

## Avoid bankruptcy: Control the urge to say, 'Just charge it'



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In 1985 there were about 1,400 cases filed in the Rochester Bankruptcy Court. This year, the filings may exceed 6,500 because of the explosion in individual consumer cases.

As you would expect, there are debtors who filed because:

- Their honestly run business failed.

- They are single mothers who receive insufficient support and are behind on their real es-

tate taxes and mortgage payments and in Chapter 13, which requires some repayment, are trying to save their home.

- They have had one or more disabling medical problems that caused them to lose their job, and their future employment prospects are limited.

- They suffered financial ruin because of their gambling or substance addictions, or because they support relatives.

On the other hand, what you might not expect but you will see are debtors, unlike those in 1985, who:

- Have more than 25 maxed-out credit cards and say they had no idea they owed \$40,000, \$60,000 or \$80,000 in credit card debt until they met with a

bankruptcy attorney and for the first time added up their balances.

- Have deficiency judgments against them for between \$4,000 and \$10,000, incurred after their automobile was repossessed and sold, and they rolled the balance of the unpaid loan into their current loan. They never thought they could afford either car until the salesman convinced them they could with a five-, six- or seven-year loan.

- Put into mortgage payments not the 28 percent of income that used to be the rule of thumb, but closer to 35 percent to 50 percent. They say they never thought they could afford that home until the Realtor and mortgage broker told them they

could and "made it happen" with what they thought was an affordable monthly payment.

- Took out a second or third mortgage not to improve their home and increase its value or educate their children, but to consolidate and pay off credit card debt — and then they re-borrowed against those same paid-off credit card accounts.

- Never really read or understood their credit card, automobile lease, cell phone or rent-to-own agreements, so they ended up paying a lot of interest and fees.

- Have nothing to show for all their credit card debt.

What can you learn from this?

- First, you must be knowledgeable and proactive about

your finances. If you aren't, there are many in the consumer lending and services industries who will take advantage of you. They are not to be faulted for finding as many different ways to take as much of your money as possible. They are in business. The problem is that, given deregulation and today's high consumer interest rates and uncapped fees, they no longer have to look out for you in order to look out for themselves.

- Second, today an affordable home mortgage, a car loan repayable over a reasonable period of time, a student loan or a business loan may be necessary and considered "good debt." On the other hand, how can consumer debt at high interest rates,

which you don't pay back over a short time so you end up paying much more for everything you do or buy, be "good debt?"

Imagine what you would do if there were no credit cards that allowed you to carry a revolving balance, so you had to live on your income or what you could borrow and pay back with interest over a reasonable period of time in regular monthly installments. What would be wrong with living that way? It would make you pay attention to your finances, have a realistic budget, anticipate future expenses and have savings. Not so bad! □

*Ninfa is chief U.S. bankruptcy judge, Western District of New York.*