

## **Life after Bankruptcy: How Bankruptcy Applicants Benefit from Financial Literacy Programs**

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### **Abstract**

The “Personal Financial Choices” program for individuals in bankruptcy created by the University of Georgia Cooperative Extension focused on increasing participants’ financial knowledge and confidence and changing behavioral intentions. Results were measured through participants’ responses given on pre- and post-surveys. Participants (N=308) in the program received financial education through a two-hour course. Overall, analysis of the surveys showed that participants had positive changes in all three areas. Positive results shown in this study may allow program creators to customize financial education programs to specific groups of individuals that allow participants to create goals that will further their financial futures and reduce the risk of filing for bankruptcy again.

Key Words: *financial literacy; bankruptcy; education; state programs*

### **Background**

More than 1.5 million people in the U.S. filed for bankruptcy in 2010 because of non-business debt, an increase of nine percent from the previous year. Almost three-quarters of these bankruptcy cases were chapter 7, and about one-quarter of the cases were chapter 13 in which debtors with regular incomes and debts below a certain amount repay creditors through a court-confirmed plan (Administrative Office of the United States Courts, 2011). In 2011, personal bankruptcy filings declined by 12% over the previous year, the first such decline in four years (Fitch Ratings, 2012). The decline likely resulted from improved economic conditions and decreased consumer spending, which may bode well for the bankruptcy rate in coming years. Georgia has the second highest bankruptcy rate in the country at 7.92 filings per 1,000 residents, just behind Nevada with a bankruptcy rate of 11.1 per 1,000 residents. Moreover, four Georgia counties (Henry, Walton, Douglas, and Rockdale) are among the ten counties with the highest bankruptcy rates in the nation (Fishman, 2011).

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 imposed several requirements on individuals seeking bankruptcy relief. Individuals must obtain credit counseling before filing bankruptcy and complete a financial education course before their debts may be discharged (United States Trustee Program, 2010). As a result of implementation of the BAPCPA, there are 316 approved debtor education providers in the state of Georgia (United States Department of Justice, 2012). Financial education for bankruptcy filers is not only a mandate, but important to the financial futures of Georgia residents. With proper education, there is life after bankruptcy.

This study reports on the results of the University of Georgia Cooperative Extension’s educational program, “Personal Financial Choices,” which delivered a two-hour financial management course to debtors who had filed for Chapter 7 or Chapter 13 bankruptcy protection in Georgia in 2005 -2011.

## **Objectives**

The objectives of the study were to: 1) describe the demographic characteristics of the “Personal Financial Choices” participants; 2) examine whether the “Personal Financial Choices” program helped debtors increase their confidence in personal money management and improve their financial knowledge; and 3) determine if the “Personal Financial Choices” program participants developed positive behavioral intentions in money management. Findings of the study may have implications for the further improvement of the mandate for education, its curriculum, and evaluation design.

## **Program Description**

Since 2005, University of Georgia Cooperative Extension has been approved by the Department of Justice to provide a financial management workshop entitled, “Personal Financial Choices” for individuals filing chapter 7 and chapter 13 bankruptcy as part of a mandatory financial education requirement instituted by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (United States Trustee Program, 2006). The cost of the program was \$50 for an individual or couple. Each participant received a money management workbook and two-hours of instruction, primarily one-on-one, from county extension agents. To meet the requirements of the U.S. Trustee program, a branch of the Department of Justice (Weiner, Baron-Donovan, Gross, & Block-Lieb Gross, 2005), “Personal Financial Choices” workshops focus on the following generic topics: budgeting, money management, wise use of credit, and consumer information. There were 308 participants in the program between January 2006 and December 2011.

