

Medical Bills Trigger Half of Bankruptcies, According to New Study

Monday, March 07, 2005 - By Gerri Detweiler

About half of all bankruptcies are related to medical bills, according to a new Harvard University study. The study involved debtors who filed for personal bankruptcy in 2001, when 1.458 million individuals or couples filed for bankruptcy. Among the findings:

- High medical bills contributed to 60% of medical bankruptcies, with drug costs contributing to 48%. (Drug costs were the major problem for most Medicare-insured debtors, and many of those with psychiatric disorders).
- In 35% of cases lost income due to illness was a factor.
- Out-of-pocket medical costs since the onset of illness averaged \$11,854

Most surprisingly, the privately-insured had the highest costs - \$13,460 – due to the very high costs incurred by those who initially had private coverage but then lost it. Cancer patients' costs averaged \$35,878.

The typical profile of someone who filed: a 41-year old with some college education and dependents. Sixty-two percent were homeowners, and slightly more than half of those who filed were women.

What does this mean for you as an originator? First and foremost, the increasing number of personal bankruptcies points to the need and opportunity for originators who can help those who have filed become homeowners, or help those who already own their home to refinance at better terms or to access equity when needed. Many of those who have been through bankruptcy believe they won't be able to get another loan for 7 – 10 years, and that is simply not true.

According to HUD, for example, loans may be permitted for consumers who have discharged their bankruptcy as recently as one year ago if the borrower can demonstrate "extenuating circumstances beyond the control of the borrower." Documenting the fact that an unexpected illness caused high medical bills would be one way to address this guideline and help the borrower get an FHA loan.

Underwriting guidelines for VA loans are even more specific. For example, a borrower may be able to get a VA loan one year after discharge of a Chapter 7 if the borrower is re-establishing credit and can demonstrate that the bankruptcy was due to circumstances beyond their control such as "medical bills not covered by insurance," according to the *The VA Lender's Handbook* by Allregs.

FNMA guidelines generally require a Chapter 7 "straight" bankruptcy to have been discharged for at least four years, and for the borrower to have re-established credit. But even those guidelines allow for a loan in as little as two years after bankruptcy, provided the borrower can document extenuating circumstances unlikely to occur again, for example with medical reports and bills. These days there are lenders that offer flexible programs for borrowers still in Chapter 13 bankruptcies, as well as those with recently discharged bankruptcies.

Note: The study by David U. Himmelstein, M.D., Elizabeth Warren, J.D., Deborah Thorne, Ph.D., Steffie Woolhandler, M.D., M.P.H. is available at <http://www.healthaffairs.org/>

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