

Barriers to Bankruptcy Relief: Evidence on the Filing Decision from a Legal Technology Platform

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ABSTRACT

Based on the 2019 Survey of Consumer Finances, 17% of households would benefit from filing for bankruptcy in any given year but fewer than one percent do. We partner with Upsolve, a non-profit bankruptcy technology startup that provides a free “TurboTax for bankruptcy filing” service, to study the bankruptcy filing decision. The data has two major advantages. First, we have access to both filers and those who completed all of their paperwork but chose not to file. Second, the data is more comprehensive than the smaller surveys or aggregated data used in prior studies. Pairing this data with a survey of users’ reasons for considering bankruptcy, we provide a rich characterization of which types of debtors are likely to file. Comparing similar prospective filers who vary in whether they qualify for a waiver of the required \$338 filing fee, the filing fee alone reduces the filing rate by 5 percentage points, leading debtors to miss out on an average of \$70,000 of debt relief. The paper sheds light on the bankruptcy filing decision and the way institutional barriers can prevent vulnerable populations from accessing benefits for which they are eligible.