## **Literature Review**

The idea that financial education programs benefit debtors who participate in them has been supported by some evidence of positive changes in participants’ financial behavioral intentions, knowledge, and confidence from previous studies (Lyons, White, & Howard, 2008; Wiener, Baron-Donovan, Gross & Block-Lieb, 2005; Kim, Garman, & Sorhaindo, 2003). Evaluation of a financial education training program for 400 residents of New York revealed that debtors’ financial knowledge significantly increased after training compared with untrained and non-debtors (Wiener, Baron-Donovan, Gross & Block-Lieb, 2005). A research study launched by Money Management International, Inc. demonstrated that debtors who participated in its counseling session and education course experienced statistically significant gains in financial knowledge and behavioral intentions (Lyons, White, & Howard, 2008). Financial education for individuals filing for bankruptcy has support among the debtors who participate in the programs. According to the results of a three-year longitudinal study of the causes and consequences of consumer bankruptcy, over half of the respondents reported that they would have benefited from a money or debt management course and that such a course would have helped them to avoid bankruptcy (Thorne & Porter, 2008). This study attempted to provide further insight into the impact that the financial education requirements may be having on the financial well-being of bankruptcy filers in Georgia.

## **Survey Instrument and Data**

All participants signed consent forms and completed pre- and post-tests which asked about their educational background, whether they had filed bankruptcy more than once, what type of bankruptcy they had filed, their gender, eight money management knowledge questions,

the sources from which they had obtained their financial knowledge, and whether the workshop meets certain criteria. Participants had six choices to pick for their source(s) of financial knowledge: at home from family, in school from a course or teacher, in college, from society, and from training on the job. Each of these variables was checked yes or no and coded as a 1 or 0, respectively. Individuals' confidence in their ability to manage money was measured on a seven point scale (1- *Strongly Disagree* and 7- *Strongly Agree*). A higher score indicated that the respondent was more confident in his/her own ability to manage personal money.

True-false money management knowledge questions were coded as 1 if an answer was correct and 0 if it was not. A higher score demonstrated the respondent's better understanding of money management basics. In order to measure the likelihood of implementing financial behaviors recommended at the workshop, the post-surveys asked how likely participants were to engage in eight behaviors. Answers were given on a three point scale (1 = *less likely* and 3 = *more likely*). A higher score indicated that a respondent was more likely to implement the positive behaviors discussed at a workshop. The components described above were compared at pre-test and post-test.

### **Sample Description**

From 2006 to 2011, 308 bankruptcy filers in fifteen Georgia counties participated in the mandatory financial workshops called "Personal Financial Choices" developed by the University of Georgia Cooperative Extension specialists and conducted by agents. With respect to the detailed distribution (not shown) by county, about 83% of respondents resided in Sumter County, 3.6 % in Ware county, with the remaining 23.6 % scattered across twelve counties. Our sample consists of 58.4 % female respondents. Almost half of the respondents (45.5%) filed for bankruptcy more than once. The respondents were nearly equally distributed between filers of Chapter 7 (51%) and filers of Chapter 13 (49%). Almost one-third of the bankruptcy filers reported not having a high school diploma (31.8%) and only seven percent reported having a college degree. In regards to the sources of their knowledge about money management, the choice most frequently made by the respondents was "at home, family" (50.5%). The next most popular choice was by society based on trial and error (47.5%). Noticeably low percentages of respondents mentioned as a source of money management knowledge a course or teacher at school (K-12) (13.8%), job training (12.8%), or a course in college (6.1%).

A set of four questions attempted to assess individuals' confidence in their ability to manage money before participation in the workshop. Almost three-quarters of the respondents agreed or strongly agreed that they felt confident about their ability to manage money (70.3%), to reduce spending (75.5%), or felt good about their financial future (72.5%). The majority of the respondents (86.6%) agreed or strongly agreed that they can get back on track with their finances. Before participation in the workshops, the mean score of the knowledge test was six out of eight correct (75%). Baseline characteristics of the sample are described in Table 1.

