What Is the Return From Hiring a Bankruptcy Attorney for Chapter 7 Asset Case Filings?

Donald D. Hackney
Gonzaga University

Daniel L. Friesner
University of Akron

This manuscript assesses the returns to hiring an attorney to represent an individual who holds exempt-eligible assets when filing for Chapter 7 bankruptcy. A panel of closed Chapter 7 asset case filings was collected over the years 2016-2021 from the Public Access to Court Electronic Records (PACER) system in the Eastern District of Washington State. The study results indicate that filers with an attorney of record, and who report attorney payments to the Court, can shield 83.3 percent of assets through the exemption process, compared to the overall sample mean of 68 percent. This implies a return of approximately 22.5 percent. Therefore, hiring an attorney and reporting attorney payments in a filing leads to a higher expected return. We also find statistically significant evidence suggesting that filer specific factors, such as county of residence and year of filing, influence the expected return from hiring an attorney.

Keywords: consumer bankruptcy, asset exemptions, attorney, Chapter 7, expected return

INTRODUCTION

Filing for protection under the U.S. Bankruptcy Code is a critical component of the social safety net for U.S. households (Spooner, 2017). This is especially true for households who meet eligibility requirements and who file for protection under Chapter 7 of the U.S. Bankruptcy Code (Power, 2007; Wedoff, 2007). Chapter 7 filings, also known as "straight bankruptcy" filings, operate under the premise that a filer cannot repay one's outstanding debts on a cash flow basis (Zhu, 2011; Hackney & Friesner, 2015). Thus, repayment occurs based on information in the filer's household balance sheet. The filer reports all assets and outstanding liabilities (including payments to the filer's attorney), and assets (net of exemptions) are liquidated and used to repay creditors, in order of priority (Loibl, Hira, & Rupured, 2006; Norberg & Compo, 2007). All filer information is submitted under penalty of perjury and is presumed to be both accurate and comprehensive. Court personnel and attorneys are awarded first priority in repayment, followed by creditors with secured claims (i.e., mortgages), unsecured priority creditor claims (outstanding tax, child support, or spousal support claims, etc.) and general unsecured creditor claims (i.e., credit cards) (Jimenez, 2009).

Chapter 7 filings shield certain assets from the liquidation process, especially those assets that allow a filer to sustain one's livelihood (Jimenez, 2009). The most common (typically, highest dollar value) exemptions are for homes/homesteads and automobiles (Hackney, Friesner, & McPherson, 2018, 2020).

However, the U.S. Bankruptcy Code allows for an array of asset exemptions, from retirement accounts and Social Security benefits to jewelry to the appliances in one's home. Jimenez (2009) found that, not only were secured claims listed in 80 percent of Chapter 7 asset case filings, the vast majority of assets recouped from the filer through the bankruptcy process were liquid assets (in particular, cash, checking account deposits, and tax returns). This implies that, not only do asset exemptions serve as an effective means for debtors to shield the majority their assets from liquidation, but also that debtors may realize a substantial "return" (i.e., minimize expected losses) from utilizing these exemptions.

Much of the literature on Chapter 7 assets case filings has focused on the social welfare implications of this particular filing process. Jimenez (2009) found that the Court or trustees retained as much as 40 percent of proceeds from Chapter 7 asset cases to cover administrative costs. Friesner and Hackney (2023) found that, on average, administrative costs consumed between 37.5 percent and 40.1 percent of Chapter 7 asset case proceedings between 2016 and 2021. Moreover, in seven states during this period, Court administration payments garnered more than half of all court proceeds. Athreya (2006) used economic modeling and simulation analyses to analyze the relationship between the magnitude of asset exemptions and social welfare. The author found evidence of a U-shaped relationship between the two variables, suggesting that there is an "optimal" level of asset exemptions. Grochulski (2010) extended Athreya's work, and found that exemptions were positively associated with a filer's wealth at an optimal level of asset exemptions but were decreasing as a proportion of the filer's overall wealth. Mankart (2014) found asset exemptions improve social welfare compared to a situation where debts are not eligible for discharge through bankruptcy. However, social welfare gains exist only when the exemption levels are low. Hintermaier and Koeniger (2016) empirically examined the role of homestead exemptions in the bankruptcy process. They found that allowing for homestead exemptions created a small welfare loss. Because the typical filer's equity in exempt homesteads did not exceed the maximum allowable exemptions, the homestead exemption did not noticeably impact the size of the welfare loss. Davila (2020) estimated the variation in the relationship between bankruptcy exemptions and social welfare across U.S. states. The author found that filers in Alabama, Georgia, and Louisiana experienced the largest welfare gains through asset exemptions. Filers in these states were likely to not only submit a bankruptcy filing with assets, but also re-claim a large portion of these assets through the exemption process.

