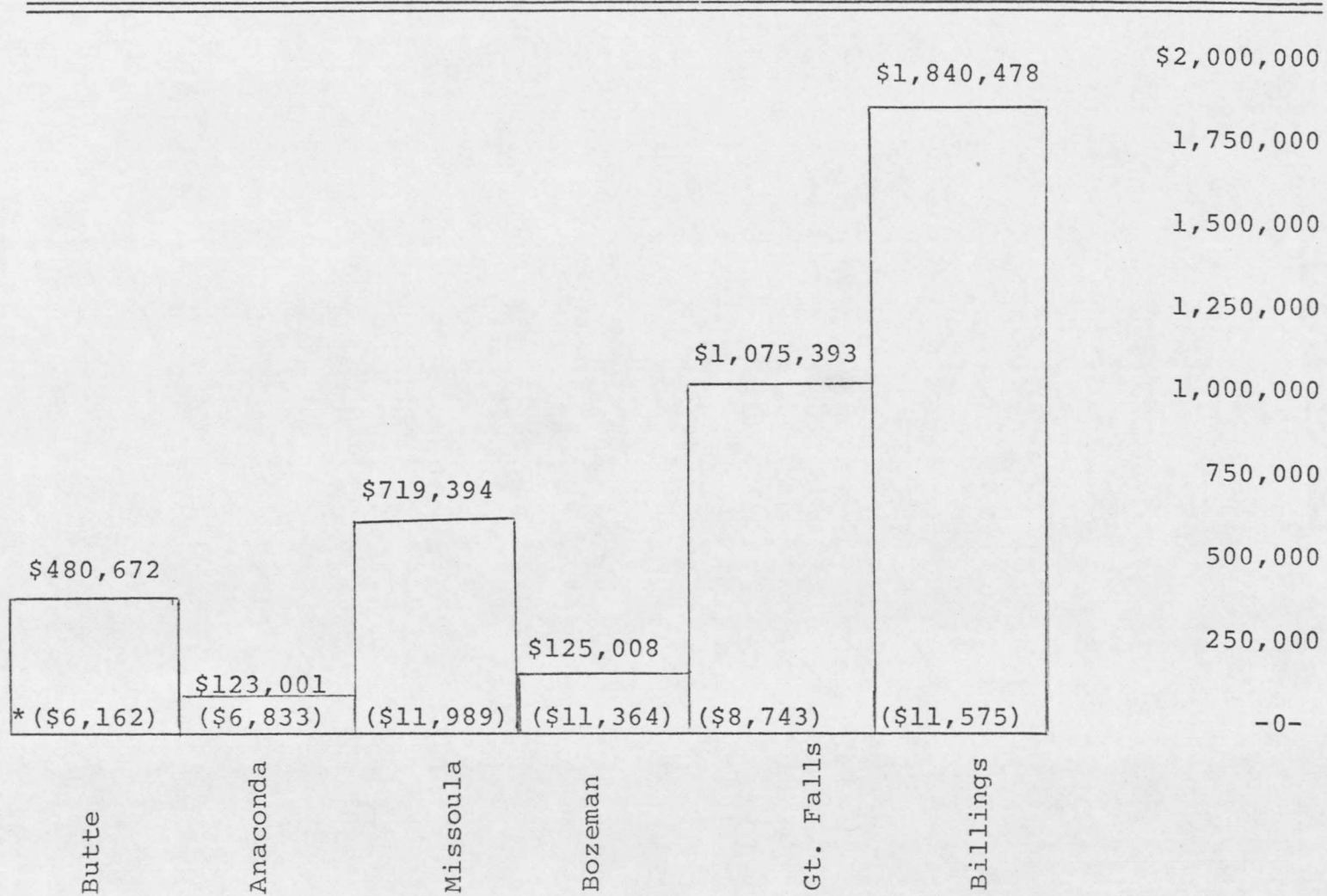
Total debts include secured debts, unsecured debts, and, where applicable, taxes owed to the government. Even with the granting of bankruptcy, the petitioner is still liable for government taxes. If there are assets to be liquidated, then secured debts take precedence over unsecured debts with regard to partial payment.

In total, there were 6,684 individual creditors involved in the 449 filings. There were 1,092 in Butte, 245 in Anaconda, 1,134 in Missoula, 128 in Bozeman, 1,533 in Great Falls, and 2,552 in Billings.

Total dollar amount losses had a wide spectrum. Butte had \$480,672 and Anaconda had \$123,000 (see Table XI). Billings and Great Falls led the group with amounts totalling

TABLE XI

TOTAL DOLLAR AMOUNTS OF DEBT



*Figures in parentheses indicate average amount per filing

over a million dollars each. Billings had \$1,840,478 while Great Falls showed \$1,075,393. Missoula followed with \$709,394 while a much lower figure was reported for Bozeman with \$125,008.

