

TO: ORCA

FROM:

DATE: November 1, 2002

SUBJECT: Proposal to receive financial aid in conducting research regarding Why Utah is leading the nation in bankruptcy.

We propose to investigate the factors leading to the high rate of bankruptcy in Utah. To address this issue in the proposal, we define the problem, review existing literature, and propose research methods.

Definition of the Problem

Although approximately seventy percent of the Utah state population belong to the Church of Jesus Christ of Latter-Day Saints and are counseled by church authorities to avoid debt, it is ironic that Utah is leading the nation in bankruptcy.

We seek to perform an in-depth investigation of the data filed in the court system of Utah in order to better understand how employment, health, family, expenditure, and other related issues lead to bankruptcy. From this statistical data, we can establish what connections exist between bankruptcy and Utah.

Review of Literature

Ruskin Morgan, assistant professor of marketing at the University of Utah, attributes part of Utah's filings to income inequality, where spending at the upper income level sets reference points for other consumers. For example, if someone's neighbor buys a \$40,000 sport utility vehicle, then he/she feels the pressure to purchase a similar vehicle to maintain social status.

In addition, greater numbers of bankruptcies have been driven by a dramatic increase in the amount of debt people are incurring. In the past, savings accounts

constituted approximately 8-10% of the average income, but today it is virtually zero (Morgan 2001).

Also adding into the equation, are the bigger risks loan institutions are taking, by lending money at a high interest rate to those who may not actually be credit worthy (Gashler 2001).

Ned C. Hill, Dean of the Brigham Young University Marriott School of Business, also claims that the source of bankruptcy results from poor budgeting, leading to a lack of money for emergencies (medical or job loss).

Rachelle Ehlert, an attorney with Whatcott, Barrett & Hagen, thinks that layoffs and the poor economy can also explain some of the bankruptcy problems in Utah

However, Guy Black a bankruptcy lawyer with Greenwood & Black doesn't believe that layoffs are the reasons; he and other experts argue that bankruptcy is just too appealing not to file when a financial crisis arises. This attitude may lead to many propositions to reform bankruptcy laws in the future.

What is unique about Utah, though, that puts us on the top of the list for bankruptcies? Speculations have been made about members of the LDS faith paying a ten percent tithe, as well as having larger family sizes. Ned C. Hill hypothesized that in the LDS culture there is generally only one bread winner per family which leads to less income.

Proposed Research Method

Our primary method of research will be examining bankruptcy court cases filed for the state of Utah.