The studies mentioned above examine the implications of the Chapter 7 asset case filing process from a policy and/or social welfare perspective. But in doing so, they overlook several other, and as yet unexplored, issues that can only be addressed by evaluating the outcomes of the bankruptcy process from the perspective of the individual filer. One such issue concerns the role of attorneys in the bankruptcy process. Households can file for Chapter 7 bankruptcy protection without an attorney. However, a skilled and creative attorney can assist the filer in claiming exemptions and maximizing the number and/or dollar value of exemptions. In return, the attorney receives compensation for representing the filer. Consistent with judges, trustees, and other administrative personnel, attorneys receive top priority in the repayment process and are repaid for their efforts. This relationship raises two interesting empirical questions, which have not yet been addressed in the literature. First, what is the expected return – as measured by the relative amounts exempted assets and repayments (i.e., liquidated assets) – that occurs from hiring an attorney (as measured by the decision to hire an attorney and, if hired, attorney payments) in a Chapter 7 asset case filing? Second, are there specific situations (as measured by filer characteristics) that increase or decrease this return? The premise of this manuscript is to empirically assess each of these issues.

EMPIRICAL METHODOLOGY

Given the lack of a prior literature, this study operates on a prior assumption of "ignorance" about the decision to hire or not hire an attorney in Chapter 7 asset case filings, and the financial return obtained from making that decision. More specifically, this decision is likely to be a fundamentally empirical question, depending on several filer-specific factors, including the distribution of the filer's assets, the distribution of the filer's liabilities, and income. Attorney billing rates, allowable exemption standards in a given state for which the filer qualifies, the emotional attachment filers may have to certain assets, local legal culture, and

filer demographics, among a host of other factors, may also impact this decision (Jimenez, 2009; Hackney, McPherson, & Friesner, 2018, 2020). As such, the first research question is assessed using the following null hypothesis:

H_0^1: *The mean/median return from hiring an attorney to handle a Chapter 7 asset case filing (and paying them for their services) is equal to the mean/median return from not hiring an attorney to handle a Chapter 7 asset case filing.*

H_A^1: *Not H_0^1*

To assess the second question, this study adopts an analogous null hypothesis of no relationship between a (any) given specific filer characteristics and the return from a Chapter 7 asset case filing.

H_0^2: *Holding constant the decision to hire an attorney (and/or pay them for their services), no mean/median relationship exists between any relevant exogenous factor and the return from a Chapter 7 asset case filing.*

H_A^2: *Not H_0^2*

Evaluating the null hypothesis is conducted using a multi-step process that generally follows Hackney, Brajcich, Dugenske, and Friesner (2024). First, the return from exempting assets through the bankruptcy process is calculated. Within the context of the Chapter 7 asset case filing process, the return is empirically characterized using the proportion of the filer's total assets that are exempted from the liquidation process, and ostensibly retained by the filer. To account for the possibility that the filer may strategically relinquish exempt-eligible assets, we also calculate an alternative return measure: the proportion of payments from the bankruptcy process that are *not* distributed to creditors (inclusive of court administrators), and are ostensibly retained by the filer. Exogenous control variables and filer-specific characteristics, including (but not limited to) whether a filer has an attorney of record (and, if so, payments to that attorney), are also collected. We note in passing that a typical filer decides to hire an attorney (and make payments to that attorney) before the case is closed. Thus, attorney choice and payment variables are exogenous (at least in the sense of being pre-determined) to the outcome of the process.

