

INTRODUCTION

Purpose of the Study

The purpose of this study is to determine, insofar as possible, the role casino gaming opportunities play in the incidence of Louisiana bankruptcy filings. The secondary purpose of this study is to evaluate the quantity of bankruptcy filings in Louisiana from 1990 through 1998, relative to national statistics, and relative to other states with casino gaming.

Casinos first opened in Louisiana in mid-1994, and were present for a full year, for the first time, in 1995. Statewide bankruptcy filings increased 17.63% in 1995 and 38.67% in 1996, as shown in Figure 1. In the Western District of

Figure 1

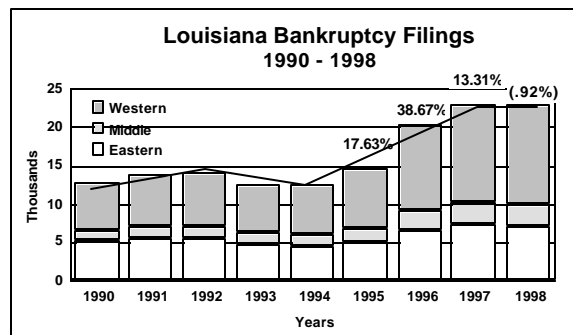
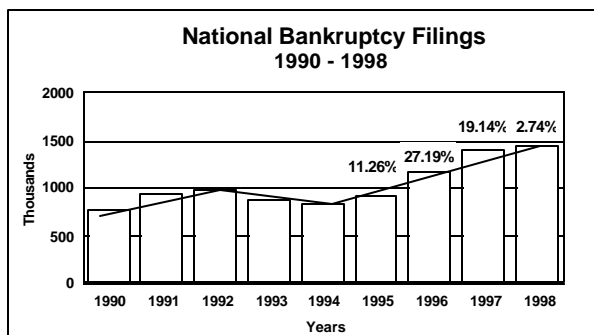


Figure 2



Louisiana, the 1995 percent increase was 22.9%, with a 42% increase in 1996. National percent increases for 1995 and 1996 were 11.3% and 27.2% respectively, as shown in Figure 2. The Louisiana trend showed a lesser percent increase

in 1997, than the national percent increase in bankruptcy filings. Louisiana showed a less than one percent decrease in total filings in 1998, compared to a 2.7% increase in national filings.

Significance of the Study

Casino gaming locations increased more rapidly in the 1990s than in any other period of time.

Prior to 1991, Nevada and New Jersey were the only states with legalized casino gaming. Iowa and Colorado instituted casino gaming in 1991, Illinois in 1992, Mississippi and Missouri in 1993.

Louisiana opened its first two casinos in 1993, added eight in 1994, two in 1995, and two in 1996 (one of the original casinos has closed, leaving a total of thirteen casinos open as this report is being written).

Indiana opened casinos in 1996. All told, twenty-three states allow casino gaming in commercial casinos and/or tribal casinos. While casinos are by far, not the first type of legalized gaming opportunity in any of these states, casinos, as well as horse or dog track racing, and jai alai games, are viewed as “major” gaming facilities relative to other types of gaming such as video poker, bingo, and the lottery.¹

The sudden and significant increase in bankruptcy filings in 1995, in Louisiana, and across the nation, occurred at the same time Louisiana and the nation were experiencing a significant improvement in the economy. The 1995 increase came on the heels of two years of declining numbers of bankruptcy filings. At the end of 1995 it was only natural for Louisiana to question the relationship between casinos and bankruptcy filings. In retrospect, looking at the trend lines in Figures 1 and 2, one is now more likely to question the cause of the dip in filings in 1993 and 1994.

In 1995, a study was done for the Shreveport Division of the Western District of Louisiana to determine if 1995 bankruptcy petitioners indicated gambling losses as a significant factor in the decision to file for bankruptcy relief. In that study, the 2,399 petitions filed in the Shreveport Division were examined in detail. Particular attention was given to the series of fifteen questions each petitioner answered toward the end of the petition. Question number **EIGHT** specifically asked about losses

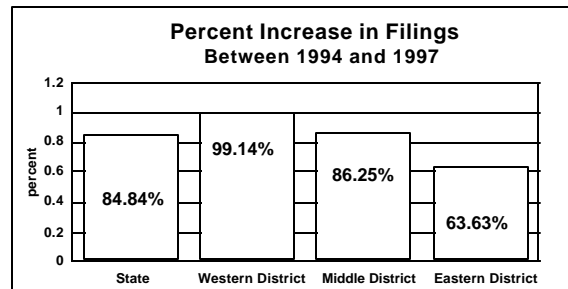
¹SMR Research, “The Personal Bankruptcy Crisis, 1997, Hackettstown, NJ, 1997.

experienced within one year immediately preceding commencement of each petitioner's case.

Petitioners are asked to identify any losses including fire, theft, and gambling losses. Petitioners are asked to provide all details surrounding any loss, including any insurance coverage of the loss.

This study examines the petitions filed in 1997 in the Shreveport Division, with particular attention to the same set of questions. A significant aspect of this study is the determination of any change in the frequency of reported gambling losses reported by the 1995 petitioners and the 1997 petitioners.

Figure 3



Research Methods

Secondary research was conducted by gathering data from all available 1997 bankruptcy petitions on file at the U.S. Court House in Shreveport and in storage at the National Archives in Fort Worth, Texas. Secondary research also included a literature search of publications pertaining to studies done on changes in bankruptcy trends, causes of changes in bankruptcy trends, and publications pertaining to trends in states with casino gaming.

