

Discussion of “Explaining Racial Disparities in Personal Bankruptcy Outcomes” by B. Argyle, S. Indarte, B. Iverson, C. Palmer

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Oct 5, 2023

Background on US Bankruptcy

- Households unable to repay debts can file for personal bankruptcy.
- Chapter 7: Discharge of most debts if debtor agrees to liquidate nonexempt assets.
 - Typically entails liquidation of car and home.
- Chapter 13: More complete debt discharge (ie, including civil fines).
 - In exchange for distribution of disposable income to creditors
 - Happens for 3–5 years via a repayment plan agreed upon with bankruptcy trustee.
 - Downsides: Higher attorney fees and high failure rate.
 - Main upside: Shelter assets:
 - White and Zhu (2010): A device to “save your home”
 - Morrison Pang Uettwiller (2020): Black borrowers file disproportionately file Ch 13, despite high failure rates, to discharge auto related fines and retain car access necessary for commuting.

Contribution of this paper

1. Document racial disparities in bankruptcy dismissal rates
 - Ch 7 dismissal rates disappear with controls, while Ch 13 racial disparities persist
2. Document same-race bias between bankruptcy trustees and Ch 13 bankruptcy filers
 - Black filers 10 pp more likely to have a Ch 13 case dismissed when assigned to white bankruptcy trustee
3. Novel framework for decomposing homophily results into bias when outcome test is unavailable
 - Standard approach: Becker outcome test (estimate differences in outcomes for marginal agents in different groups)
 - “Parallel Disparities Method:” 40% of overall racial dismissal rate is taste-based or inaccurate statistical racial discrimination

Main Comment: Is this a setting with unobserved outcomes

- Paper argues this is a case in which Y (i.e., outcome) is unobserved, necessarily multiple in nature, or otherwise hard to think about: so standard outcome test is unavailable
- Instead, approach assumes that decision makers make inaccurate prediction errors by race resulting in inaccurate statistical discrimination and taste based discrimination ($\beta\mu$)
- Essentially, the identifying assumption is Black trustee disparity between Black and white filers pins down the “accurate” component of the statistical bias, and the remaining is inaccurate/taste-based
- My view: this is a promising approach, but bankruptcy is actually a unique case in which the outcomes and decision points can actually be observed
 - Key outcome: creditor recoveries

Sample Case

FORM 1
INDIVIDUAL ESTATE PROPERTY RECORD AND REPORT
ASSET CASES

Case No.: 416-02-75484
Case Name: Sam Martin d/b/a Martin Cards
For Period Ending: 6/30/03

Trustee Name: Jenny Ward
Date Filed (f) or Converted (c): 11/20/02(f)
§ 341(a) Meeting Date: 12/20/02
Claims Bar Date: 3/20/03

1	2	3	4	5	6
Asset Description (Scheduled and Unscheduled (u) Property)	Petition/ Unscheduled Values	Estimated Net Value (Value Determined by Trustee, Less Liens, Exemptions, and Other Costs)	Property Formally <u>Abandoned</u> OA=§554(a) abandon.	Sale/Funds Received by the Estate	Asset Fully Administered (FA)/ Gross Value of Remaining Assets
1	Checking account	500.00	500.00	500.00	FA
2	123 Ocean View - rental prop.	100,000.00	63,000.00	90,000.00	FA
3	Accounts receivable <i>Note 1</i>	30,000.00	0.00	5,000.00	4,000.00
4	Household goods	2,000.00	0.00		FA
5	Artwork	10,000.00	12,500.00	1,000.00	14,000.00
6	1999 Chevy van <i>Notes 1,2</i>	5,000.00	6,100.00	5,538.00	FA
7	Office equipment <i>Note 1,2</i>	5,000.00	3,600.00	2,462.00	FA
8	Ocean View rent receivable	500.00	500.00	500.00	FA
9	55 Lake Dr./ ½ int. homestead	37,500.00	7,125.00	50,000.00	FA
10	1998 Ford truck	8,000.00	0.00	OA	FA
11	ABC preference action <i>Note 3</i>	Unknown	5,000.00		2,000.00
12	Add'l Ocean View rents	Unknown	N/A	1,000.00	FA
13	Personal Injury Suit (u)	Unknown	Unknown		Unknown
14	Fraudulent transfer (u)	20,000.00	20,000.00		20,000.00
15	Interest earned (u)	Unknown	N/A	489.76	Unknown
TOTALS (Excluding unknown values)			118,325.00	156,489.76	Gross Value of Remaining Assets 40,000.00

Note 1: \$10,000 National Bank lien encumbers assets 3, 6, and 7.