Next, to assess the first null hypothesis in a parsimonious manner, one-way analysis of variance (ANOVA) and Kruskal-Wallis tests will be used to assess whether significant mean/median differences exist in returns across filers who list, and do not list, an attorney of record. Lastly, to assess both H_0^1 and H_0^2 in a context that controls for the impact of (presumably exogenous) variables on ROI, we specify and estimate a reduced form, linear in parameters Tobit model of the following form (Greene, 2000, pp. 905-912):

$$R_{it}^{*} = \alpha + \beta_1 NoAttDV_{it} + \beta_2 RAttCompDV_{it} + \beta_3 RAttCompDV_{it} * \ln(RAttComp_{it}) + \sum_{k=1}^{K} \gamma_k W_{it}^{k} + \sum_{t=2}^{T} \omega_t D_i^t + \nu_{it} \quad (1)$$

where: i = 1,…,n indicates the observations (bankruptcy filings) in the sample;
t = 1,…,T indicates the year in which a bankruptcy petition is filed;
R_{it}^{*} is the true, uncensored, real return from hiring an attorney i in time t;
$NoAttDV$ is a binary variable assigning a value of one to filers who have no attorney of record;
$RAttCompDV$ is a binary variable identifying filers who report an attorney of record and payments to the attorney of record to the Court, versus those who report an attorney of record, but do not report attorney payments to the Court;
$RAttComp$ is the real dollar value of attorney compensation reported to the Court;
ln($RAttComp$) is the natural logarithm of $RAttComp$ if $RAttComp$ is positive, and zero otherwise;
W_{it}^{k} represents a series of k = 1,…,K debtor characteristics;

D_i^t represents a series of t = 2,…,T binary variables indicating the year in which a bankruptcy was filed;
ν_{it} is a white noise error term; and
α, the β_js, the γ_ks, and the ω_ts are parameters to be estimated.

We note in passing that the specification of (1) allows for the possibility (which, as noted later in the manuscript, occurs in practice) that a filer may report an attorney of record, but fail to divulge information about payments to that attorney to the Court. In such cases, it is unclear whether i) the filer paid the attorney and simply failed to disclose those payments as required, ii) whether an attorney was listed who provided legal services, but was not renumerated for their work, or iii) whether an attorney was listed who did not provide legal services to the filer. In any or all of these cases, the quality of services rendered by the attorney may differ compared to those situations where an attorney is not only hired and renumerated for their services, but also where the attorney induces the filer to provide all relevant information to the Court in the filing, inclusive of attorney compensation. Thus, we measure the return from hiring an attorney, and paying them for services, relative to two possible inferior outcomes (no attorney of record, and an attorney of record with no record of attorney payment).

The empirical model, and the data that will be estimated using the model, have both cross sectional and time series dimensions, but should be treated primarily as a cross-section since cross-sectional units are not consistently repeated over time. That is, bankruptcy filings may occur in different periods. However, it is unlikely (although not impossible) that the same individual will file a Chapter 7 asset case multiple times (especially in the same district) during the study's evaluation window. We are careful to note that our dependent variables, as constructed, are proportions that exhibit censoring at zero and one. That is, it is impossible to observe a proportion of total assets retained by the debtor that is less than zero, or greater than unity (and similarly for the proportion of payments not retained by the debtor). Thus, we observe a two-sided censored version (R_{it}) of the dependent variable (R_{it}^*):

$$\begin{aligned} R_{it} &= 0 \; if \; R_{it}^* \leq 0 \\ R_{it} &= R_{it}^* \; if \; 0 < R_{it}^* < 1 \\ R_{it} &= 1 \; if \; R_{it}^* \geq 1 \end{aligned} \tag{2}$$

Under the null hypothesis, the parameter estimates for one or more β_js should be statistically insignificant from zero. Rejecting the null hypothesis allows for examining the sign and significance of the significant parameter estimate. This, in turn, allows us to examine the manuscript's objectives.

All hypothesis tests are conducted at 5 percent significance level, although statistical significance at the 10 percent level will be noted in passing for interested readers. All empirical analyses are conducted using SAS Version 9.4.

DATA

These null hypotheses are examined using data from the Public Access to Court Electronic Records (PACER) system on closed Chapter 7 asset case filings in the Eastern District of Washington State. Because the current study is a secondary analysis of data entirely in the public domain, the study is not considered by the authors' institutions to entail human subjects research.

This particular district is interesting to study because it contains many similarities to other economically and demographically regions in the United States (Hackney, Brajcich, Dugenske, & Friesner, 2024). The district contains many rural, suburban, and urban population centers. Rural economies predominantly focus on agriculture and natural resource management (i.e., forestry and mining industries), and larger communities have a very diversified economic base (Hackney, Friesner, & Johnson 2016, 2017, 2018).

