Personal Finance

Surviving bankruptcy – there is life after financial ruin

Losing a business and a home is distressing and still carries social stigma, but it can offer a way to move on

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In 2019, business was booming for Kristen Paras. Her fabric design enterprise in Ohio was making up to $140,000 a year; she bought a bigger home with a farm, and decided to have a second child.

But in 2022, as Covid ebbed and amateur craft makers returned to work, things started to slow.

"Suddenly, the floor dropped out from underneath me," she says. Revenues dwindled to just $10,000 a year. Her partner's salary alone could not sustain them and lawsuits from creditors began arriving. "Utility bills were out of control. We were using credit cards to stay afloat." By the end of summer 2023, Kristen had officially declared bankruptcy.

The Covid pandemic prompted an increase in bankruptcies worldwide and personal insolvencies are now rising again amid a fresh financial squeeze.

In the US, Chapter 7 bankruptcy filings were up 16 per cent in the year to the end of March compared with the previous year. In England and Wales, more than 10,000 individuals entered insolvency in May — the latest figures — up by 5 per cent on the same month last year. Of that total, 648 were bankruptcies. The rest were either debt relief orders, a simpler and less expensive way of tackling debt introduced in 2009, or individual voluntary arrangements, a measure introduced in the 1980s to allow people to retain more assets.

Over the past year and a half, there have been a number of high-profile bankruptcies in the UK: among them model Katie Price and jockey Frankie Dettori. Celebrities tend to dominate the headlines because many “are living wealthy lifestyles but aren’t necessarily” rich, according to Caroline Sumner, head of the R3 Association of Business Recovery Professionals. But the most likely to seek advice on bankruptcy are ordinary self employed people and entrepreneurs — with British men more likely to declare bankruptcy than women.

The main causes are simple: taking on too many loans, loss of income or employment, insurmountable tax debts, or unexpected life events, such as lawsuits, illness or divorce. Each can lead to the critical point of having insufficient funds to meet obligations.

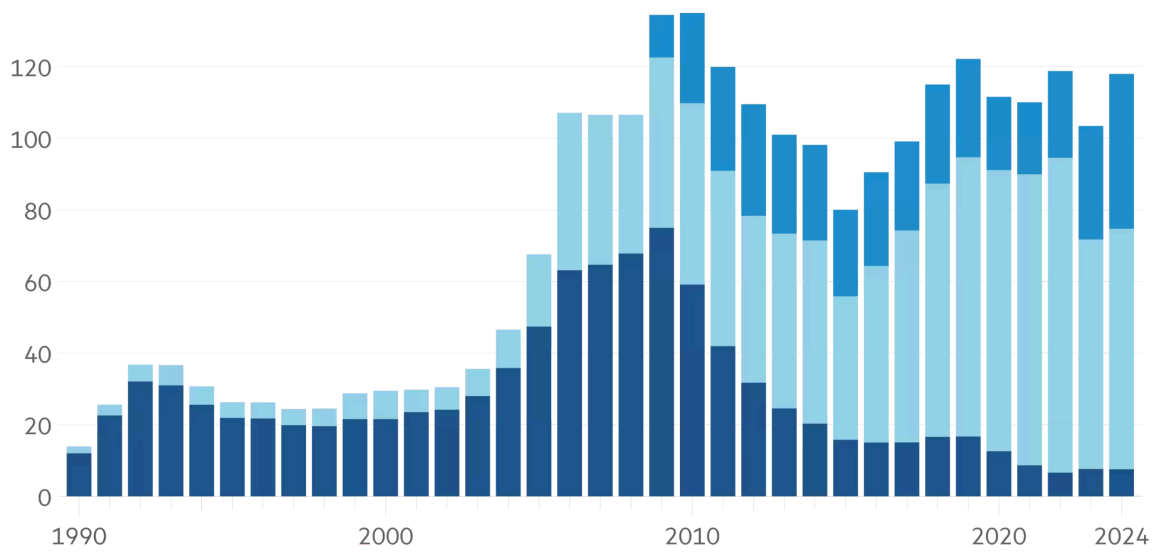
The social stigma surrounding this kind of financial failure is very real. Bankruptcy quietly haunts conversations about risk, wealth and ambition, while the inner workings of the process — and the industry that facilitates it — are rarely discussed.

FT Money spoke to a dozen people who had personally experienced bankruptcy, or who had built a career working in it.