Average losses per filing ranged from \$11,989 in Missoula down to \$6,162 in Butte. It is interesting to note that Butte had the highest number of bankruptcies per 1000 population but that it had the smallest amount of dollar loss per filing (see Table XI). Median dollar losses ranged from \$9,902 in Missoula to \$6,158 in Butte.

The highest loss per filing occurred in Billings with an amount of \$252,300. The smallest amount that a bankrupt owed was \$1,100 and this was a Missoulian.

Types of Losses

Every tenth file was examined as to the types of debts that were claimed. The variety was endless. The smallest amount recorded was in the amount of \$1.50 for a florist bill. Many persons owed debts to cable television companies. There were subscriptions to men's magazines and memberships in cookbook-of-the-month clubs. Several persons had contracted for lifetime memberships in figure salons. Larger debts listed included a \$10,000 loan from the parents of one bankrupt. One individual had incurred several gambling debts

up to \$10,000 each in both Nevada and Montana. Debts for mobile homes and automobiles were prevalent. The largest debt was in excess of \$180,000 and was the result of a court judgment concerning an automobile accident.

A breakdown of various types of debts through spot checking every tenth filing in the Western District (fourteen files were investigated) and in the Eastern District (twenty-five files were included) shows the distribution of debts contracted through finance companies, catalog houses, bank cards, national travel cards, and medical expenses. As Table XII shows, medical expenses were by far the most numerous.

TABLE XII

TYPES OF DEBTS OWED IN BANKRUPTCY CASES

TYPES OF DEBTS OWED	WESTERN DISTRICT	EASTERN DISTRICT
Finance Companies	32	41
Catalog Houses	7	27
Bank Cards	1	9
National Travel Cards	2	24
Medical	116	189

Bankruptcy Exemptions

Montana's bankruptcy laws are lenient with regard to exemptions. The purpose of the laws is not to crush the individual or to make him rely on the state for his existence. It is hoped that by allowing the person many material holdings, he will be able to make a fresh start. Exemptions generally include personal clothing, household furnishings (such as a stove, refrigerator, tables, chairs, beds, chests, lamps, etc.), a car, a three-month fuel supply, certain domestic animals (such as chickens, a cow, a horse, etc.), and any tools necessary for the work of the bankrupt. In the case of a teacher, exemptions would include all books, writing supplies, a typewriter, and any specialized equipment he might own.

Because very few bankrupts were entitled to the Homestead exemption and because the trustees are very lenient about allowing exemptions, dollar values of exemptions are low. For example, one person owned a car upon which he himself placed a value of \$1,895. The laws state that a car may be kept if the value does not exceed \$300. Under the exemptions, the car was assigned a value of \$300. There does not seem to be any pattern in placing a value on wearing apparel. Valuations varied from several hundred dollars in some instances to a zero value in others. The latter would

seem to indicate that the bankrupt appeared in court either without any clothing or in borrowed clothing.

The average exemptions per filing ranked from \$1,029 in Missoula to \$212 in Bozeman. Median exemptions varied from \$500 to \$250. The highest values came from Great Falls and the lowest from Bozeman. The highest allowed exemption was in the amount of \$15,315 claimed by a Missoula resident while figures of zero appeared in Anaconda, Billings, and Great Falls (see Table XV).

TABLE XIII

EXEMPTIONS GIVEN THROUGH THE BANKRUPTCY COURT

	BUTTE	ANACONDA	MISSOULA	BOZEMAN	GREAT FALLS	BILLINGS
Average per filing	\$ 557	\$267	\$ 1,029	\$212	\$ 573	\$ 870
per house- hold	887	400	1,470	233	950	1,424
Median	400	400	450	250	500	500
Range high	8,300	800	15,315	600	9,513	13,000
low	50	-0-	80	100	-0-	-0-

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

SUMMARY

The inability to handle finances successfully caused 704 persons in Montana to declare personal bankruptcy during the 1973 fiscal year which began on July 1, 1972 and ended on June 30, 1973. This corresponds with a national total of 155,643 for the same period. Both of these figures have shown decreases in the fiscal years of 1972 and 1973 from an all-time high in 1971. These decreases are due, at least in part, to debt counseling services and to a slowly growing awareness of the importance of money management education.

The purpose of this study was to compile a picture of the bankruptcy situation in Montana and to compare the bankruptcies in three cities which have Consumer Credit Counseling Services with three similar cities which do not have these services available. Butte and Anaconda are similar in that they both have economies based on a one-industry minerals company. Missoula and Bozeman house the largest units of the State University System and these units have a great deal of impact upon the cities. Great Falls and Billings are the two largest population centers in Montana. These two cities also have more diverse industrial bases than other cities in the state. Butte, Missoula, and Great Falls have Con-

sumer Credit Counseling Services available while Anaconda, Bozeman, and Billings do not.

