

## **YOUR 5-MINUTE GUIDE TO CHAPTER 7 BANKRUPTCY**

### Tips for Limiting the Damage Before, During and After Filing Bankruptcy

Overwhelmed by debt? Bankruptcy is a means of last resort for rebuilding your financial well-being. Before you make the decision to file for bankruptcy, consider the following:

Can you accept the immediate consequences of bankruptcy - lowered credit scores, higher interest rates on new loans and credit cards, higher insurance premiums, difficulty renting a place to live? A Bankruptcy filing remains on your credit reports for seven to ten years.

Can you avoid bankruptcy by cutting expenses, getting a second job, negotiating with creditors to reduce your interest or payments or setting up a debt-management plan with an agency affiliated with the National Foundation for Credit Counseling?

Do nothing about your debt is an option only if you are happy being a pauper. If you have assets, your creditors can sue you and take them. Judgments against you last for 10 years and can be renewed indefinitely.

(See "What If I Just Ignore My Debts?")

Remember, bankruptcy is not a badge of dishonor. Most people who file for bankruptcy get there because of divorce, job loss or medical bills, not because of flagrant overspending. Most people who file have no alternative: Fewer than 5% of those who participated in the credit-counseling session (required since 2005) before they can file for bankruptcy had the resources to pay off their debts.

Bankruptcy may be your best option if it will take you more than five years to pay off your unsecured debt, such as credit cards and medical bills.

However, bankruptcy will not relieve you of secured debt (where the creditor holds a lien) like a mortgage or car loans. It also will not end your obligation for most student loans, child support, alimony or recent taxes.

### 6 Tips for a Smoother Bankruptcy Filing

If you decide that bankruptcy is necessary for your emotional and financial well-being, take these steps:

1. Hire a reputable attorney. The 2005 Bankruptcy Law increased the amount and complexity of paperwork, including a “means test”, which is needed to file. **Beware of bankruptcy mills that provide poor service for the same price.**

2. Get credit counseling from an approved agency within 180 days before you file.

3. Gather documents. When you meet with the lawyer, you need pay stubs, deeds, vehicle titles, tax returns and letters from collection agencies, among other paperwork. Your list of creditors must be complete with names, addresses and account numbers.

4. Do not run up your credit cards. Bankruptcy courts consider that fraud, and you could end up having to pay what you owe on the cards.

5. Do not deposit your money with the banks where you owe money. Banks typically have the right to seize other funds on deposit if you owe them money.

6. Use the website of the American Bankruptcy Institute ([abiworld.org](http://abiworld.org)) and the National Association of Consumer Bankruptcy Attorneys ([nacba.com](http://nacba.com)) as resources.

## Chapter 7 v. Chapter 13 Bankruptcy

Chapter 7 requires the sale of nonexempt assets to reduce unsecured debt. The remainder of your unsecured debt will be excused. What is considered exempt depends on state law. You are allowed to keep your retirement accounts and most people retain possession of a car and their home if they keep making payments on them.

If your income exceeds the median for your family size in your state and the means test says that your income is sufficient to make payments on your debt, you will be directed to file Chapter 13 instead.

Chapter 13 allows you to keep your property and agree to a five-year (occasionally shorter) repayment plan for some or all of your debt. If you follow the plan, the remainder of your unsecured debt will be eliminated. Chapter 13 is generally the better option if you have fallen behind on house payments, because the plan allows you to catch up the payments over time.

In both Chapter 7 and Chapter 13, after you file bankruptcy, an “automatic stay” stops all collection attempts. The stay is temporary for secured debt, so you need to make payments or face repossession or foreclosure. You will attend a creditors meeting (creditors rarely attend), where a trustee will finalize your case.

Also, you will also be required to attend a financial management course before you receive a discharge.

### Take These Steps As Soon As Possible After You File

1. Order your credit reports from the three credit bureaus. Make sure the reports say your debts have been “discharged in bankruptcy”.
2. If you have student loans, try to pay more than the minimum required each month.
3. Do not co-sign for a loan. Ever.
4. If you intend to keep your car, sign a reaffirmation agreement with your lender.
5. Manage your finances wisely. You can only file under Chapter 7 every eight years. Multiple bankruptcies are possible but are disastrous to your credit.

Adopted from an article on MSN Money