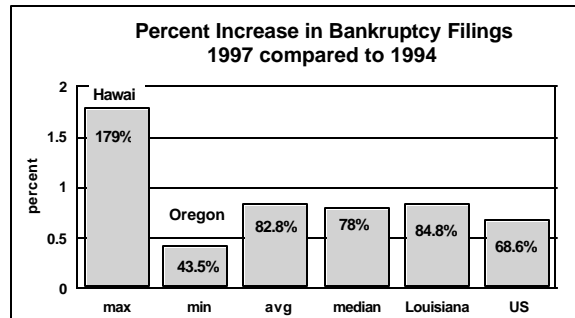
Primary research was conducted by interviewing bankruptcy trustees and bankruptcy attorneys in Louisiana bankruptcy districts. The interviews were used to obtain anecdotal information. The interviews were also used to determine the impressions of these individuals as to the major causes of the significant increase in bankruptcy filings in the state. Particular attention was given to trustees and attorneys in the Western District, which showed the highest rate of increase between 1994 and 1997 - 99% - compared to 86% and 64% in the Middle and Eastern Districts, respectively, as shown in Figure 3.

ANALYSIS OF ANNUAL BANKRUPTCY FILINGS IN ALL THREE DISTRICTS OF LOUISIANA OVER THE PAST TEN YEARS UP TO AND INCLUDING 1997

Louisiana Bankruptcy Trends Relative to National Bankruptcy Trends

Figure 4 shows the range of changes in filings nationally, compared to changes in Louisiana. Nationally, bankruptcy filings increased 68.6% between 1994 and 1997, compared to the 84.84% increase in Louisiana during the same period. Table 1, in the Appendix

Figure 4



to this report, shows the state-by-state percent changes in bankruptcy filings between 1994 and 1997. The 23 states with commercial (Comm.) and/or tribal casino gaming are indicated to the right of Table 1. Light-grey highlighted states had percent increases greater than the average percent increase. Eight of the 20 light-grey highlighted states had some form of casino gaming, as indicated in the adjacent column. Figure 4 shows Hawaii with the highest percent increase. Oregon had the smallest percent increase. Louisiana was 2% higher than the national average increase, and 16% higher than the national percent increase.

National Legalized Gambling Trends and Bankruptcy

Every state except Hawaii and Utah allows for some form of legalized gambling, including one or more of the following: casinos, video gambling, lottery, bingo, horse racing, and/or dog racing.² A study performed by SMR Research states that there is a demonstrated correlation between rapid

²National Coalition Against Legalized Gambling, "Legalized Gambling Has Rapidly Expanded," www.ncalg.org, October 25, 1996.

growth and availability of legalized gaming and the rapid rise in personal bankruptcies.³ SMR analyzed the filing increase rate in the 298 U.S. counties with “big ticket” legalized gambling forms including casinos, horse/dog racing and jai alai games, compared to counties without legalized gambling. A criticism of the SMR study points to the omission of counties without “big ticket” gambling, but with lotteries, charitable gaming, card rooms, and/or commercial bingo.⁴ The SMR study also analyses counties with proximity to “big ticket” legalized gambling and uses Shelby County, Tennessee as an example. According to the SMR study, Shelby County, Tennessee, with easy access to 30 gaming halls and riverboat casinos in Mississippi, has the highest personal bankruptcy rate in the nation - four times the national average.⁵ An article published in *Industry Week* also identifies place of residence as one of the most important considerations for those facing bankruptcy.⁶ The article points out the trend for more frequent bankruptcy filings by affluent individuals. The article specifies easy credit as the basis for more people “collapsing under heavy debts.”⁷ The article goes on to point out that place of residence is important in the incidence of filings due to state regulations regarding the number of exemptions and collection practices. According to the author, “In Tennessee, Georgia, and Nevada where collections agencies make life difficult for people who can’t

³SMR Research, op. cit.

⁴Wythe, Keith, “Round Up the Usual Suspects: A Critique of the Alleged Link Between Gambling and Bankruptcy in “The Personal Bankruptcy Crisis, 1997,” American Gaming Association, August, 1997.

⁵SMR Research, loc. cit.

⁶Lynch, Kate, “Cloud of Debt,” *Industry Week*, Sept. 7, 1998 v247 n 16 p68(1).

⁷Ibid.

make payments, the bankruptcy rate is the highest.”⁸

Table 3, in the Appendix, shows Nevada, Tennessee, and Georgia with the highest number of households per filing in 1998. The bankruptcy districts with the greatest percent increase between calendar year 1997 and calendar year 1998 are shown below:⁹

Table 4 - District With Highest Percent Increase in Filings from CY 1997 to CY 1998

District	Percent Increase	Casino Gaming in State
1. Hawaii	30.6%	NO
2. District of Nevada	17.0%	YES
3. District of Utah	15.2%	NO
4. District of District of Columbia	14%	NO
5. District of North Dakota	11.8%	YES
6. Southern District of Florida	11.7%	NO
7. Northern District of Florida	11.6%	NO
8. Eastern District of North Carolina	11.5%	YES
9. Middle District of Pennsylvania	11.5%	NO
10. Eastern District of Washington	11.1%	YES
11. District of Wyoming	11.1%	NO

Four of the three states with casino gambling shown in Table 4, only have tribal casinos. Nevada is the only state shown in Table 3 that has commercial casinos as well as tribal casinos. Florida does

⁸Ibid.

⁹American Bankruptcy Institute, “Bankruptcies Break Another Record in 1998,” abiworld.org, March, 1999.

have other “big ticket” legalized gaming locations including horse and dog racing and jai alai, and has had these locations since before 1990. Utah, Washington, D.C., Pennsylvania, and Wyoming have proximity to states with casino gambling.