One hundred percent of the bankruptcies filed in these six cities during the 1973 fiscal year were examined. A total of 449 filings were included in the study. The records are on file and were examined in the offices of the Clerk of the District Court located in the Federal Buildings in both Butte and Great Falls.

Data gathered were limited necessarily to the information found on the bankruptcy petition. Comparisons between the six cities revealed the total number of bankruptcies per 1000 population and the types and dispositions of the cases. The occupation of the bankrupt was important in that it revealed that in bankrupt households, very few wives had worked to increase the family income. This deviated from the national trend which attributes a wife's losing her job as a major cause of bankruptcy. The incomes of the bankrupt for a two-year period prior to his filing indicated in many cases that his income had either increased or remained constant. Many persons were unable to manage on more money than they had earned the previous year. Some incomes were reported as high as \$16,000 and \$17,000 per year. However, on the other side of the coin, persons who had been unemployed in their

home states came to Montana, especially to Butte, to work for the Anaconda Company and soon found themselves harassed by creditors from the former locations and pressured into filing for bankruptcy.

Comparisons of losses through bankruptcy included secured losses, unsecured losses, total losses, and general types of losses. This latter classification leaned very heavily toward medical losses. This ties in with the major reasons for declaring bankruptcy. (This information was available only in the Western District, including Anaconda, Butte, Bozeman, and Missoula, because the referee specifically asked for causes.) Medical expenses were listed as the second most frequent cause of bankruptcy. Unemployment, either at the time of filing or before the person acquired his present job, was the leading cause. Following in importance were too much credit, business failure, wage attachments, and marital problems.

Holdings exempt from bankruptcy rounded out the information. Montana's bankruptcy policy is considered to be quite lenient and the philosophy behind this is to enable the bankrupt to make a new start and not to punish him by taking away everything that he has and needs to begin again.

CONCLUSIONS

The findings of this study show that bankruptcy, while it enables the petitioner to make a new start, is a source of great financial loss in the six communities studied as well as in the State of Montana as a whole. In fiscal 1973, the total loss in these six communities was \$4,363,950. Unless community business leaders take more positive action, it is reasonable to believe that the severity of the bankruptcy situation will not lessen.

Creditors in the city of Billings absorbed a total bankruptcy loss of \$1,840,479. This was forty-four percent of the total dollar loss for the six communities studied. This indicated that the business groups in Billings might want to investigate the reasons why their city should be losing so much money through bankruptcy.

In comparing the bankruptcy rate between cities having a Consumer Credit Counseling Service and the cities without such an organization, it was found that in two out of three cases, the cities with a Consumer Credit Counseling Service have a higher bankruptcy rate per 1000 population than those without the service. Butte has more bankruptcies than Anaconda and Missoula tops Bozeman. Only in Great Falls (with) and Billings (without) did the theory bear out.

There are possible explanations for the Butte-Anaconda situation. Even though they are both basically one-industry towns, Anaconda seems to have a more stable population and more of the company employees are members of skilled and semi-skilled crafts. In Butte, many company employees are unskilled laborers and many have been brought into the area from other parts of the country. Many of these people came here for employment, left debts in their home states, and soon found themselves faced with either threatened or real wage attachments. Bankruptcy was their solution in many cases.

The economic base might be responsible for some of the bankruptcy discrepancy between Bozeman and Missoula. Bozeman is more agriculturally oriented and, with the exception of migrant farm workers, labor is more stable. Bozeman is also a very conservative town from a political viewpoint. This factor would lend disapproval to the very idea of bankruptcy. Missoula, with its lumber oriented industrial base tends to draw from an unskilled labor pool. Perhaps this increases the possibility of bankruptcy. More study is indicated in this area.

Although the presence of Consumer Credit Counseling Services has not greatly decreased the bankruptcies in Butte

and Missoula, if these services were eliminated, then the bankruptcy rates would probably climb. These services were developed because the people in the areas felt they had special need of them.

Great Falls has a lower bankruptcy rate than Billings and it is hoped that this might be due to the presence of a Consumer Credit Counseling Service in Great Falls.

RECOMMENDATIONS

Improvement of the Study

Factors which would improve this study or future studies of a similar nature might include the following:

1. To enable communities to lower their bankruptcy rates, a study showing who the bankruptcy prone citizens in the community are would be helpful. In order for this to be accomplished, an additional information sheet (containing such questions as age, educational level, marital status, length of marriage, and number of children) would have to be inserted into every bankruptcy petition. This could be accomplished either nationally through legislation or with the cooperation of the two Montana bankruptcy referees.