Note 2: Assets #6 and #7 were sold together in bulk sale.

Note 3: Settlement negotiations are pending. Current value estimated at \$2,000.

Major activities affecting case closing:

Portion of artwork sold to debtor for \$5,000 (payable \$1,000 mo., due 4/1/03 - 8/1/03);
Have sent demand letter for delinquent payments. Payment is forthcoming.
Meeting with special counsel on 8/2/03 concerning PI suit/target trial date: 1/04.

Collect remaining accounts receivable.
Settle preference action and adversary concerning fraudulent conveyance
Public auction of remaining artwork set for 8/15/03

In PACER: A Successful Ch 13 Case

Case type: bk Chapter: 13 Asset: Yes Vol: v Judge: Bess M. Parrish Creswell
Date filed: 10/17/2016 Date of last filing: 07/26/2021 Plan confirmed: 01/16/2017
Debtor discharged: 06/22/2021 Joint debtor discharged: 06/22/2021
Date terminated: 07/26/2021

Case Summary

Office: Opelika
County: MACON-AL
Fee: installments completed

Origin: 0
Previous term:

Joint: y
Original chapter: 13
Current chapter: 13

Debtor disposition: Standard Discharge
Joint debtor disposition: Standard Discharge

Nature of debt: consumer
Pending status: Awaiting Closing Case Closed
Flags: DschDebt, CLOSED

Trustee: Bankruptcy Administrator City: Montgomery Phone: Email: ba@almb.uscourts.gov
Trustee: Sabrina L. McKinney City: Montgomery Phone: 334-262-8371 Fax: 334-262-8599 Email: trustees_office@ch13mdal.com

Party 1: [REDACTED] (Debtor)
SSN / ITIN: xxx-xx-[REDACTED]

Party 2: [REDACTED] (Joint Debtor)
SSN / ITIN: xxx-xx-[REDACTED]

Atty: David S. Clark Represents party 1: Debtor

Phone:
Fax:
Email:
Phone:
Fax:
Email:

Atty: David S. Clark Represents party 2: Joint Debtor

Location of case files:

Claims Register Summary

Case Name: [REDACTED]

Case Number: [REDACTED]

Chapter: 13

Date Filed: 10/17/2016

Total Number Of Claims: 26

Total Amount Claimed*	\$60251.09
Total Amount Allowed*	

*Includes general unsecured claims

The values are reflective of the data entered. Always refer to claim documents for actual amounts.

	Claimed	Allowed
Secured	\$4275.00	
Priority		
Administrative		

In PACER: A Successful Ch 13 Case

Case type: bk Chapter: 13 Asset: Yes Vol: v Judge: Bess M. Parrish Creswell
Date filed: 10/17/2016 Date of last filing: 07/26/2021 Plan confirmed: 01/16/2017
Debtor discharged: 06/22/2021 Joint debtor discharged: 06/22/2021
Date terminated: 07/26/2021

Related Transactions

Note: Each selected transaction in this case is shown below in a box with any other transactions to which it is related.

Doc. No.	Event Name	Event Filed	Event Terminated
1	Voluntary Petition (Chapter 13)	10/17/2016	
9	Autodocket of Credit Card Receipt	10/17/2016	
2	Chapter 13 Plan	10/17/2016	
14	BNC Certificate of Service - Chapter 13 Plan	10/20/2016	
4	Certificate of Credit Counseling for Debtor	10/17/2016	
5	Certificate of Credit Counseling for Joint Debtor	10/17/2016	
6	Employee Income Records	10/17/2016	
7	Employee Income Records	10/17/2016	
8	Declaration re: Electronic Filing	10/17/2016	
9	Autodocket of Credit Card Receipt	10/17/2016	
1	Voluntary Petition (Chapter 13)	10/17/2016	
10	Auto Assign Meeting of Creditors-Ch 13	10/18/2016	
12	BNC Certificate of Service - Meeting of Creditors	10/20/2016	
18	Financial Management Course Certificate	12/13/2016	
19	Financial Management Course Certificate for Joint Debtor	12/13/2016	