Bankruptcy Trends in States with Casino Gaming

Figure 5

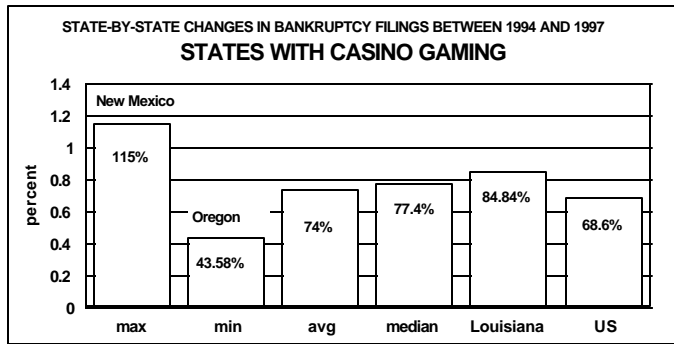


Figure 5 shows bankruptcy filing trends in states with casino gaming. New Mexico had the highest rate of increase in filings between 1994 and 1997. Oregon, again, had the lowest increase in filings.

Relative to other states with casino gaming, Louisiana was 10% higher than the average and 7% higher than the median. Table 2, in the Appendix, shows the detail for each of the 23 casino gaming states.

**REVIEW OF THE DETAILED ANALYSIS OF BANKRUPTCY PETITIONS FILED IN
1995 IN THE SHREVEPORT DIVISION OF THE WESTERN DISTRICT OF
LOUISIANA**

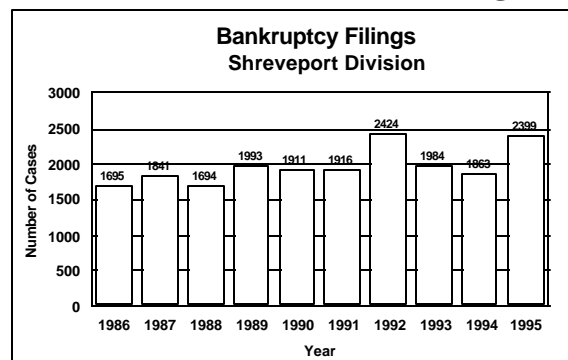
Purpose of the Study

The purpose of this study was to determine, insofar as possible, the primary reason for the sudden increase in the number of bankruptcies filed in the Shreveport Division of the Western District of Louisiana in 1995, compared to 1994 and 1993. The primary hypothesis to be tested was that the sudden increase in bankruptcies was related to factors other than the availability of casino gaming 24 hours a day, seven days a week. A secondary hypothesis to be tested by a proposed telephone survey of petitioners was that newly employed

persons, and persons with newly increased salaries, may be newly able to obtain credit and less able to manage debt.

The 2,399 bankruptcy filings in 1995 were 29% higher than the 1,863 filings in 1994, as shown

Figure 6



in Figure 6. Non-agricultural employment in the Shreveport-Bossier City Metropolitan Statistical Area (MSA) increased by 5,000 during the six months in which the three riverboat casinos, in place by September 1994, were being staffed.

Research Methods

Secondary research was conducted by gathering data from all available bankruptcy petitions

on file at the U.S. Court House in Shreveport. Secondary research also included a literature search for publications pertaining to studies done on changes in bankruptcy trends, and publications pertaining to bankruptcy in states with casino gaming.

Primary research had been proposed, but was not possible to be accomplished as designed. A telephone survey was designed to poll a random sample of 350 of the 1995 bankruptcy petitioners. Upon generating two different random samples of the population in question, it was determined that under 40% of the population still resided at the address shown on the petition. Consequently, the results of the intended survey would have been skewed and it was not performed.

Results

Each petitioner was asked to answer 15 questions toward the end of the petition, one of which concerned losses from fire, theft, other casualties, or gambling, within one year immediately preceding the commencement of the case, or since the commencement of the case. Of the 2,399 bankruptcy petitions examined, 277 indicated some losses. Gambling losses were indicated by less than half of the petitioners with losses. Of those indicating gambling losses, the average loss was \$1,200. Other losses included fire and theft. The primary hypothesis, that the sudden rise in bankruptcy filings was due to causes other than gambling, appeared to be supported by this finding. Results of the literature search also supported the primary hypothesis.

The primary hypothesis was also supported by the fact that 33.5% of petitioners had between 16 and 49 different creditors. Availability of credit appeared to be a significant contributing factor in bankruptcy filings. The literature search also supported this finding.

The secondary hypothesis, while not tested by the proposed telephone survey, did appear to

have potential for support by the analysis of employment data contained in the petitions. Length of time in current position was inversely related to the number of petitions. Slightly over 37% of the petitioners indicated one year or less in her or his current employment.

Conclusions From the 1995 Study

Neither analysis of bankruptcy petition data nor review of pertinent literature pointed to casino gaming as the primary cause of the sudden increase in bankruptcy filings in 1995, compared to 1994 and 1993. Availability of credit through finance companies, open accounts, and banks and length of time employed or length of time employed at a noticeably higher level of earnings appeared to be significant causes of the increase in bankruptcy filings. The ability to manage debt by newly employed persons, or persons recently hired at increased pay levels must be further examined.

DETAILED ANALYSIS OF BANKRUPTCY PETITIONS FILED IN 1997 IN THE SHREVEPORT DIVISION OF THE WESTERN DISTRICT OF LOUISIANA

Introduction

Since the purpose of this section of this report is to compare data from bankruptcy petitions filed in the Shreveport Division in 1997, with data from bankruptcy petitions filed in the Shreveport Division in 1995, all 1997 findings will be reported relative to the same findings in the study conducted on the 1995 data.

Data in the 1997 petitions was gathered from 37 fields in the bankruptcy petition, compared the 72 fields analyzed in the 1995 petitions. The reason for the reduced number of petition fields is due to relevance. In the 1995 study¹⁰, data from all fields was gathered. Upon analysis of the accumulated data it was determined that 35 of the fields provided data that was of no apparent value to the study. The 1997 study, consequently, did not gather data from those 35 fields.