Individual insolvencies peaked in 2010

England and Wales total individual insolvencies (000s)

Bankruptcies   Individual voluntary arrangements   Debt relief orders



Source: The Insolvency Service

There's a simple mandate to any bankruptcy process: recover as much money as possible to pay creditors. This is a task that befalls either a state-appointed official receiver or one of the UK's 1,750 licensed insolvency practitioners, who act as trustees in proceedings.

Among them is Louise Brittain. A straight-talking insolvency veteran, Brittain has had a front-row seat to some of the UK's biggest personal bankruptcy cases over the past three decades. Now a partner at specialist accounting firm Azets, she is armed with the power to freeze accounts and administer a debtor's estate once declared bankrupt — whether voluntarily or after a creditor's petition.

"For high net-worth individuals, the assets are more varied and larger [and often international], meaning these are generally more complex cases," she says. "Everyone wants those cases." Practitioners will agree a fee with the creditors, or get a cut of the recovered debt.

Brittain generally starts by trying to seize "non-essential" assets. These generally comprise precious goods, which in the case of former tennis star Boris Becker, who was declared bankrupt in 2017, included his Wimbledon trophies.

Adam Stephens, a restructuring specialist at the accountancy firm S&W, who oversaw Becker's bankruptcy, says that trustees can even seize luxury accessories on the spot. "If they have a fancy watch in a meeting — I've done this — I will take that fancy watch off them," he says. "You don't do that with any relish, or unless it's really necessary. But sometimes it's important to be seen to do that."

The bankrupt must legally disclose all these assets and sources of income. But "often, it's hard work — it can be cat and mouse", Brittain says. In one case, when she ordered an artist to give up a valuable musical instrument, they tried to hand over their training guitar, instead of the concert one. Another tried to claim that an expensive piece of art was just a copy.

There are, however, exceptions to what creditors can seize — everyday clothing and bedsheets remain protected, for instance. A modest car will be left alone. Most importantly, trustees typically give debtors a year before seizing the family home. This grace period can sometimes allow third parties to purchase the debtor's equity share from them to save it.

But often, there is no choice. Susan, who declined to give her real name, was forced to sell her seven-bedroom home as a distressed asset after her family's retail business collapsed in 2009. The financial crisis wiped out its biggest client — along with the money they owed her. In a panic, she took on high-interest debt from a loan shark, backed by a personal guarantee. When they demanded repayment, she had to declare bankruptcy.

"I didn't want to continue the [debt] cycle," she says. She and her family had to "downsize enormously", eventually moving into rented housing. They introduced a tight budget; life changed for a period.

"We had to rebuild," she says. She counts herself fortunate that her children had finished studying at their fee-paying schools, and that she was surrounded by "good people". More than 15 years on, Susan is still not eligible for a mortgage. She is also unable to get her own credit card.

It is easy to villainise trustees, but Sumner argues there's a moral imperative to their work.

"Behind every bankrupt or failed business are creditors who lost money through no fault of their own," she says. "The whole purpose is not to destroy people's lives. The individuals themselves have done that."

Matthew Carter, a restructuring partner at Forvis Mazars Group who is also an accredited trustee, says they do their best in difficult situations. "We try and operate as ethically as we possibly can . . . There has to be a consequence for overborrowing."

Bankruptcy law in England and Wales has come a long way since the 1500s, when it was introduced to punish unreliable traders. Running into unpaid debts was a crime punishable by jail in the UK until 1869. It still is in some parts of the world.

Today, individual bankruptcy is a legal process that is intended to offer relief to those in debt. It is essentially a court-supervised financial reinvention or “restart”, reserved as a last resort if other less severe legal avenues like individual voluntary arrangements are not applicable. UK bankruptcies typically last one year, but can come with harsh restrictions on borrowing, spending, or asset forfeiture in that period. After that though, debts can be discharged.

Bankruptcy may be more lenient today, but the criminal roots of bankruptcy still linger in the public perception, creating an added emotional burden.

“There’s a sort of tremendous stigma,” says Mark Watson-Gandy, a British insolvency lawyer who has led various high-profile bankruptcy cases — including helping annul them. “Certainly in the eyes of the English public, if you’ve gone bankrupt, you have horns . . . You’re somebody who not so many years ago could have been hoiked off to prison.”

Public figures and ordinary citizens in the UK alike have their names publicly broadcast in The Gazette, the government’s official journal of record. The scrutiny of public figures is, unsurprisingly, less than desirable.

