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— Brandy Denno

Brandy Denno and sons Christopher, 4, and Tyler, 3, at home in Islip Terrace. She and her husband filed for bankruptcy after medical bills put them in serious debt.

NEWSDAY PHOTO / DANIEL GOODRICH

Debtors beware new law

First of a two-part series

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It's about to get a whole lot harder to wipe out your debts through bankruptcy. So those who are in deep trouble might consider filing for protection now, experts say.

President George W. Bush yesterday signed into law bankruptcy legislation that will limit the number of people eligi-

Tomorrow

The perils of mandatory credit counseling.

Median income

Under the new law, residents earning more than their state's median income will find it more difficult to erase debts through Chapter 7 bankruptcy. Below is New York State's median income, and for comparison, median incomes in local counties.

New York State median*	\$46,195
Nassau	\$80,647
Suffolk	\$70,281
Staten Island	\$58,667
Manhattan	\$47,415
Queens	\$45,595
Brooklyn	\$35,168
Bronx	\$27,331

* Median applied to new law will differ.
SOURCE: U.S. CENSUS BUREAU'S 2003 AMERICAN COMMUNITY SURVEY

A spike in bankruptcies

The number of Chapter 7 bankruptcy filings, which absolve people and some companies of debts, has soared this year. Figures below compare filings from Jan. 1 through mid-April 2004, and from the same period this year.

	Number of filers	Change from 2004
Cases filed for Long Island, Queens, Brooklyn and Staten Island	7,540	14.8%
Cases filed in Manhattan	3,746	10.9%

SOURCE: U.S. BANKRUPTCY COURT



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ble for Chapter 7 bankruptcy protection, which allows filers to eliminate many debts.

Instead, more debtors will be forced into Chapter 13, where they generally will have to pay their creditors a minimum of \$100 a month for five years.

Experts predict filers in the metropolitan area may find themselves especially affected because the new rules are more stringent for people with higher incomes.

Already debtors have flocked to bankruptcy lawyers and to the courts during the past few months as it looked like the long-stalled bankruptcy overhaul would finally become law.

Chapter 7 filings are up nearly 15 percent on Long Island and in Queens, Brooklyn and Staten Island and up nearly 11 percent in Manhattan's federal Bank-

ruptcy Court.

And a fresh onslaught is expected in the next six months until the new law takes effect.

"As we get closer to the hard deadline, people will panic," said Gary Fischhoff, a bankruptcy attorney in Woodbury, who's received a number of calls asking about the overhaul.

While experts recommend that those in way over their heads file under the current, less-stringent rules, they also say people who aren't in dire straits should not rush into bankruptcy just because of the new law, said Karen Gross, president of the Coalition for Consumer Bankruptcy Debtor Education. Instead, they should seek other ways to pay debts.

Among the main changes under the new law is that an income test, pegged to each state's median income, will determine in large part who can file for Chapter 7.

Those who make more than their state's median income — based on 2000 Census figures updated for inflation — will have a harder time qualifying. They will be subject to a second "means test" to determine whether they can repay at least part of their debt.

Metropolitan area residents will be especially hard hit because many make more than the state's median household income, which was \$46,195 according to the U.S. Census Bureau's 2003 American Community Survey.

In Nassau, for instance, the median income was \$80,647, while in Manhattan, the median income was \$47,415.

"The law will impact New Yorkers in this area very hard because they have such a high median income," said Craig D. Robins, bankruptcy attorney in Westbury. "Many will not qualify for Chapter 7 under the new law. But these families are stretched very thin and there's no guarantee that Chapter 13 will work for them."

With their precarious financial situation, Brandy and Gregg Denno couldn't afford to pay creditors. The Islip Terrace couple, who have three sons, filed for Chapter 7 bankruptcy in February to eliminate about \$37,000 in debt, most from medical bills from two hospitalizations while they were uninsured.

"There's no way I would have been able to make any payments," said Brandy Denno, 25. "We're still scraping by after the bankruptcy."

Under the new law, just filing for bankruptcy will be more costly. Debtors will have to provide more documentation of their income, including tax returns and pay stubs, and attorneys will have to verify the information, which means they are likely to raise fees.

Many filers also will have to shell out more to exit bankruptcy. Those with income above the state median will have their pay and their spending analyzed to see whether they can afford to pay off at least part of their debts, mainly credit card and medical bills. If so, they will be placed into a Chapter 13 repayment plan.

Just less than three-quarters of personal bankruptcy filings nationally are Chapter 7.

Experts estimate that the new law will mean between 3.5 percent and 20 percent of these filers will be forced into Chapter 13. But they also are concerned that some of these debtors won't be able to make the payments. Already, two-thirds of filers under Chapter 13 do not complete all payments called for under their plans.

Of course, people shouldn't file just because of the new law, said Gross of the debtor education coalition. While the decision to file depends on the individual's circumstances, debtors should think about what their financial situation will be in six months.

If it will be better because they may have a higher-paying job or think they can pay down some debts, then they should consider trying to work out payment plans with creditors or going to a reputable credit counseling agency as an alternative.

"The clamor about the legislation alone shouldn't be the catalyst to push people to file," Gross said. "It's not something people should do lightly or quickly."