All closed Chapter 7 asset case filings were collected from 2016-2021. The data contain information on total assets (and their distribution across various categories), liabilities, and asset exemptions. The data

also contain the filer's household income, bankruptcy repayments (including attorney compensation), demographic information (marital status, county of residence, whether the filer cares for dependents, whether the filer is an incorporated or non-incorporated business owner, etc.) and institutional factors surrounding the filing (whether the individual has previously filed for Chapter 7 bankruptcy, whether there are additional outstanding legal actions against the filer such as a levy or garnishment, and the year in which the filing closed). Thus, the data are sufficient to characterize the two dependent variables discussed in the methodology section (i.e., the proportion of the filer's exempted assets, and the proportion of assets that are not repaid to creditors), as well as most of the control variables used to characterize the financial, legal, and socio-demographic filer characteristics examined in the literature (Hackney, Brajcich, Dugenske, & Friesner, 2024).

One interesting artifact of the data is that, while all filers are required to report attorney compensation to the Court, not all filers actually do so. Thus, additional variables were included to distinguish between filers who i) do not have an attorney; ii) have an attorney but do not report attorney compensation; and iii) have an attorney and report attorney compensation. All nominal monetary variables were converted to real 2016 dollars using the CPI for all urban consumers. To reduce heteroscedasticity in the regression results, all (real) monetary variables were transformed using the natural logarithm.

The raw data set contained 363 closed Chapter 7 asset cases in total. Of those, 56 cases (15.4 percent) were eliminated due to missing or mis-measured data. The vast majority of these cases were eliminated because the necessary information used to create one or both expected return variables was not reported. This left a working panel of 307 observations.

RESULTS

Table 1 presents the variable names, definitions, and descriptive statistics for each variable used in the empirical analysis. At the mean (and in real 2016 dollars), the typical Chapter 7 asset case filer reported $158,213.21 in assets (standard deviation: $359,902.77), of which $87,922.00 was exempted from liquidation (standard deviation: $184,105.21), and $123,383.76 was repaid (standard deviation: $877,690.14). The standard deviations for each of these variables were more than twice as large as the corresponding mean values, which implies that each of these variables exhibits skewed distributions (right tail). Thus, comparing the ratio of these variables and reporting the sample proportion provides a more informative description of filer repayment. Regarding these sample proportions, approximately 68 percent of reported assets were exempted from the liquidation process, and 56 percent of all assets were not used to repay creditors. Only 4 percent of filers chose to file without an attorney of record. Moreover, 78 percent of filings reported a positive dollar value for attorney compensation, and the mean compensation per filing (in real, 2016 dollars) was $1,048.15. The fact that approximately 18 percent of filers hired an attorney, yet did not report attorney payments at the time of closing, suggests that such payments were either under-reported, or were to be paid after the case closed (or both).

Table 1 also presents information on other filer-specific characteristics. At the mean (and in real 2016 dollars), the average household income for these filers was $2,992.05. Mean Court-approved household monthly expenses (which were adjusted for family size and other relevant characteristics) were $3,383.41 (in real 2016 dollars). Considered in tandem, these statistics suggest that the average filer's household was cash flow insolvent. Approximately 9 percent of filers owned non-incorporated businesses, while another 9 percent owned incorporated businesses. Approximately 39 percent of filers had additional legal actions being taken against them (levies, wage garnishments, and attachments, among a variety of other actions), while 14 percent of filers had previously filed for bankruptcy protection (whether under Chapter 7 or Chapter 13, and whether in this particular District or another district) during the past seven years. The primary county of residence for filers matches demographic trends in the District. Forty-three percent of filers lived in Spokane County (the most populous county in the District), while 17 percent lived in Benton or Franklin Counties (which include much the communities of Kennewick and Richland), and 12 percent lived in Yakima County. The remaining 28 percent lived in one of the other remaining 16 counties in the District. Approximately 49 percent of filers were married when filing, and 50 percent cared for one or more

dependents. Lastly, the filings were relatively evenly distributed over time, with 2021 containing the smallest number of filings (11 percent of the sample) and 2018 containing the largest number of filings (21 percent).