The shame can be life-changing. Several people mentioned suicidal thoughts at their lowest during the bankruptcy process, partly due to the fear of public perception and the pressure it put on their relationships.

The stigma is just as strong in other countries. Zehra Dogan also lost her home in The Netherlands during her bankruptcy. She had signed a personal guarantee for her husband's company, meaning her assets were equally exposed when his IT business reneged on $1mn in debt following 9/11. Suddenly, the couple and their young child went from living as millionaires to moving into Dutch state-funded housing, which she says had mice, and subsisting on €50 a week. "Still now, it's really tough to talk about . . . It was hell."

Twenty years on it's the judgment she recalls more than the financial loss itself. "What was shocking was how people looked [down] at us," she says.

Zehra Dogan: "People before bankruptcy see you as a good, successful entrepreneur. But after that, it was like 'oh, you're like a criminal'." © Bram Belloni/FT

"In Holland, we have a sort of Calvinistic mindset. People before bankruptcy see you as a good, successful entrepreneur. But after that, it was like 'oh, you're like a criminal'." Even her friends, she says, thought she must be "stupid".

She is now the director of the Dutch Dream Foundation, which supports entrepreneurs, while her husband, Atilla Aytekin, went on to start the publicly listed advertising company, Azerion.

US-based Allie Duff also found bankruptcy immensely “embarrassing” after accruing $100,000 in personal loans for her fashion company. “They had really high interest rates. I had no idea what I was doing,” she says. Duff filed for bankruptcy days after her 30th birthday in 2023. “I was so ashamed I’d got to that point. I didn’t want anyone to know.” The bankruptcy trustees put her on a strict repayment regime, forfeiting any savings during the period, and she moved back in with her parents.

Bankruptcy can feel “very similar to a bereavement”, says Julian Donnelly, who went through the process himself before retraining in insolvency and debt counselling. He now mostly works with owners of small businesses who are facing personal financial issues. “There’s a massive human cost that can’t be quantified,” he says.

Harrowing as bankruptcy can be, there are also glimpses of the “rebirth” it is intended as. Notably, entrepreneurs who go bankrupt often go on to start new businesses.

Meanwhile, Watson-Gandy says the UK’s regime is so “friendly” (the process typically takes 12 months) relative to the rest of Europe that, pre-Brexit, there were cases of “bankruptcy tourism” — whereby overseas residents moved to London to declare insolvency. The number of bankruptcies in England and Wales peaked in 2009 at more than 70,000 per year, prompting a series of reforms that introduced alternative insolvency avenues. In 2024, there were 7,500 bankruptcies recorded.

Bankruptcy can be particularly attractive for those with fewer assets to sacrifice. This was the case for mother-of-three Sam Earnshaw from Huddersfield, who used bankruptcy to clear £30,000 of debt after a divorce. She had no other major assets — the courts even let her keep her car. “There was nothing really for me to lose,” she recalls, although she adds she didn’t foresee the long-term stain on her credit score.

Kristen Paras: “We were able to get comfortable again knowing our phone wasn’t going to ring off the hook” © Roger Mastroianni/FT

For Paras, declaring bankruptcy brought a comforting quiet. “We filed and everything disappeared,” she recalls. “We were able to get comfortable again, knowing our phone wasn’t going to ring off the hook from 8am until 7pm.” Paras has since set up her own bankruptcy advisory service, after building a following on TikTok posting about her experience.

Duff has also found relief. “I would never wish bankruptcy on anyone . . . But I didn’t have a house, I didn’t have children. [So] I was fortunate in a way . . . I feel physically better. I’m out of the trap of suffocation from all the debt I was in.”

At its core, bankruptcy can offer a way out of an unsustainable situation. But it is still a last resort. That means detecting early signs of financial stress — and acting quickly — is strongly advised, says Vee Bharkhada, who left the City to start her own bankruptcy-support firm, NaVigate Business Recovery.

Her mission — as she describes it — is to “find the [legal] loophole” for high-net-worth clients seeking to prevent bankruptcy. Or, if there is no choice, she works to plan a bankruptcy that’s as pain-free as possible. Bharkhada even acts as a forceful advocate to take on aggressive trustees.

The consensus among experts is that finding a deal with creditors — and a structured compromise — is always preferable.

For Susan, time has proven a healer from the distress of bankruptcy, losing her business and her home. It can offer a restart — painful as it may be, she says. “It hurts, but it also gives you perspective. It’s an opportunity. It’s not a failure.”

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