

Potential Impact of Hurricanes Harvey and Irma on Bankruptcy Filings

Ed Flynn
American Bankruptcy institute

Hurricane Harvey did extensive damage to parts of Texas and Louisiana. Preliminary estimates show that it might be the most expensive hurricane ever. Additionally, Hurricane Irma is bearing down on the state of Florida with potentially catastrophic results. Millions of people will suffer economic losses as a result. Will these storms have an impact on bankruptcy filings in the affected areas?

For this analysis the five most expensive hurricane events were examined: Katrina, Sandy, Andrew and Ike. Additionally, the four hurricanes that hit Florida in 2004 (Charley, Frances, Ivan and Jeanne) were combined into one event.¹ Total filings for the three years prior to the hurricane were compared to filings in the three years after.²

Katrina (2005)

This has been the most expensive hurricane to date, and the deadliest in recent decades. Katrina occurred about seven weeks prior to the effective date of The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). Bankruptcy filings soared in every part of the country prior to the October 17 effective date, and plummeted immediately after. However, filings declined to a much greater extent in the districts most impacted by Katrina, compared to the declines in neighboring districts or nationwide.

Katrina - August 2005 Damage = \$160 Billion			
	Total Filings 3 Years Prior	Total Filings 3 Years After	Percent Change After Hurricane
Impacted Districts			
Louisiana (E)	30,673	10,720	-65.1%
Mississippi (S)	40,456	19,916	-50.8%
Other Districts			
Louisiana (M) & (W)	59,040	37,883	-35.8%
Mississippi (N)	25,538	15,782	-38.2%
National	4,921,267	2,952,688	-40.0%

¹ Damage amounts are from the National Oceanic and Atmospheric Administration and are CPI-adjusted, available at www.ncdc.noaa.gov/billions/events/US/1990-2017.

² Filing figures are from the Administrative Office of the U.S. Courts and include business and nonbusiness filings of all chapters.

Florida (2004)

During August and September 2004, four major hurricanes battered all parts of the state of Florida. Over the three following years, bankruptcy filings in the three federal judicial districts in Florida declined by well over the national average decline. (Note: Filings during the three years after these hurricanes included the pre-BAPCPA surge in filings and the large decline post-BAPCPA.)

Florida 2004 (Charley, Frances, Ivan & Jeanne)			
Total Damage = \$71 Billion			
	Total Filings 3 Years Prior	Total Filings 3 Years After	Percent Change After Hurricane
Impacted District			
Florida (N)	20,124	12,190	-39.4%
Florida (M)	160,335	106,272	-33.7%
Florida (S)	94,342	56,545	-40.1%
National	4,788,816	3,548,676	-25.9%

Sandy (2012)

Hurricane Sandy affected 24 Eastern states, with the most severe damage occurring in New Jersey and New York (Eastern and Southern Districts). This occurred as the U.S. was recovering from the Great Recession, about two years into a period during which bankruptcy filings nationwide declined by about one-half. The declines in bankruptcy filings in the districts most affected by Sandy were in line with the declines that occurred nationwide.

Sandy - October 2012 Damage = \$70 Billion			
	Total Filings 3 Years Prior	Total Filings 3 Years After	Percent Change After Hurricane
Impacted Districts			
New Jersey	113,830	81,956	-28.0%
New York (E)	61,101	38,336	-37.3%
New York (S)	37,823	25,066	-33.7%
Other Districts			
New York (N) & (W)	53,643	36,193	-32.5%
National	4,320,140	2,851,798	-34.0%

A team at Rutgers University developed a Community Hardship Index (1 = no damage, 100 = extensive damage) to assess the impact of Sandy at the county level in New Jersey.³ It shows that bankruptcy filings have fallen by a lower percent in the counties that were most impacted by Sandy.

Community Hardship Index	Number of Counties	Bankruptcy Filings 3 Years After Sandy Compared to 3 Years Before
60 or More	3	-34.0%
50 - 59	6	-31.5%
40 - 49	7	-29.5%
Under 40	5	-21.6%

Andrew (1992)

This was a category 5 hurricane that hit south of Miami. Nearly all of the damage occurred in the Southern District of Florida.

Andrew - August 1992 Damage = \$48 Billion			
	Total Filings 3 Years Prior	Total Filings 3 Years After	Percent Change After Hurricane
Impacted District			
Florida (S)	32,338	45,524	40.8%
Other Districts			
Florida (M) & (N)	81,408	85,561	5.1%
National	2,406,937	2,634,632	9.5%

In the three years after Andrew, filings increased much more in the impacted area (Southern District) than in other parts of Florida or nationwide. How much of this is a result of Andrew is uncertain, because filings were already increasing at a high rate in the district prior to the hurricane. From 1989-91, filings increased by 121% in the Southern District of Florida, by 60% in other parts of Florida and by 39% nationwide.

Ike (2008)

Hurricane Ike caused widespread damage in 13 states, with the primary damage occurring in the Western District of Louisiana and the Southern District of Texas. In the three years after Ike, filings rose substantially nationwide, but only slightly in the Western District of Louisiana and actually fell in the Southern District of Texas.

³ See njdatbank.newark.rutgers.edu/sites/default/files/files/RutgersSandyImpact-FINAL-25Oct13.pdf.

However, these figures are quite skewed by other events. Filings for the three years prior to Ike include the pre-BAPCPA surge and the subsequent decline in filings. The three years after Ike encompass the increase in filings due to the Great Recession.

Ike - September 2008 Damage = \$35 Billion			
	Total Filings 3 Years Prior	Total Filings 3 Years After	Percent Change After Hurricane
Impacted Districts			
Louisiana (W)	33,845	35,896	6.1%
Texas (S)	50,936	43,818	-14.0%
Other Districts			
Louisiana (E) & (M)	19,604	19,588	-0.1%
Texas (N), (E) & (W)	121,066	121,074	0.0%
National	3,202,399	4,460,827	39.3%

Conclusion

The historical data indicates that major hurricanes haven't had much, if any, impact on subsequent bankruptcy filing levels. Of course, the results of Harvey and Irma may be different – due to the total damage, the number of people affected and amount of uninsured property.

Bankruptcy filings are likely to rise in the next few years in most states after falling steadily from late 2010 through early 2017. It remains to be seen if the filing patterns in Florida and Texas will differ from the rest of the country in the coming years.