Data was gathered from available petitions at the U.S. Court House and the Federal Archive in Fort Worth, Texas. Of the 3,954 personal petitions filed in 1997, 3,911 were available for review. Of the 94 business petitions filed in 1997, 68 were available for review. The availability of petitions was at a similar ratio to that of the 1995 petitions. Total petitions reviewed amounted to 3,979, compared to 2,370 of the 1995 petitions. As in the 1995 petitions, some fields were not filled in for some petitions and, therefore, some statistics will not reflect a count of 3,979.

Data has been grouped into three major categories - personal, financial, and responses to the questions at the end of the petition. Unlike the 1995 study, this report does not analyze all fifteen

¹⁰Beal, Susan T., "Bankruptcy Study Results," prepared for Commercial National Bank in Shreveport, by the Center for Business Research at Louisiana State University in Shreveport, July 1996.

questions. This report only analyses those questions that are pertinent to the impact casino gaming may have on the number of bankruptcy filings.

Personal data fields include:

Parish
Bankruptcy type
Bankruptcy chapter
Filing status
Employment status

Financial data includes:

Preliminary estimates of numbers of creditors
Preliminary estimates of numbers of liabilities
Preliminary estimates of

The questions at the end of the petition to be considered include:

ONE	Income from employment or operation of a business
TWO	Income other than from employment or operation of a business
THREE	Payments to creditors
EIGHT	Losses, including fire, theft, gambling, and other types of losses
NINE	Payment related to debt counseling or bankruptcy filing
FIFTEEN	Prior address of debtor

Personal Data

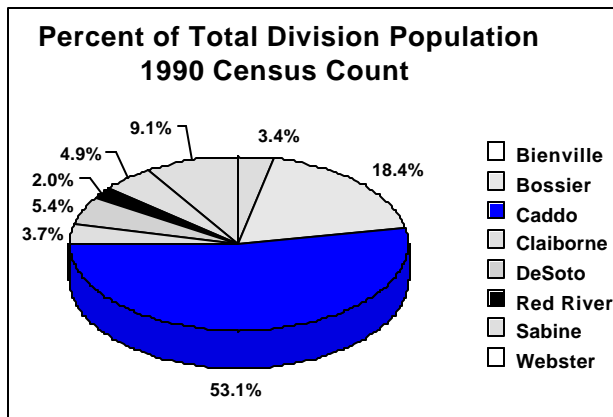
Parish

The Shreveport Division of the Western District of Louisiana is comprised of the eight parishes shown in Figure 7. Caddo and Bossier Parishes, together had 78% of the total filings, compared to 79.9% in 1995. Caddo had 58.6% of all filings compared to 60.5% in 1995. Figure 8

Figure 7

Parish		%
Bienville	98	2.46%
Bossier	776	19.50%
Caddo	2331	58.58%
Claiborne	81	2.04%
DeSoto	188	4.72%
Red River	59	1.48%
Sabine	160	4.02%
Webster	286	7.19%
	3979	

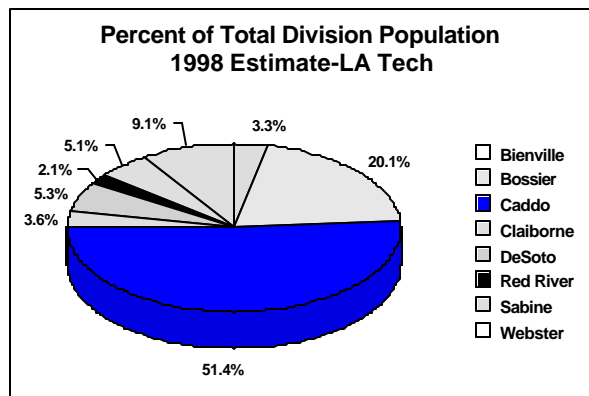
Figure 8



shows the population of each parish in the Shreveport Division as a percent of the whole district population, as reported in the 1990 census. Caddo and Bossier parishes together,

include 71.5% of the population. Several population estimates have been prepared for the eight parish area. Figure 9 shows the population estimate for 1998 prepared by Louisiana Tech

Figure 9



University.¹¹ In the estimate, Caddo and Bossier parishes together, still include 71.5% of the

¹¹Research Division “Estimates of the Population of Louisiana Parishes and Municipalities,” College of Business Administration, Louisiana Tech University, Ruston.

population, but Caddo has lost some population and Bossier has gained some population. Population in the other six parishes have remained relatively constant.

When analyzed together, Figures 7 through 9 show Caddo and Bossier parishes combined, to have a slightly higher percent of the total filings relative to their percent of the total population. This same finding occurred in the 1995 study. Caddo is the only parish with a greater percent of filings than its percent of total population. This statistic is also consistent

with the 1995 study.

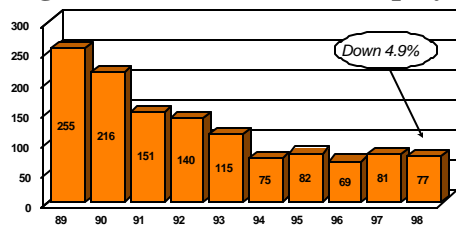
Bankruptcy Type

Over 98% of all petitions were filed by consumers, rather than businesses. This percent is 3% higher than the 1995 study. The difference is to be expected since business bankruptcies have been leveling off in the Shreveport Division since 1994.

Figure 10

Debt Nature		%
consumer	3911	98.29%
business	68	1.71%
	3979	

Figure 11 - Business Bankruptcy Filing Status



Filing status indicates whether a petition is filed jointly or not, and whether the petition is filed for a business. As with the 1995 petitions,

individual filing status is almost twice as frequent as joint filing status.

