Chapter 13 Bankruptcy

What is bankruptcy? Bankruptcy is a legal proceeding where a person who can't keep up with his or her bills can get a "fresh start". Filing bankruptcy immediately stops all of your creditors from seeking to collect debts from you until your debts are sorted out (called the "automatic stay").

What is a Chapter 13 bankruptcy? Unlike a Chapter 7, where most debts are canceled, a Chapter 13 bankruptcy requires the debtor to repay some or all of the debt according to a repayment plan. The repayment process can last 3-5 years. To qualify, the debtor must have a regular source of income in order to make repayments. Income includes wages, as well as retirement, social security, and disability benefits. In a Chapter 13, a bankruptcy trustee is appointed to investigate your finances, make sure your plan is fair, address your creditors' claims, and pay down your debts according to the plan. Your payments go to the trustee, who withholds 10% as a fee and sends the rest to your creditors. At the end of a Chapter 13 bankruptcy, the balance of unsecured debts (such as credit cards) will be discharged.

Does a Chapter 13 require a "means test"? No. The means test is an eligibility screening tool for people who want to file for Chapter 7. The test is not *required* for Chapter 13, but many people who do not pass the Chapter 7 means test file for Chapter 13 instead.

How will a Chapter 13 affect my credit? A completed Chapter 13 bankruptcy will get removed faster from your credit report than a Chapter 7. A Chapter 7 appears on your credit report for about 10 years, while a Chapter 13 will appear on your credit report for 7 years from the date the case was filed. For example, if you complete a 5-year Chapter 13 plan, it would stay on your credit report for only two more years from the date of discharge. A negative account stays on your credit report for seven and a half years. Check your credit report for free by going to www.annualcreditreport.com.

What can a Chapter 13 do? A Chapter 13 bankruptcy CAN:

- Allow a debtor who doesn't qualify for a Chapter 7 some time to reorganize their finances by reducing their monthly payments to creditors.
- Discharge what's left of unsecured debt after the Chapter 13 payment plan is over.
- Prevent debt collectors from pursuing outstanding debts that are listed in the bankruptcy.
- Stop foreclosure of your home and allow you to catch up on missed payments.
- Stop repossession of a car or other property.
- Stop debt collection harassment.

What can't be done through Chapter 13? A Chapter 13 bankruptcy CANNOT:

- Discharge past-due child support, property taxes, IRS debt, and most student loans.
- Protect you from "hot check" or other criminal charges, or waive criminal fines, fees, penalties and restitution.
- Discharge debts that arise after the bankruptcy has been filed.
- Eliminate creditor's rights to secured property like car loans and home mortgages. After bankruptcy, your home can still be foreclosed and your car repossessed, if you don't make payments.

Are there alternatives to bankruptcy? Yes. Doing nothing is an option if you are "judgment proof." If your property and income are exempt from creditor's claims by law, then you have nothing the creditors can take from you. With the exception of past due child support, you can't be put in jail for failing to pay a debt. If you are *not* judgment proof, you can negotiate a payment agreement with your creditors before filing for bankruptcy. The Federal Trade Commission has tips on credit counseling at www.consumer.ftc.gov.

Notes

TASK	DUE DATE	DONE