In PACER: A Successful Ch 13 Case

07/26/2021	64	Order Discharging Standing Trustee, Releasing Bond Liability and Closing Case: It appearing to the Court that the trustee in this case has performed all of the duties required of her in the administration of this case; that she has made distribution by order of this Court, and has rendered a full and complete account thereof, and no adverse interest being represented; It is therefore ORDERED that the Ch 12/13 trustee be discharged and relieved of her trust, and that she and the sureties on this bond be released from further liability thereunder; It is further Ordered that this case be, and the same is hereby CLOSED. U.S. Bankruptcy Judge (Non-Image Entry) (Admin.) (Entered: 07/26/2021)
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Creditor Disbursements (Separate Ch 13 Case): Standing Trustee's Final Report and Consult

Summary of Disbursements to Creditors:			
	Claim <u>Allowed</u>	Principal <u>Paid</u>	Interest <u>Paid</u>
Secured Payments:			
Mortgage Ongoing	\$0.00	\$0.00	\$0.00
Mortgage Arrearage	\$0.00	\$0.00	\$0.00
Debt Secured by Vehicle	\$4,616.61	\$4,616.61	\$586.15
All Other Secured	\$0.00	\$0.00	\$0.00
TOTAL SECURED:	\$4,616.61	\$4,616.61	\$586.15
Priority Unsecured Payments:			
Domestic Support Arrearage	\$0.00	\$0.00	\$0.00
Domestic Support Ongoing	\$0.00	\$0.00	\$0.00
All Other Priority	\$0.00	\$0.00	\$0.00
TOTAL PRIORITY:	\$0.00	\$0.00	\$0.00
GENERAL UNSECURED PAYMENTS:	\$22,178.19	\$22,178.19	\$0.00

Disbursements:	
Expenses of Administration	<u>\$4,335.02</u>
Disbursements to Creditors	<u>\$27,380.95</u>
TOTAL DISBURSEMENTS :	<u>\$31,715.97</u>

12) The trustee certifies that, pursuant to Federal Rule of Bankruptcy Procedure 5009, the estate has been fully administered, the foregoing summary is true and complete, and all administrative matters for which the trustee is responsible have been completed. The trustee requests a final decree be entered that discharges the trustee and grants such other relief as may be just and proper.

Dated: 11/20/2013

By: /s/ Linda B. Gore



Trustee

In PACER: A Dismissed Ch 13 Case

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Case type: bk **Chapter:** 13 **Asset:** Yes **Vol:** v **Judge:** James R. Sacca
Date filed: 11/29/2021 **Date of last filing:** 06/28/2023 **Plan confirmed:** 03/08/2022
Debtor dismissed: 05/31/2023
Date terminated: 06/26/2023

Case Summary

Office: Atlanta	Filed: 11/29/2021
County: DE KALB-GA	Terminated: 06/26/2023
Fee: installments completed	Debtor discharged:
Origin: 0	Reopened:
Previous term:	Converted:
Joint: n	Debtor dismissed: 05/31/2023
Original chapter: 13	Confirmation hearing:
Current chapter: 13	

Debtor disposition: Dismissed for failure to make plan payments

Nature of debt: consumer
Flags: DISMISS-FUND, CLOSED

Trustee: Nancy J. Whaley **City:** Atlanta **Phone:** 678-992-1201 **Email:** ecf@njwtrustee.com

Party 1: ██████████ (Debtor)
SSN / ITIN: xxx-xx-██████████

Atty: Danielle J. Eliot **Represents party 1:** Debtor

Phone: ██████████
Fax: ██████████
Email: ██████████

Location of case files:
Volume: CS1
The case file may not be available.

In PACER: A Dismissed Ch 13 Case

Case type: bk Chapter: 13 Asset: Yes Vol: v Judge: Bess M. Parrish Creswell
Date filed: 10/17/2016 Date of last filing: 07/26/2021 Plan confirmed: 01/16/2017
Debtor discharged: 06/22/2021 Joint debtor discharged: 06/22/2021
Date terminated: 07/26/2021

Related Transactions

Note: Each selected transaction in this case is shown below in a box with any other transactions to which it is related.