Figure 12

TYPE OF DEBTOR		%
SINGLE	2489	62.55%
JOINT	1422	35.74%
BUSINESS	68	1.71%
	3979	

Bankruptcy Chapter

Chapter 7 is designed for individuals and businesses that wish to make a fresh start, but cannot pay their debts from their income. Under Chapter 7 certain personal assets are exempt from proceedings and the remainder are liquidated to

satisfy creditors in whole or in part. Chapter 11 is designed for businesses who wish to reorganize debt, rather than liquidate. Chapter 11 must be under the supervision of the bankruptcy court.

Chapter 12 is designed for family farmers and certain qualifying incorporated farming establishments.

Chapter 13 is designed for individuals with regular income who desire to pay their debts but are currently unable to do so. Under protection from Chapter 13, the debtor pays creditors in full or in part over a three to five year period. Chapter 13 petitioners must have unsecured debt under \$100,000 and secured debt under \$350,000. Businesses are not eligible for Chapter 13.

The trend in choice of Chapter filings in the Western District, as well as in four of the six divisions in the Western District, including the Shreveport Division, has gone from predominantly Chapter 7 in 1988 to predominantly Chapter 13 in 1998. The shift in predominance from Chapter 7 to Chapter 13 occurred between 1992 and 1993. Both the Middle and the Eastern Districts of Louisiana match the national trend of more Chapter 7 filings than Chapter 13 filings. Nationally, Chapter 7 filings are between 67% and 71% of consumer filings in every year from 1990 through 1998.¹²

The predominance of chapter 13 filings in the four northern districts of Louisiana are the result of several increases in the fees attorneys can receive for Chapter 13 filings, relative to the fees for Chapter 7 filings. All legal fees for bankruptcy lawyers are regulated by the district bankruptcy judge.

Figure 13

CHAPTER		%
7	1282	32.72%
11	1	0.03%
12	1	0.03%
13	2693	68.73%
	3977	

¹²“Non-Business Bankruptcy Filings by Chapter 1990-1998 (4th Quarter),” www.abiworld.org/stats/newstatsfront.html.

All bankruptcy judges permit higher legal fees for Chapter 13 filings, relative to Chapter 7 filings, because of the additional work involved in preparing the Chapter 13 debt payment plan. In 1992, and several times since 1992, the bankruptcy judge in northern Louisiana increased the Chapter 13 legal fee limit. Comparable legal fee increases for Chapter 13 filings were not authorized by the other bankruptcy judges in Louisiana. The north Louisiana bankruptcy judge authorized the increases out of consideration for the required increased cost incurred when said judge required all Chapter 13 attorneys to purchase specialized software and take on additional tasks in case preparations. At the time of the initially authorized fee increase, Chapter 13 attorneys in the northern districts began heavily advertising Chapter 13 bankruptcy filing and encouraging chapter 13 filing over chapter 7.

Employment Status

Almost 88% of all petitioners indicated EMPLOYED or SELF EMPLOYED at the time of filing. Only 2.7% failed to fill out this field, compared to 3.8% of the 2,379 petitions in the 1995 study. In the 1995 study, 84% of petitioners indicated EMPLOYED or SELF EMPLOYED. Of those indicating EMPLOYED status, 42% indicated employment in the current position for three years or less and 17% indicated employment in the present position for less than one year. Under one year employment status exceeded all other time frames by at least 9%. Just over 5.5% of employed petitioners had been employed at the same place for 20 years or more, three people for 40 years or more.

Figure 14

EMPLOYMENT STATUS		%
unemployed	118	2.97%
retired	182	4.57%
disabled	70	1.76%
self employed	72	1.81%
employed	3427	86.13%
blank	110	2.76%
	3979	

The primary employers listed in Figure 15 account for 712 of the 3,499 employed petitioners (3,427 employed plus 72 self-employed). The remaining employed petitioners worked for a variety of employers, each of which employed less than 1% of the employed petitioners. Each of the 1997 primary employers was also listed in the 1995 study with the exception of Casino Magic Casino, which

Figure 15

PRIMARY EMPLOYERS	# emp	% of totemp.
Caddo Parish School Board	94	2.69%
Self employed	72	2.1%
Horseshoe Casino	69	2.0%
LSU Medical Center	66	1.9%
General Motors	65	1.9%
Isle of Capri Casino	65	1.9%
US Armed Services	64	1.8%
Harrah's Casino	52	1.5%
Willis Knighton Hospital	47	1.3%
Casino Magic	41	1.2%
Libbey Glass	40	1.1%
Walmart	37	1.1%

was not open in 1995. The City of Shreveport was present in the 1995 list of primary employers, and is not included in the 1997 list. The City of Shreveport actually employed a greater number of petitioners in 1997, but the percent of those employers to all employed petitioners was less than 1%.

Financial Data

Preliminary Estimates of Numbers of Creditors, Assets, Liabilities

Both this study and the 1995 study showed 65% of petitioners with between 1 and 15 creditors. Both studies also showed 33% of petitioners with 1 to 49 creditors. The 1995 study did show two petitioners with 100 to 199 creditors. It must be acknowledged that those two petitioners could have misinterpreted that section of the petition. The petitioner does not actually indicate "100-199" as the estimated number of creditors. The petitioner indicates a numeric code ranging from 1 to 6, such that a "1" means 1-15, "2" means 16-49, and so on. Consequently, the two 1995 petitioners could have thought the code "4" meant four creditors, rather than 100-199 creditors. Indeed, upon examining the list of creditors provided by these two petitioners, there were considerably fewer than one hundred creditors per petition.