2. A study showing how many bankrupts were repeaters would prove valuable. The bankruptcy petition would have to be amended to go beyond the six-year period that it now includes.
3. A follow-up study showing how former bankrupts are currently managing their finances would be helpful in determining whether or not bankruptcy is an effective solution.
4. It would be interesting to find out how many bankrupts had tried other means of solving their financial problems before opting for bankruptcy.

Suggested Further Studies

1. A future re-study of bankruptcy in Butte would place a definite value upon the impact of copper strikes on the economy of Butte. Results of fiscal 1974 would reveal a bankruptcy situation one year farther removed from a major strike than this study indicates. The recent signing of a three-year contract should bring about a reduced bankruptcy rate in Butte for the next three years.
2. A study of the depth of a Credit Bureau's financial checking upon workers brought into the state by a large corporation would prove very interesting.

This would especially benefit small businesses.

This type of study could also ascertain if there is any financial screening given to job applicants by the company before it hires people and brings them into the state.

3. A study comparing the vast differences between the bankruptcy laws in the fifty states would be revealing. It would also be interesting to find out about the movement to make the bankruptcy laws uniform throughout the United States.
4. A very interesting study would view bankruptcy from the position of the creditor. What are the ramifications?
5. A re-study of bankruptcy in the Butte/Anaconda area could find out how many petitioners had moved into the area within a year of filing, how many had been there for five and ten year periods and how many were life-long residents. This would indicate the relationship between mobility and bankruptcy. Also, such a study might give insights into the reasons for the mobility.

Further Recommendations

The investigator attended a session of bankruptcy hear-

ings and two points became very evident. The first one is that Consumer Credit Counseling Services are not making enough impact upon the communities they serve. An attorney from Missoula had never heard of the Service that is located in that city, but his client had found out about it and had decided to try it before continuing with the bankruptcy proceedings. If there were some provisions made whereby prospective bankrupts were to try credit counseling before beginning bankruptcy, perhaps many of these people would not reach the bankruptcy courts. If these Services were to enlist the cooperation of the lawyers, then it would be reasonable to assume that they could channel people into attempting to solve their financial problems in this manner before the last resort of completing bankruptcy.

The second point that came out of this session was that some people who file for bankruptcy have great feelings of regret at having to do so. In one specific case, a man was filing because his wife's illness and subsequent death from cancer had left him with medical bills of over \$12,000. He had three children living at home and his income would not permit him to pay these debts and still maintain a standard of living that he felt was necessary for his family. The hospital and doctors had been pressing him for payment, and

the petitioner felt that bankruptcy was his only solution. If there were some aid for persons in situations such as this, perhaps many of these people would not opt for bankruptcy. Perhaps government loans over a long-term period with little or no interest could be made available or perhaps the petitioner could make some legal agreement with his creditors whereby partial payment could be made. Solutions of this nature might be attractive to both the petitioner and the creditor.

Education

It is obvious that bankruptcy is not the most enviable solution to financial difficulties. Consumer Credit Counseling Services are more acceptable, but they are a last ditch effort. A much more workable solution is education. Concerned citizens, educators, and business leaders could work together to bring pressure upon the State Legislature and/or the Department of Education to develop a consumer education curriculum to be used throughout the public school system in Missoula. Ideally, this would begin at the elementary level and continue through the secondary and post-secondary levels. This would necessitate related course work on the university level so that qualified personnel would be teaching in this program.

With the cooperation of concerned school board members, school administrators, and teachers, consumer education courses could be developed in individual communities.

APPENDIX

INFORMATION OBTAINED FROM BANKRUPTCY FILES

1. Type of bankruptcy filed
..... Chapter 4
..... Chapter 13
2. Method through which filing occurred
..... voluntary
..... involuntary
3. Discharge
..... granted
..... denied
..... waived or not applied for
4. Filing fees: if paid in full at time of filing
..... yes
..... no
5. Occupation
..... farmer
..... employee
..... professional
..... other (non-business)
..... merchant
..... manufacturing
..... other (business)
6. Income for each of two years prior to filing
..... first year (1970 or 1971)
..... second year (1971 or 1972)
7. Unsecured claims
..... dollars against
..... number of claimants
8. Secured claims
..... dollars against
..... number of claimants
9. Total claims
..... dollars against
10. Exempt property
..... dollar value

11. Residence of bankrupt during the year prior to filing
_____ in state
_____ out of state
12. Type of debts
_____ bank cards
_____ catalog houses
_____ finance companies
_____ medical expenses
_____ national travel cards
13. Causes of bankruptcy (Western District only)
_____ adverse legal judgment
_____ business failure
_____ too much credit
_____ government execution on property resulting
_____ in loss of income
_____ injury - ill health
_____ insufficient income
_____ marital problems
_____ medical expenses (excessive)
_____ unemployment
_____ wage attachments (real and threatened)
_____ not given

*What about
George
changing times*

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