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2011 Looks Bleak as Bankruptcies reach All-time High

Filing for bankruptcy is usually the final resort for an individual or business struggling with debt. When all other options have been exhausted and the creditors continue to hound, then most people consider filing for bankruptcy protection.

Bankruptcy is a means to discharge your debts legally as provided for under the bankruptcy code. But to prevent abuse of this provision, the government imposed the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) in 2005 to make it more difficult for people to file for bankruptcy especially Chapter 7 bankruptcy where certain debts can be cancelled without payment. This law put in place new practices including a means test to determine the legitimate need of the bankruptcy applicant and a mandatory financial education course.

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While this law and its regulations appear to benefit creditors, it greatly increased the work of bankruptcy attorneys for each case. As such, there was a concern that bankruptcy attorneys would lose business because of the BAPCPA.

These concerns proved to be unfounded as time went on because by 2010 the number of bankruptcies actually increased despite the law. For the fiscal year 2010 that ended September 30, the number of bankruptcies filed in federal court rose by 13.8% compared to the year before. The figure for 2010 was 1,596,355 whereas for 2009 it was 1,402,816 cases. This represented a significant increase of 193,539 bankruptcy cases.

When the BAPCPA was first introduced, credit card issuers and other major unsecured creditors all supported the move to make it more difficult to discharge a person's debts. As unsecured creditors, they could do very little if a consumer decided to take steps to legally discharge their debts by filing for bankruptcy. Under the old rules, just about anyone could discharge all of their unsecured debts. The only real consequence was a blemish on their credit report. But after a few years, their credit could be rebuilt.

As a result, credit card companies were straddled with huge amounts of bad debts which they had no choice but to write off. They responded by raising their interest rates and being very careful in who they approve as card holders.

Although it seems like an anomaly when the number of bankruptcies rose despite the enforcement of the BAPCPA, there is actually a logical explanation for it. It stems from the continued bad economy that has disrupted many lives, laid off many workers and increased the costs of essential expenses like medical fees.

If you are struggling with debt and want to look into bankruptcy as your option, call us at (813) 200-4133 for a free consultation.

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