Figure 16

Est. number of creditors		%
1-15	2588	65.04%
16-49	1315	33.05%
50-99	13	0.33%
100-199	0	0.00%
200-999	0	0.00%
1000-over	0	0.00%
blank	63	1.58%
	3979	

Figure 17

Estimated assets in thousands		%
under 50	2979	74.87%
50-99	704	17.69%
100-499	228	5.73%
500-999	7	0.18%
1000-9999	0	0.00%
10,000-99,000	0	0.00%
100,000-over	0	0.00%
blank	61	1.53%
	3979	

A greater percentage of petitioners indicated assets in the 50,000-99,900 range in this study compared to the 1995 study. This finding is to be expected considering the economic growth experienced in the Shreveport Division area during the time period in question. A greater percentage

Figure 18

Est. Liab. in thousands		%
under 50	2614	65.69%
50-99	889	22.34%
100-499	405	10.18%
500-999	9	0.23%
1000-9999	1	0.03%
10,000-99,000	1	0.03%
100,000-over	0	0.00%
blank	60	1.51%
	3979	

was also shown in the next two categories, with a lesser percentage shown in the under 50,000 category.

As with estimated assets, estimated liabilities are more likely to be over 50,000 in 1997 than in 1995. This finding is supported by the literature reporting on current borrowing levels relative to current spending and saving levels. In 1995, 75% of petitioners indicated liabilities under 50,000, compared to 65% of 1997 petitioners.

Responses to Those Questions Chosen for Analysis from the Fifteen Questions at the End of the Petition

Introduction

Table 5 Selected Questions from Bankruptcy Petitions

ONE	Income from employment or operation of a business within the past <u>three</u> years
TWO	Income other than from employment or operation of a business within the past <u>three</u> years
THREE	Payments to creditors within the past 90 days
EIGHT	Losses, including fire, theft, gambling, and other types of losses during the past year
NINE	Payment related to debt counseling or bankruptcy filing during the past year
FIFTEEN	Prior address of debtor - moved within the past <u>two</u> years

Table 5 shows the six questions examined in this study as relevant in determining the effect of gaming on the number of bankruptcy filings in the Shreveport

Division of the Western District of Louisiana. Figure 19 shows the percent of petitioners indicating “YES” to the six questions examined in this study.

Figure 19

Question	Positive Response	%
Question ONE	3607	90.65%
Question TWO	1188	29.86%
Question THREE	541	13.60%
Question Eight	210	5.28%
Question NINE	2504	62.93%
Question FIFTEEN	883	22.19%

Questions

Question **ONE** showed a 90% positive response in 1997 compared to a 78% positive response in 1995. This is another statistic compatible with the increased economic prosperity in the Shreveport Division during the time period in question. This finding is also in keeping with the greater percentage of petitioners indicating **EMPLOYMENT** status in 1997 compared to 1995. Question **TWO** showed almost 30% positive response compared to 36% positive response in 1995. Question **THREE** showed the same 13% positive response in 1997 as in 1995.

Question **EIGHT** is the only place in the bankruptcy petition that provides an opportunity for the petitioner to identify gaming/gambling losses. Question **EIGHT** had a positive response

from 5% of the petitioners compared to 12% of the petitioners in 1995. A total of 277 petitioners indicated losses in 1995, with less than half indicating gambling losses. Of the 210 petitioners with losses in 1997, 76 indicated gaming/gambling losses, also less than half. Figure 20 shows the maximum, minimum, median, and average gaming/gambling losses reported by the 76 petitioners. Half of all reported losses were \$5,000 or less. In 1995, the average gambling loss was reported as \$1,200. In 1997 the average reported loss of \$14,011, was considerably higher.

Figure 20

Gambling Loss Amounts	
maximum	\$80,300
minimum	\$50
median	\$5,000
average	\$14,011

The disparity between the median and the average reflects the five petitioners with losses of \$60,000 or greater. One of the petitioners with losses of \$80,000 filed as a business. While losses were requested for the prior 12 months, some of the 76 petitioners included losses for a greater period of time. In 1995, the potential for gaming losses for most petitioners was only for the period of May 1994 through the file date of the petitioner, because of the mid-year and staggered opening dates of the casinos. In other words, 1995 petitioners had less time to accumulate gaming/gambling losses from local casino gaming. Nine of the petitioners with gaming losses in 1997 did not specify the amount, as requested on the petition. Two petitioners who did not specify an amount did specify “small” gambling losses.

Question **NINE** was examined to determine the names of bankruptcy attorneys to interview for anecdotal information and for impressions concerning significant causes of bankruptcy filings.

Question **FIFTEEN** was examined to identify any change in the observed trend for petitioners to be likely to relocate immediately prior to filing for bankruptcy relief. In 1995, over 30% of filers had moved within two years prior to filing compared to 22% in 1997.

INTERVIEWS WITH BANKRUPTCY TRUSTEES AND BANKRUPTCY ATTORNEYS

Introduction

Interviews were conducted, in person and by telephone, of seven bankruptcy trustees and eleven bankruptcy attorneys throughout Louisiana. During the interviews, the following questions were asked:

- In your opinion, what is the #1 cause of personal bankruptcy?
- In your opinion what is the #2 cause of personal bankruptcy?
- What, in your opinion are other significant causes of personal bankruptcy?

Certain responses were anticipated including:

1. Ease and availability of credit
2. Lack of stigma
3. Divorce
4. Illness
5. Loss of job
6. Gambling

Each interviewee was prompted to comment regarding any of the anticipated responses listed above that was omitted.

Interviews with trustees were conducted in person. Of the seven trustees interviewed, three were from Shreveport, three were from New Orleans, and one was from Natchitoches. Interviews with attorneys were done by telephone. All attorneys were from the Shreveport Division of the Western District. Only Shreveport Division attorneys were interviewed because only Shreveport petitions were examined in detail. One Shreveport attorney interviewed also saw clients from the Monroe District of the Western District.

