

# Study says, with counseling and education, there is life after bankruptcy

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Although declaring bankruptcy was once thought to be a desperate, when-all-else-fails solution, in this new millennium of economic uncertainty, it has become a common option for people who are in deep debt. The question is, can they learn from their mistakes, change their behavior, and recover? A recent study says, yes, with counseling and education.

In 2005, Congress passed the [Bankruptcy](#) Abuse Prevention and Consumer Protection Act to provide counseling and education to help people make an informed choice about bankruptcy, its alternatives, and the consequences. Then after filing for bankruptcy, with education, individuals can gain the financial skills necessary to better manage their money and avoid future financial problems.

A multi-phase bankruptcy study was conducted by University of Illinois economist Angela Lyons, in direct partnership with Money Management International (MMI). The study measured the impacts of both the counseling and education requirements by tracking debtors through the entire bankruptcy process.

"We looked at about 4,000 debtors across the U.S. who filed for bankruptcy," said Lyons. "We learned that the counseling and education requirements appear to be serving their intended purpose and are likely viable mechanisms to help debtors deal with their financial situation and get the fresh start that they need."

Lyons said the effects seem to be holding over time. "Not only did most

participants improve their financial behaviors after counseling, but they were carrying out those behaviors even 12 months later."

Some of the behaviors emphasized during the counseling and education were related to: setting short- and long-term financial goals; [saving money](#) each month; tracking income and expenses; reducing impulse spending and cutting unnecessary expenses; paying bills on time each month; and managing credit wisely such as by maintaining a debt-to-income ratio below 20 percent.

"Following bankruptcy, we found that many debtors were also starting to work toward longer-term goals such as saving more, starting an emergency fund, buying a car or home," Lyons said. "Debtors could benefit from additional education that helps them lay out a post-bankruptcy financial action plan to set personalized financial goals and then motivates them to achieve those goals."

"There are still, of course, barriers to financial recovery," Lyons said. "People who, post-bankruptcy, continued to face challenges with job loss, health, child care expenses, and unexpected house and auto expenses were significantly less likely to show improvements in behavior."

Lyons said that from a policy perspective, the results of this study provide insight into whether the counseling requirement is working.

"From an educational perspective, the findings provide valuable insight into how the requirement is helping to improve debtors' personal financial situations, learn from their mistakes and go on to make sound financial decisions in life."

Ivan Hand, president and CEO of MMI, said that he was pleased that MMI had the opportunity to measure the impact of its programs through

participation in this study. "As a bankruptcy counseling and [education](#) provider, we believe it is our responsibility to ensure that our programs are successful in empowering individuals and families to build future financial security."

**More information:** To view a summary of the preliminary results and learn more about the impact of bankruptcy counseling and education on debtors' financial well-being, visit [www.cefe.illinois.edu/research/reports/](http://www.cefe.illinois.edu/research/reports/)

Provided by University of Illinois at Urbana-Champaign

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