TABLE 1
DESCRIPTIVE STATISTICS [n = 307]

Variable	Label	Mean	Std. Dev.
Panel A: Debtor's Assets, Assets Eligible for Exemption, and Payments			
RAsset	Real (2016) dollar value of assets eligible for exemption	$158,213.21	$359,902.77
RAssetE	Real (2016) dollar value of assets actually exempted	$87,922.00	$184,105.21
RPayment	Real (2016) dollar value of debtor repayments	$123,383.76	$877,690.14
ROIAsset	Proportion of RAsset that are exempted from the bankruptcy liquidation process	0.68	0.36
ROIPayment	Proportion of RAsset that are not used to repay creditors	0.56	0.41
Panel B: Attorney Use and Compensation			
NoAttDV	Binary variable identifying filings with no attorney on record	0.04	
RAttCompDV	Binary variable identifying filings with a positive dollar value of attorney compensation	0.78	
RAttComp	Real (2016) dollar value of reported attorney compensation	$1,048.15	$1,676.92
Panel C: Debtor Income and Expense Information			
RHHInc	Real (2016) dollar value of average monthly household income	$2,992.05	$2,117.51
RHHExp	Real (2016) dollar value of average monthly allowable household expenses	$3,282.41	$2,080.94
Panel D: Debtor Demographic Information			
HouseholdDV	Binary variable identifying debtors filing as non-business households	0.82	
PropDV	Binary variable identifying debtors filing as non-incorporated businesses	0.09	
CorpDV	Binary variable identifying debtors filing as incorporated businesses	0.09	
PriorBKDV	Binary variable identifying debtors with a previous bankruptcy filing in the past seven years	0.14	
LegalDV	Binary variable identifying debtors with outstanding legal actions (levies, garnishments, attachments, or other lawsuits)	0.39	
Spokane	Binary variable identifying debtors who resided in Spokane County during the filing process	0.43	
BF	Binary variable identifying debtors who resided in Benton and Franklin Counties during the filing process	0.17	
Yakima	Binary variable identifying debtors who resided in Yakima County during the filing process	0.12	
Ocnty	Binary variable identifying debtors who resided in all other counties in the District during the filing process	0.28	

Married	Binary variable identifying married filers	0.49	
DepDV	Binary variable identifying filers who claim dependents	0.50	
DV2016	Binary variable identifying debtors who completed the bankruptcy filing process in 2016	0.19	
DV2017	Binary variable identifying debtors who completed the bankruptcy filing process in 2017	0.13	
DV2018	Binary variable identifying debtors who completed the bankruptcy filing process in 2018	0.21	
DV2019	Binary variable identifying debtors who completed the bankruptcy filing process in 2019	0.19	
DV2020	Binary variable identifying debtors who completed the bankruptcy filing process in 2020	0.18	
DV2021	Binary variable identifying debtors who completed the bankruptcy filing process in 2021	0.11	

Table 2 contains the parametric and non-parametric one-way analysis of variance tests to assess the study's first null hypothesis. At the 5 percent level, no statistically significant differences exist in the proportion of assets eligible for exemption and whether (or not) a filer lists an attorney of record. Similarly, at the 5 percent level, no statistically significant differences exist in the proportion of assets not used to repay debts (i.e., retained by the debtor) and whether or not a filer lists an attorney of record. We note that, at the 10 percent significance level, the one-way (parametric) analysis of variance test indicates that filers with an attorney of record exhibit a significantly higher proportion of assets than debtors without an attorney.

TABLE 2
MEAN AND MEDIAN DIFFERENCES BY ATTORNEY OF RECORD [n=307]

Panel A: Attorney of Record									
	No Attorney of Record [n=11]		***Attorney of Record [n=296]***					**Kruskal-Wallis**	
Variable	**Mean**	**Std. Dev.**	**Mean**	**Std. Dev.**	**F-Stat.**	**Prob.**		**Stat.**	**Prob.**
ROIAsset	0.497	0.402	0.683	0.354	2.909	0.089	*	2.382	0.123
ROIPayment	0.541	0.448	0.563	0.409	0.030	0.862		0.014	0.905
Panel B: Record of Attorney Payments									
	No Record of Attorney Payments [n=67]		***Record of Attorney Payments [n=240]***					**Kruskal-Wallis**	
Variable	**Mean**	**Std. Dev.**	**Mean**	**Std. Dev.**	**F-Stat.**	**Prob.**		**Stat.**	**Prob.**
ROIAsset	0.650	0.382	0.684	0.350	0.476	0.491		0.247	0.619
ROIPayment	0.509	0.431	0.577	0.403	1.482	0.224		0.178	0.673

** indicates statistical significance at the 5 percent level
* indicates statistical significance at the 10 percent level

Table 3 contains the two-sided Tobit regression results for our two dependent variables: ROIAsset and ROIPayment. Chi-square tests of overall model significance for both repressions are statistically significant at the 5 percent level. Thus, each model explains a statistically significant variation in its dependent variable. The two-sided Tobit disturbance term's parameter estimate in each regression is also statistically

significant from zero at the 5 percent level, indicating that the decision to account for the censoring of each dependent variable is likely to be appropriate.

