

## Get Ready for a Wave of Personal Bankruptcies

May 25, 2021 - Bankruptcy filings in 2020 were at near record lows. That sounds a little odd considering that the country was locked down for months on end and millions of people lost their jobs. But there was also a tremendous amount of government money that was made available. It came into the market in the form of loans and mandates that impacted everything from foreclosures to evictions. But all of that money is starting to dry up and recent bankruptcy statistics are indicating that there are some difficult times coming for many.

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Things like the Paycheck Protection Program and SBA disaster loans kept millions of businesses afloat and millions more employed throughout last year. But last month the SBA announced that it is out of PPP money. That ship has now sailed.

To prevent a wave of homelessness, states began to implement policies that prevented evictions and foreclosures. Then the CDC got involved and issued a nationwide proclamation which made foreclosures illegal in most cases. But again, all of these programs are in their death throws now.

One thing that all of these efforts failed to address adequately, was debt. In fact, many of these well-intentioned programs actually just created more debt. Stopping a bank from foreclosing temporarily just means that they will move forward later. Likewise, renters who stopped making monthly rental payments still owe that money to their landlords and if they have any ability to make payment, those landlords will likely file suit to collect. In fact, they would be foolish not to given the fact that they saw little relief from lenders or government agencies during the lockdowns.

All of this is beginning to show. Even though bankruptcy filings for the first four months of this year are down compared to 2020, they have been rising quickly over the past two months. March and April both saw more than 40,000 filings; a majority of which were for personal bankruptcy. That's an increase of 16% over the prior seven months of filings. And there is no indication that this trend will reverse any time soon.

Serious mortgage delinquencies - which represented 1.2% of all mortgage loans in February 2020 - now represent 3.7% of all mortgages. These are loans which are more than 90 days past due. And while overall foreclosure rates are down a bit, that is probably more a factor of government regulations that have slowed or stopped them rather than an indication of economic improvement.

There are still millions of Americans who are out of work. At the same time, the gravy train programs that have been put forth by the government are ending. It's hard to see how the situation gets turned around in time to keep hundreds of thousands of people out of bankruptcy court this year.

by Jim Malmberg

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