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In PACER: A Dismissed Ch 13 Case

EXHIBIT "A"

Case No: [REDACTED]
[REDACTED]

May 31, 2023

RECEIPT HISTORY

<u>DATE</u>	<u>TYPE</u>	<u>SOURCE</u>	<u>AMOUNT</u>
February 01, 2023	TFSPP		\$400.00
November 29, 2022	EMPH	412811	\$92.35
November 16, 2022	EMPH	412292	\$200.00
November 03, 2022	EMPH	411709	\$55.05
October 18, 2022	EMPH	411193	\$200.00
October 04, 2022	EMPH	410604	\$200.00
September 19, 2022	EMPH	410078	\$200.00
September 06, 2022	EMPH	409461	\$200.00
August 22, 2022	EMPH	408941	\$200.00
June 06, 2022	ACHEMP	0526W-WAL-MA	\$178.62
May 23, 2022	ACHEMP	0512W-WAL-MA	\$178.62
May 09, 2022	ACHEMP	0428W-WAL-MA	\$178.62
April 25, 2022	ACHEMP	0414W-WAL-MA	\$178.62
April 11, 2022	ACHEMP	0331W-WAL-MA	\$178.62
March 28, 2022	ACHEMP	0317W-WAL-MA	\$178.62
March 14, 2022	ACHEMP	0303W-WAL-MA	\$178.62
February 28, 2022	ACHEMP	0217W-WAL-MA	\$178.62
February 23, 2022	TFSMG		\$385.00
February 14, 2022	ACHEMP	0203W-WAL-MA	\$178.62
January 31, 2022	EMPH	118421602	\$33.24
January 06, 2022	EMPH	118272777	\$178.62
			<u>\$3,951.84</u>

Creditor Disbursements (Separate Ch 13 Case): Standing Trustee's Final Report and Consult

In re: [REDACTED]

Case No.: [REDACTED]

Debtor(s)

CHAPTER 13 STANDING TRUSTEE'S FINAL REPORT AND ACCOUNT

Scheduled Creditors:

<u>Creditor Name</u>	<u>Class</u>	<u>Claim Scheduled</u>	<u>Claim Asserted</u>	<u>Claim Allowed</u>	<u>Principal Paid</u>	<u>Interest Paid</u>
WORLD ACCEPTANCE CORPORATION	Unsecured	NA	718.00	718.00	.00	.00

Summary of Disbursements to Creditors:

Secured Payments:

	<u>Claim Allowed</u>	<u>Principal Paid</u>	<u>Interest Paid</u>
Mortgage Ongoing:	.00	.00	.00
Mortgage Arrearage:	.00	.00	.00
Debt Secured by Vehicle:	8,763.10	2,570.20	1,059.22
All Other Secured:	.00	.00	.00

TOTAL SECURED: 8,763.10 2,570.20 1,059.22

Priority Unsecured Payments:

	<u>Claim Allowed</u>	<u>Principal Paid</u>	<u>Interest Paid</u>
Domestic Support Arrearage:	.00	.00	.00
Domestic Support Ongoing:	.00	.00	.00
All Other Priority:	.00	.00	.00

TOTAL PRIORITY: .00 .00 .00

GENERAL UNSECURED PAYMENTS: 4,797.90 39.00 .00

Disbursements:

Expenses of Administration:	\$1,972.37
Disbursements to Creditors:	\$3,668.42

TOTAL DISBURSEMENTS: \$5,640.79

What are the Sources of Bias in this Setting?

- Decisions made by Trustee
 - Set the initial size of the repayment plan
 - Most interesting result in paper: Black filers assigned to white trustees have \$120 higher income-expense gap
 - How to deal with failure to repay
 - Deal with hardship conditions
- Decisions made by Debtor:
 - Possible threat to identification: to the extent that race concordance enables trust or motivation: borrowers may be *more likely to repay* while on Ch 13 plan with same-race trustee
- Attorney and Judges make decisions as well; and may have different attitudes towards same-race debtor-trustee pairs

Concrete Suggestions on Using Full Docket Data

- If the objective is to cleanly *identify racial bias* by trustees, creditor recoveries enable typical “gold standard” identification approaches
 - ie, assume trustee objective is to maximize creditor recovery; observe creditor recoveries; and leverage quasi-random assignment to trustees to run traditional Becker-style outcome tests (ie, (Arnold, Dobbie and Yang, 2018; Dobbie Lieberman Paravisini Pathania 2018))

Concrete Suggestions on Using Full Docket Data

- If the objective is to measure the *mechanisms* by which racial bias is expressed in this setting: can:
 - Measure all the precise ways by which otherwise comparable Black and white debtors are treated by trustees (ie, differing initial payment plans; how long after failure to pay is a dismissal granted etc)
 - Quantify the impact of this differing behavior on final dismissal rates
 - ie, how much of the same-race bias is accounted for by higher income-expense gap when Black filers are assigned to white trustees?
- And rule out the most natural competing stories
 - ie, are creditor recovery rates or repayment rates just higher with same-race trustees