Trustee Interviews

All seven trustees interviewed identified **ease and availability of credit** as the number one cause of personal bankruptcy. Each trustee made this identification emphatically, without prompting. Each trustee also indicated the **lack of stigma** attached to bankruptcy as a facilitating

factor in the decision to file for bankruptcy protection. Several trustees contributed the same unanticipated response - consumer education about bankruptcy availability and lack of repercussions. Consumer **education about bankruptcy** occurs through media advertisements and word of mouth in neighborhoods and among co-workers. Trustees reported seeing several petitions with the same street address come in during a period of a month or even a week. Trustees indicated a much greater knowledge of the bankruptcy process at all levels of society, than was present ten years ago. Industry sanctions against advertising by the medical, legal, and accounting professions was determined to be anti-competitive by the judicial system in the early 1980s. Advertisements by bankruptcy attorneys, as well as by other professional practitioners started appearing at the same time.

Some of the trustees indicated **bankruptcy law** as a contributing factor in the ease of filing for bankruptcy relief. Trustees indicated that bankruptcy law does make it possible for some people to obtain relief who do appear to have the ability to pay some or all of the debt over a period of time. Chapter 13 filing was more popular in north Louisiana than in south Louisiana because of the dollar value of exempt items in Chapter 7 proceedings. In north Louisiana items valued at \$1,000 or less were most likely to be exempt from liquidation in Chapter 7 cases. In south Louisiana items valued at \$1,500 or less were more likely to be exempt. The difference in exempt item value was explained as due to the greater rural population in north Louisiana, compared to south Louisiana, resulting in fewer items available for liquidation in the northern part of the state. Petitioners are more likely to request the filing chapter that enables the retention of more exempt items.

The traditional causes of bankruptcy - **divorce, illness, and/or job loss**, were rarely offered by trustees without prompting. These causes were acknowledged, when prompted, but were not seen to be as compelling as ease and availability of credit.

Gambling was never offered as a cause of bankruptcy by trustees without prompting. When prompted, all seven trustees indicated seeing more petitions with gambling losses. All seven trustees also indicated that gambling was not a significant cause of filings.

Attorney Interviews

Each of the eleven attorneys interviewed identified **ease and availability of credit** as the overriding cause of personal bankruptcy. In addition to the availability of credit, attorneys also identified credit card abuse by issuers as well as consumers. Issuer abuse was identified as both the efforts of issuers to obtain clients from lower and lower income level consumers, and the seemingly automatic raising of credit ceilings as the consumer reaches the contracted limit of borrowing. Issuer abuse was also identified by the increased presence of ATM machines. Unsolicited offers of cash advances by card issuers were also noted. Consumer abuse of credit was identified as the increased incidence of luxury, or high-end purchases seen in asset listings on petitions. Attorneys see consumers using credit for luxury purchases before their income is at a level to support such purchases. Attorneys also see consumers using credit without any knowledge of, or understanding of how to manage debt. All eleven attorneys sounded noticeably aggravated when discussing the effect easy credit has had on individuals who, in each attorney's opinion, should never have had access to the levels of borrowing that has caused them to file for bankruptcy relief.

None of the attorneys interviewed identified loopholes in bankruptcy law as a cause of filing. One attorney indicated bankruptcy law was appropriate as currently written, but was being interpreted more loosely than in the past. This attorney indicated that the code needed "enforcing, not reforming."

The number two cause of filing varied among the eleven attorneys interviewed. Responses offered included **lack of stigma, illness/divorce/job loss, lack of ability to manage finances, credit card abuse, and gambling.**

Unlike the trustees, attorneys did offer **gambling** as a cause of bankruptcy without being prompted. Three attorneys indicated gambling as the number two cause of filing. It is important to remember that all eleven attorneys practice in the Shreveport Division, where the 1997 petitions were examined. Of the 3,979 petitions examined, only 76 indicated losses from gambling. When questioned about the small percentage of filers indicating gambling losses, one of the three attorneys identifying gambling as the number two cause, pointed out that filers often misinterpret the petition instructions, overlook some parts of the petition, and/or are unwilling to acknowledge their gambling activity. The attorney indicated a petitioner would be scrutinized more closely when level of income obviously was never close to supporting the level of debt, or when all debt was credit card debt and assets list were comparatively few relative to the level of debt. The question must be raised as to why bankruptcy attorneys do not insist on the petitions being properly completed when gambling losses do come to light.

The other eight attorneys indicated that gambling losses did occur more frequently, now that casinos are in place, but that gambling was not seen by them, as a major cause of bankruptcy. These eight attorneys did say **casinos** were a minor cause of bankruptcy, as opposed to **gambling**. Attorneys see a number of casino employees filing bankruptcy, relative to other types of employees. Casino employees accounted for 5.7% of all 1997 petitions. Casino employees were the largest group of employees in the 1997 petitions, and the second largest group in 1995 petitions. Casino employment in 1997 represented 3.2% of the average 1997 total employment for the Shreveport Division of the Western District.¹³ Several explanations were offered as to why casino employees were more likely to

¹³ Research and Statistics Division of the Louisiana Department of Labor, "1997 Louisiana Employment and Wages," December, 1998; and 1997 Annual Reports of Horseshoe Casino•Hotel, Bossier City, Louisiana; Harrah's Shreveport Casino; Casino America Inc.; and Casino Magic Bossier City, Louisiana.

file than other types of employees. First, because of state hiring regulations for casinos, many casino employees came from the ranks of the previously unemployed, or underemployed. Some of these newly employed workers found themselves with credit opportunities previously unavailable to them. These same employees made use of credit without a corresponding ability to manage that credit. Second, some of the newly employed workers had debts that had not being pursued by creditors, as long as the individual had been unemployed. Once employed, the previously unemployed worker's wages began to be garnished for already existing bad debts.

LITERATURE SEARCH AND REVIEW

Introduction

A literature search was conducted to identify studies similar to the 1995 and 1997 studies described in this report. The search was also conducted to obtain information about bankruptcy trends nationwide, about bankruptcy and gaming, and about bankruptcy in states with casino gaming.