The first set of regression results in Table 3 predict ROIAsset, the proportion of a filer's assets that are eligible for exemption. The coefficient estimate for the binary variable identifying whether the filer has no attorney (NoAttDV) is not statistically significant from zero at a 5 percent level. However, the binary variable identifying those filers who had, *and reported payments to the Court for*, an attorney of record (RAttCompDV) is positive and statistically significant at the 5 percent level (coefficient estimate: 0.833; prob.: 0.049). This implies that, holding the other specified regressors in the model constant, filers who hire an attorney, pay them, and report those payments to the Court have 83.3 percent of their assets eligible for exemption; a much higher amount than the sample mean (68 percent). Additionally the coefficient estimate for the interaction between the binary variable identifying filers who hired an attorney ($RAttComp$) and natural logarithm of the real (2016 dollar) value of attorney compensation (ln(RAttComp)) is negative and statistically significant from zero at the 10 percent level (coefficient estimate: -0.116; prob.: 0.055). Should the reader wish to evaluate statistical significance at the ten percent level, this result implies that for each one percent attorneys gain in additional compensation, the percentage of assets eligible for exemption falls by 11.6 percent. Overall, these results lead to rejecting the study's first null hypothesis.

Several additional coefficient estimates are also statistically significantly different from zero at the 5 percent level. Filers residing in Spokane County exhibited a significant and higher amount of exempt-eligible assets compared to the omitted category (filers residing in all other counties in the state) (coefficient estimate: 0.207; prob.: 0.026). Similarly, filers residing in Benton or Franklin counties also exhibited a significant and higher amount of exempt-eligible assets compared to the omitted category (filers residing in all other counties in the state) (coefficient estimate: 0.247; prob.: 0.027). Individuals who filed in 2020 exhibited a significantly lower proportion of exempt-eligible assets than those who filed in 2016 (the omitted category) (coefficient estimate: -0.247; prob.: 0.039). Lastly, individuals who filed in 2021 also exhibited a significantly lower proportion of exempt-eligible assets than those who filed in 2016 (the omitted category) (coefficient estimate: -0.468; prob.: 0.001). The statistical significance of these coefficient estimates leads to a rejection of the study's second null hypothesis.

The second set of regression results in Table 3 predict ROIPayment, the proportion of a filer's assets that are not used to repay creditors (and ostensibly retained by the filer). First, note that none of the coefficient estimates for the binary variable identifying whether the filer has no attorney (NoAttDV), the binary variable identifying those filers who had, and paid, an attorney of record (RAttCompDV), and the interaction between the binary variable identifying filers who hired an attorney ($RAttComp$) and natural logarithm of the real (2016 dollar) value of attorney compensation (ln(RAttComp)) are all significantly insignificant from zero at the 5 percent level. Thus, the results of this regression fail to reject the study's first null hypothesis. However, several coefficient estimates in the ROIPayment regression are statistically significant at the 5 percent level. Filers who were married at the time of filing (coefficient estimate: 0.159; prob.: 0.017), as well as those who filed in 2019 (coefficient estimate: 0.221; prob.: 0.037), 2020 (coefficient estimate: 0.251; prob.: 0.021), or 2021 (coefficient estimate: 0.375; prob.: 0.004), all exhibit significantly greater proportions of filer assets that were not repaid to creditors and returned to the filer. Additionally, the coefficient estimates for the natural logarithm of allowable monthly household expenses (coefficient estimate: 0.080; prob.: 0.089) and those individuals who filed in 2018 (coefficient estimate: 0.220; prob.: 0.060) are statistically different from zero at the 10 percent level. Overall, the results of the second regression reject the study's second null hypothesis.