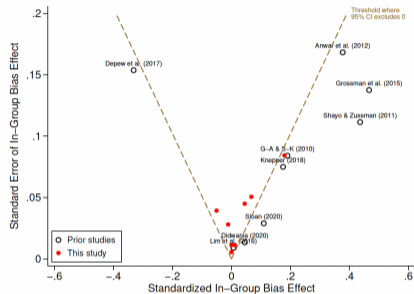
Concrete Suggestions on Using Full Docket Data

- If objective is establishing a new *method* around measuring homophily bias: credibility in applying to settings without outcomes is a lot higher if you show that you get the same picture when you incorporate available outcome information
 - If you really think bankruptcy is a unique domain; can always try the method in an existing known domain (ie criminal judges, loan officers etc.) for validation

- My intuition: a rough test of the parallel disparities assumption would be to see how estimates change with and without controls
 - In spirit of Oster (2019)
- I doubt it would make a huge difference, but would be nice to have a robustness which uses name alone (not location) to impute race
- Would be nice to see the $\beta\mu$ distribution by each trustee
- The null result for Ch 7 cases is interesting! While dismissals are rare, the raw racial disparity is large, so interesting no role for trustee effects (see Ash et al. 2022 on publication bias here)
- Assumption about non-White decision makers weakly biased against Black filers?

Publication Bias in Own-Bias Literature

B. Standardized Errors vs. Effect Sizes



Notes: This figure shows point estimates of in-group bias from other studies in the relevant literature. From the top, the coefficients of in-group bias (Panel A) correspond to Grossman et al. (2016), Shayo and Zussman (2011), Anwar et al. (2012), Depew et al. (2017), Gazal-Ayal and Sulitzeanu-Kenan (2010), Knepper (2018), Sloane (2019), Didwania (2018), Lim et al. (2016), and the main estimates from the present study respectively. Shayo and Zussman (2017) is excluded because the underlying data and variation overlap substantially with Shayo and Zussman (2011). Panel B plots reported bias effects (Y axis) against effect standard errors. All effect sizes are standardized (dividing outcome variables by their standard deviation) to allow comparison across studies. From each table in this paper, we chose the specification with court-month and judge fixed effects. For contexts magnifying bias, we show the average effect for the group facing magnified bias. For example, for the Ramadan analysis, we show the sum of the bias coefficient and the bias * Ramadan coefficient, which describes religious in-group bias in the month of Ramadan. The only statistically significant estimate at the 95% level is the inverse group size weighted interaction between same name and rare last name (Table 6 Column 6); note the unweighted regression (which weights each case equally) found a zero estimate.

Race Bias in NBA Wolfers Price (2010)

RACIAL DISCRIMINATION AMONG NBA REFEREES

1867

TABLE III
DIFFERENCES IN DIFFERENCES: FOUL RATE (=48 × FOULS/MINUTES PLAYED)

	Black players	White players	Difference: black–white foul rate	Slope: $\Delta(\text{black–white})/\Delta\% \text{white refs}$
0% white refs (<i>n</i> = 7,359)	4.418 (0.043)	5.245 (0.094)	–0.827 (0.106)	
33% white ref (<i>n</i> = 54,537)	4.317 (0.016)	4.992 (0.035)	–0.675 (0.038)	0.455 (0.331)
67% white refs (<i>n</i> = 126,317)	4.335 (0.010)	4.989 (0.023)	–0.654 (0.025)	0.064 (0.137)
100% white refs (<i>n</i> = 78,771)	4.322 (0.013)	4.897 (0.029)	–0.574 (0.032)	0.240** (0.121)
Average slope: $\Delta\text{fouls}/\Delta\% \text{white refs}$	–0.022 (0.027)	–0.204*** (0.066)		Diff-in-diff 0.182*** (0.066) (<i>p</i> = .006)

Notes. Sample = 266,984 player–game observations, weighted by minutes played. Standard errors in parentheses.

***, **, and * Statistically significant at 1%, 5%, and 10%.

Conclusion

- Ambitious paper which makes progress both on measuring racial bias in bankruptcy, as well as providing general tools for the identification of bias in other contexts
- I learned a lot from reading it and thought this was a great contribution
- Would love to see the authors use more granular bankruptcy data to really isolate what's going on here to advance both objectives of the paper

Thanks!