Table 1

*Sample characteristics at baseline (pre-test)*

Survey Items	Number of respondents	Mean
	Pre-test	%
Gender	281	
<i>Male</i>		41.6
<i>Female</i>		58.4
Filed for bankruptcy more than one	305	
<i>Yes</i>		45.4
<i>No</i>		54.6
Education completed	302	
<i>Some High School</i>		31.8
<i>High School Diploma or GED</i>		41.4
<i>Some College</i>		18.9
<i>College Degree or above</i>		8.0
Chapter filed	294	
Chapter 7		51
Chapter 13		49
Source of money management knowledge		
<i>Home, family</i>	285	50.5
<i>School (K-12), from course or teacher</i>	282	13.8
<i>College, from course or teacher</i>	278	6.1
<i>From Society, based on trial and error</i>	297	47.5
<i>Job training</i>	282	12.8
Money management confidence score ( <i>max score =7</i> )	305	85.6
Money management knowledge test score ( <i>max score=8</i> )	308	75.8

### Results

To determine if the “Personal Financial Choices” program helped debtors to increase their confidence in personal money management and their financial knowledge, two paired t-tests were used. These statistical tests allowed comparing the means of the individual scores on the pre- and post-test to see if statistically significant differences existed. Small p-values for a one-tailed hypothesis for both paired t-tests led to the conclusion that changes were observed. There were significant changes in the mean scores for money management confidence and

knowledge scores ( $p < .001$ ) between the pre- and post- tests demonstrated in Table 2. In other words, there is evidence of positive confidence and knowledge changes due to the “Personal Financial Choices” program.

Table 2

*Effect of the financial education workshops Personal Financial Choices on bankruptcy filers’ money management knowledge and confidence: pre- and post-tests comparison.*

	Number of respondents n	Mean score (SD)	Mean score (SD)	t- value	P- value (one- tailed)
Money Management Confidence Score (max score=7)	305	6.00 (.93)	6.49 (.65)	-9.7	.000*
Money Management Knowledge Score (max score=8)	308	6.12 (2.02)	6.86 (2.27)	-8.76	.000*

*Note : \* $p < .01$*

In addition to examining overall money management knowledge changes, the study examined pre- to post-test changes on each of eight knowledge items. Before the workshop, 44.2% of the respondents wrongly assumed that bankruptcy was a permanent addition to their credit reports. About one-third of the participants were not aware of their right to obtain a free copy of their credit report without being turned down for a loan (31%), that their credit report determines how much they would pay for credit (31%), and that tracking spending would help to pinpoint areas where they might be able to cut expenses (34.7%). The results showed that, among those who filed for bankruptcy and participated in the Personal Financial Choices mandatory workshops, the majority did realize how important it was to call the company before the bill due date when they could not pay a bill on time (90.3%), and that they needed to have an emergency fund for occasional expenses (87.3%). It is possible that poor knowledge about credit and credit reports caused the financial difficulties participants faced before they filed for bankruptcy. The study found that an increased percentage of correct answers was demonstrated for all eight questions. Examination of the self-reported intentions to develop positive money management behaviors using frequency statistics indicated that the majority of the participants are more likely to engage in the desired behaviors after the workshops.

### **Limitations**

This study has several limitations. One limitation is lack of generalizability because the debtors in this study were predominantly from one Georgia county (83% of the respondents). Moreover, attorneys offered program participants the opportunity to complete the course from an online provider. Individuals who preferred the face-to-face course may lack computer skills or comfort with technology. The representativeness for all bankruptcy filer in the U.S. and even for those in the state of Georgia is limited. The second limitation is based on the fact that “Personal Financial Choices” financial workshop was mandatory and required a registration fee of \$50.

Consequently, it is very likely that debtors who participated in the study were different in unknown ways from debtors who would volunteer for financial education free of any fees.

### Discussion

The results from the post-test showed that most participants strongly agreed with the statements measuring financial confidence. Financial confidence is a strong predictor for positive financial behaviors in the future (Lown, 2011). College, school (K-12), and job training were found to be the least likely sources for participants' sources for financial knowledge. This correlates with participants' overall education levels. About 75% of participants had not attended college (Table 1). The study suggests that financial education workshop "Personal Financial Choices" for individuals filing for bankruptcy appeared to demonstrate its educational value and taught them how to live after bankruptcy.

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