TABLE 3
TOBIT REGRESSION RESULTS [n=307]

Dependent Variable:	**ROIAsset**					**ROIPayment**				
	Coeff.	**Std.**	**Test**			**Coeff.**	**Std.**	**Test**		
Variable	**Est.**	**Err.**	**Stat.**	**Prob.**		**Est.**	**Err.**	**Stat.**	**Prob.**	
Intercept	1.504	0.361	4.170	<0.001	**	-0.243	0.326	-0.740	0.457	
NoAttDV	-0.278	0.191	-1.460	0.145		-0.055	0.177	-0.310	0.756	
RAttCompDV	0.833	0.424	1.970	0.049	**	0.467	0.386	1.210	0.226	
RAttCompDV *ln(RAttComp)	-0.116	0.060	-1.920	0.055	*	-0.063	0.055	-1.140	0.253	
ln(HHInc)	-0.045	0.029	-1.580	0.115		-0.015	0.023	-0.670	0.504	
ln(HHExp)	-0.049	0.054	-0.920	0.360		0.080	0.047	1.700	0.089	*
PropDV	0.090	0.137	0.660	0.512		-0.076	0.123	-0.620	0.538	
CorpDV	0.140	0.138	1.010	0.311		0.022	0.120	0.190	0.853	
PriorBKDV	0.078	0.111	0.710	0.481		-0.030	0.098	-0.310	0.757	
LegalDV	-0.024	0.079	-0.300	0.763		-0.062	0.070	-0.880	0.379	
Spokane	0.207	0.093	2.230	0.026	**	-0.067	0.083	-0.820	0.415	
BF	0.247	0.112	2.210	0.027	**	-0.070	0.100	-0.700	0.482	
Yakima	-0.075	0.123	-0.610	0.544		0.179	0.112	1.600	0.110	
Married	0.052	0.074	0.700	0.485		0.159	0.066	2.390	0.017	**
DepDV	0.028	0.076	0.360	0.718		-0.036	0.068	-0.530	0.594	
DV2017	-0.089	0.133	-0.670	0.503		0.220	0.117	1.880	0.060	*
DV2018	0.036	0.122	0.300	0.767		0.088	0.107	0.820	0.414	
DV2019	-0.143	0.119	-1.200	0.230		0.221	0.106	2.080	0.037	**
DV2020	-0.247	0.120	-2.060	0.039	**	0.251	0.108	2.320	0.021	**
DV2021	-0.468	0.144	-3.240	0.001	**	0.375	0.130	2.870	0.004	**
Tobit Disturbance Term [2-Sided]	0.567	0.036	15.950	<0.001	**	0.529	0.028	18.960	<0.001	**
Unrestricted Log-Likelihood	-250.833					-259.186				
Restricted Log-Likelihood	-270.289					-274.477				
Chi-Square Statistic [19 degrees of freedom]			38.911	0.005	**			30.583	0.045	**

** indicates statistical significance at the 5 percent level
* indicates statistical significance at the 10 percent level

DISCUSSION AND CONCLUSIONS

This manuscript empirically investigates two important, unresolved questions about the Chapter 7 bankruptcy process. The first issue is to identify an expected return – as measured by the relative amounts of exempted assets and repayments (i.e., liquidated assets) – that occurs from hiring an attorney (including of paying the attorney for those services and reporting those payments to the Court as required) to represent the filer in a Chapter 7 asset case filing. A corollary issue is, for those who do hire an attorney, whether an increase in payments to the attorney of record leads to a significantly different proportion of assets retained by the filer. The second issue is empirically identifying specific filer characteristics that increase or decrease this return. The study's main findings are threefold. First, we reject the study's first null hypothesis. There is a significant, positive relationship between the use of an attorney (particularly for attorneys whose renumeration is reported to the Court) and the proportion of assets shielded from liquidation through the exemption process, holding the other specified regressors constant. More specifically, filers with an attorney of record (and who report those payments to the Court) can shield 83.3 percent of assets through the exemption process, compared to the overall sample mean of 68 percent. On a percentage change basis ((83.3% – 68%)/68%), this implies a return of approximately 22.5 percent. Therefore, hiring an attorney and reporting attorney payments in a filing leads to a higher return, as measured by a greater proportion of assets exempted from liquidation.

Second, we fail to find significant evidence at the 5 percent significance level indicating that hiring an attorney leads to greater proportions of assets not paid to creditors. This implies that hiring an attorney (and/or paying them more) does not provide a positive return if the goal is to avoid paying any more or less to your creditors than one otherwise would. Once the Court, the attorneys, and the bankruptcy filer (through the return of exempted assets) are renumerated, little extra money is left from those assets that were liquidated to repay creditors. We also found no significant relationship at the 5 percent significance level between the magnitude of payments to attorneys and the return to the filer from submitting the bankruptcy filing.