Similar Studies

A study entitled “Personal Bankruptcy: A Report on Petitioners’ Ability-to-Pay”¹⁴ analyzed 300 petitions filed in 1996 in each of 13 cities: Atlanta, Chicago, Dallas, Hartford, Houston, Indianapolis, Kansas City, Los Angeles, Memphis, Phoenix, Pittsburgh, San Diego and Tampa. The purpose of this study was different from the study discussed in this report, but data collected included that collected in the study discussed in this report. Of particular interest was the data collected on losses reported by the sampled petitions. Losses in Chapter 7 petitions were reported by 5%, compared to 1.76% in the 1997 Shreveport Division, and losses in Chapter 13 petitions were reported by 3.3%, compared to 3.4% in the 1997 Shreveport Division.

A study was designed by VISA¹⁵ and conducted by an independent consulting firm to gain understanding of why consumer bankruptcy filings are increasing during a time of increased economic prosperity. One of the research findings addressed the primary cause of filing bankruptcy. VISA determined that while “job loss or illness precede many filings, some consumers clearly caused their own financial problems through their inability to curb their tendency to overspend.” The VISA study

¹⁴Barron, John M., Ph.D. and Saten, Michael E., Ph.D., “Personal Bankruptcy: A Report on Petitioners’ Ability-to-Pay”, www.gsb.georgetown.edu/prog/crc/pdf/monograph33.pdf, October 6, 1997.

¹⁵VISA, “Consumer Bankruptcy 1997 Bankruptcy Petition Study,” www.abiworld.org/stats/visa/97debtor.html, June 1997.

also identified the lack of stigma about bankruptcy as a contributing factor in the increase in filings.

A study by Iowa State University professor, Tahira Hira,¹⁶ stated that more than 25% of Iowans filing for bankruptcy consider themselves gamblers. In a survey conducted by Hira, which was not based on a scientific sample,¹⁷ 28% of bankruptcy filers identified themselves as gamblers, with 19% of respondents reported gambling debt to be an important factor in filing bankruptcy.

Bankruptcy and Gaming, and Bankruptcy in States with Casino Gaming

In reporting on bankruptcy trends in the Eastern District of Wisconsin, Brad Hoeschen notes that local lawyers have added gambling and potential changes to bankruptcy law regarding credit card issuers as the primary causes of increased filings.¹⁸ Hoeschen quotes consumer advocates as saying new advertisements by bankruptcy attorneys encourage potential filers to file soon, before pending changes in bankruptcy code are made by Congress. Hoeschen quotes bankruptcy attorneys as saying that gambling is a growing culprit in forcing people into bankruptcy. One attorney indicated gamblers now make up 10% of his clientele.

In a 1995 *Detroit News* article, gambling related bankruptcies were described as “skyrocketing.”¹⁹

The writer, Ron French, reported Detroit attorneys to be estimating up to 40% of clientele with gambling-related bankruptcies since casinos opened 18 months before just across the river in Windsor, Ontario. French acknowledged that no statistics had been kept by attorneys to document their

¹⁶Hira, Tahira K., “Gambling and the Bankruptcy Connection,” http://standup.quiknet.com/news/ap_1998_august_5.html, August, 1997.

¹⁷Ibid.

¹⁸Hoeschen, Brad, “Bankruptcies Balloon: Gambling, Credit Cards, Reform Legislation Push Record Numbers to File for Protection.”, *The Business Journal-Milwaukee*, Dec. 4, 1998 v16i10 pl(2).

¹⁹French, Ron, “Gambling Bankruptcies Soar”, *The Detroit News*, copyright 1995.

estimations. The lack of available statistics is a recurring theme in the literature discussing gambling and bankruptcy.

CONCLUSIONS AND RECOMMENDATIONS

As with the 1995 study, the percent of petitions reporting gambling losses supports the hypothesis that the primary cause of bankruptcy is from factors other than gambling. Interviews with trustees and with attorneys emphatically place the number ONE cause as ease and availability of credit - often without due diligence on the part of the lender - in determining ability to repay.

Also, as with the 1995 study, length of time in present employment was inversely related to the number of petitioners. The greatest percentage of petitioners had been employed in the present position for 3 years or less, with the majority of those petitioners employed for less than one year. Interviews with attorneys corroborated the impact of newly hired workers with increased credit ability, and inability to manage debt.

The effect of increased opportunities for casino gaming on bankruptcy filing frequency is difficult to document with identifiable data. Anecdotal data from attorneys and trustees can reflect a personal bias in either direction. There is no doubt that the presence of casinos provides opportunities for individuals to gamble, who would never have done so without the presence of casinos. Some attorneys consider video poker to more conducive to gambling related debt problems than casinos, but it was not until casinos came to Louisiana, and to other states, in the 1990s, that Louisiana and the other states began questioning the relationship between gambling and bankruptcy. Lotteries, video poker, horse racing, and bingo have all been in place, nationwide, longer than most casinos.

Bankruptcy petitions have the potential for providing definitive data on the impact of gambling on bankruptcy filing. Gambling losses are supposed to be reported with details about amounts, dates of loss, and “any other particulars”. Reporting gambling losses does not directly correlate to gambling as

the cause of the filing. Accurate reporting of gambling losses would, however, provide the frequency of filers with gambling losses, as well as the amount of gambling losses.

Cries for credit card industry reform and bankruptcy law reform have been bandied back and forth by the bankruptcy law practitioners and and by the credit card industry. Cries for credit card industry reform has been especially heard from conscientious attorneys who daily see the result of the ease and availability of credit.

The primary recommendation resulting from this study is that bankruptcy attorneys and/or trustees find a way to enable petitioners to accurately report gambling losses. It is possible that all such losses were completely and accurately reported in the 1997 petitions examined in this study. From comments made in some attorney interviews, however, it appears highly unlikely that gambling losses were completely and accurately reported.

APPENDIX

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