Third, we find statistically significant evidence suggesting that filer-specific factors influence the return accruing from the filing process. The county where a filer resides significantly impacts the proportion of assets eligible for exemption. A filer's marital status significantly impacts the proportion of assets not repaid to creditors. Both of these findings are intuitive. One of the major exempt-eligible assets is a filer's home. Suppose home values are higher in certain counties (especially in more populated communities). In that case, those homes (which may be exempt) are likely to constitute a higher proportion of reported (and exempted) assets. Similarly, if married filers accumulate greater assets (albeit jointly), or have additional exemptions and/or higher allowable monthly expenses, fewer resources are available to repay creditors. The year in which a filer's case closes also impacts the return from the filing. The latter is likely attributable to the economic conditions prevalent in the filer's community during the year the case closed, relative to other years in the evaluation window.

The results of this study also come with two important caveats. First, because the primary variables of interest are measured as proportions, they are censored at 100 percent. The use of an attorney may lead to as much as 83.3 percent of assets being listed as exempt eligible. However, since additional attorney services lead to additional bills for the filer(s) (which must be repaid), and since one can only exempt a maximum of 100 percent of one's assets, the positive return from hiring an attorney (and reporting attorney payments to the Court) is almost certainly limited, and likely diminishes with extensive attorney effort. Second, the results of this analysis suggest that filer specific characteristics also impact the existence and magnitude of the expected return from hiring an attorney. Thus, filers who hire an attorney may yield returns that differ from those reported in this study, depending on these significant characteristics.

The policy implications arising from this study are both compelling and nuanced. The higher return from hiring an attorney is limited to situations where a filer hires an attorney of record and reports attorney compensation to the Court. Only 4 percent of filers in the sample do not file with the help of an attorney. The remaining 18 percent of filings report an attorney, but do not report attorney compensation to the Court. Since the overwhelming majority of filers in Chapter 7 asset case filings report an attorney of record, the

primary issue of concern is not so much *whether* to hire an attorney (since almost all filers *do* hire an attorney and/or report an attorney of record), but rather is about the *quality and quantity of services* provided by that attorney. Filers who hire an attorney and report attorney compensation (as required by the Court) are garnering higher returns compared to filers who do not (holding the other regressors in the model constant). The former is indicative of an attorney providing comprehensive and detailed legal services. Failure to report attorney compensation is symptomatic of less comprehensive and detailed services, which our results suggest leads to a lower filer return from bankruptcy. The data cannot characterize the link by which un-reported attorney compensation maps to less detailed legal services, and by extension the lower return to the filer. Possible examples may be poor attorney effort/inattention to detail, ongoing filer unwillingness to pay the attorney's fees, and/or a host of other issues. But to reiterate, what our analysis does suggest is that hiring an experienced, thorough attorney, who assists the filer in reporting all required information to the Court, yields a better financial outcome for the filer from the Chapter 7 bankruptcy process compared to the situation where a filer does not do so.

While the results of this study provide some interesting findings, they should be viewed with caution. The data and methods used in this study exhibit several limitations. For example, the data are drawn from a single U.S. Bankruptcy Court District, over a specific six-year time frame (2016-2021). Data drawn from other districts or across other periods may yield different results. This is especially true if, in other districts, the proportion of filers who do not file with the help of an attorney are substantially different from those in the Eastern District of Washington State. Substantial differences in this proportion (especially much higher proportions) may reflect fundamentally different motivations for hiring, or not hiring, an attorney across these districts. The PACER data used in this study are limited because they only provide a select range of filer characteristics. Additional data, drawn from alternative sources, that provides a wider range of filer specific information may lead to improved estimates of the return from hiring an attorney. Similarly, more detailed data that matches specific attorney activities and attorney billing rates to specific bankruptcy outcomes for those filers may yield more accurate and precise estimates of the return from hiring those specific attorneys. The current study utilizes two, narrowly defined measures of the return from hiring an attorney may be more appropriate (including, but not limited to, non-monetary returns, such as a filer's attachment to certain assets, etc.) and lead to improved estimates of the return from hiring an attorney. Lastly, the analysis is limited to Chapter 7 asset case filings, which, by virtue of the limited incomes of the filers, are relatively straightforward compared to other types of filings. It may be the case that individuals filing under other chapters of the U.S. Bankruptcy Code (particularly Chapter 13 filings, which can be more complex than Chapter 7 filings) my experience a very different expected return from hiring an attorney. Future research that addresses one or more of these limitations would provide a valuable extension of our work, and a very impactful contribution to the literature.

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