

A decision to file for bankruptcy should be made only after determining that bankruptcy is the best way to deal with your financial problems. This brochure cannot explain every aspect of the bankruptcy process. If you still have questions after reading it, you should speak with an attorney familiar with bankruptcy or a paralegal working for an attorney.<sup>1</sup>

### **What is Bankruptcy?**

Bankruptcy is a legal proceeding in which people who cannot pay their bills can get a fresh financial start. The right to file for bankruptcy is provided by federal law, and all bankruptcy cases are handled in federal court. Filing bankruptcy immediately stops all of your creditors from seeking to collect debts from you, at least until your debts are sorted out according to the law.

### **What Can Bankruptcy Do for Me?**

Bankruptcy may make it possible for you to:

- \* Eliminate the legal obligation to pay most or all of your debts. This is called a "discharge" of debts. It is designed to give you a fresh financial start.
- \* Stop foreclosure on your house or mobile home and allow you an opportunity to catch up on missed payments. (Bankruptcy does not, however, automatically eliminate mortgages and other liens on your property without payment.)
- \* Prevent repossession of a car or other property, or force the creditor to return property even after it has been repossessed.
- \* Stop wage garnishment, debt collection harassment, and similar creditor actions to collect a debt.
- \* Restore or prevent termination of utility service.
- \* Allow you to challenge the claims of creditors who have

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<sup>1</sup>This information was adapted by the National Consumer Law Center from a pamphlet prepared by Legal Services, Inc., under a grant from the Pennsylvania Law Coordination Center, and from National Consumer Law Center, Surviving Debt (1992). Those seeking more detailed information or technical assistance should consult National Consumer Law Center, Consumer Bankruptcy Law and Practice (4th ed. 1992), or National Consumer Law Center, Surviving Debt.

committed fraud or who are otherwise trying to collect more than you really owe.

### **What Bankruptcy Cannot Do**

Bankruptcy, however, cannot cure every financial problem. Nor is it the right step for every individual. In bankruptcy, it is usually **not** possible to:

- \* Eliminate certain rights of "secured" creditors. A "secured" creditor has taken a mortgage or other lien on property as collateral for the loan. Common examples are car loans and home mortgages. You **can** force secured creditors to take payments over time in the bankruptcy process and bankruptcy **can** eliminate your obligation to pay any additional money if your property is taken. Nevertheless, you generally cannot keep the collateral unless you continue to pay the debt.

- \* Discharge types of debts singled out by the bankruptcy law for special treatment, such as child support, alimony, some student loans, court restitution orders, criminal fines, and some taxes.

- \* Protect cosigners on your debts. When a relative or friend has co-signed a loan, and the consumer discharges the loan in bankruptcy, the cosigner may still have to repay all or part of the loan.

- \* Discharge debts that arise after bankruptcy has been filed.

### **What Different Types of Bankruptcy Cases Should I Consider?**

There are four types of bankruptcy cases provided under the law:

- \* **Chapter 7** is known as "straight" bankruptcy or "liquidation." It requires a debtor to give up property which exceeds certain limits called "exemptions", so the property can be sold to pay creditors.

- \* **Chapter 11**, known as "reorganization", is used by businesses and a few individual debtors whose debts are very large.

- \* **Chapter 12** is reserved for family farmers.

- \* **Chapter 13** is called "debt adjustment". It requires a debtor to file a plan to pay debts (or parts of debts) from current

income.

\* Most people filing bankruptcy will want to file under either Chapter 7 or Chapter 13. Either type of case may be filed individually or by a married couple filing jointly.

### **Chapter 7 (Straight Bankruptcy)**

In a bankruptcy case under Chapter 7, you file a petition asking the court to discharge your debts. The basic idea in a Chapter 7 bankruptcy is to wipe out (discharge) your debts in exchange for your giving up property, except for "exempt" property which the law allows you to keep. In most cases, all of your property will be exempt. But property which is not exempt is sold, with the money distributed to creditors.

If you want to keep property like a home or a car and are behind on the payments on a mortgage or car loan, a Chapter 7 case probably will not be the right choice for you. That is because Chapter 7 bankruptcy does not eliminate the right of mortgage holders or car loan creditors to take your property to cover your debt.

### **Chapter 13 (Reorganization)**

In a Chapter 13 case you file a "plan" showing how you will pay off some of your past-due and current debts over three to five years. The most important thing about a Chapter 13 case is that it will allow you to keep valuable property -- especially your home and car -- which might otherwise be lost, if you can make the payments which the bankruptcy law requires to be made to your creditors. In most cases, these payments will be at least as much as your regular monthly payment to get caught up on the amount you have fallen behind.

You should consider filing a Chapter 13 plan if you:

(1) own your home and are in danger of losing it because of money problems;

(2) are behind on debt payments, but can catch up if given some time;

(3) have valuable property which is not exempt, but you can afford to pay creditors from your income over time.

You will need to have enough income in Chapter 13 to pay for your necessities and to keep up with the required payments as they

come due.

### **What Does It Cost to File for Bankruptcy?**

It now costs \$150 to file for bankruptcy, whether for one person or a married couple. The couple may allow you to pay this filing fee in installments if you cannot pay all at once. If you hire an attorney you will also have to pay the attorney's fees you agree to.

### **What Property Can I Keep?**

**Note to the Attorney.** This answer is accurate for states that permit the federal exemptions. For states which have opted out of federal exemptions, the answer must be adapted to indicate that the debtor's exemptions are those specified by state law.

In a Chapter 7 case, you can keep all property which the law says is "exempt" from the claims of creditors. You can choose between your exemptions under your state law or under federal law. In many cases, the federal exemptions are better:

Federal exemptions include:

- \* \$7,500 in equity in your home;
- \* \$1,200 in equity in your case;
- \* \$200 per item in any household goods up to a total of \$4,000;
- \* \$750 in things you need for your job (tools, books, etc.);
- \* \$400 in any property, plus part of the unused exemption in your home;
- \* Your right to receive certain benefits such as social security, unemployment compensation, veteran's benefits; public assistance, and pensions - regardless of the amount.

**The amounts of the exemptions are doubled when a married couple files together.**

In determining whether property is exempt, you must keep a few things in mind. The values of property is not the amount you paid for it, but what it is worth now. Especially for furniture and cars, this may be a lot less than what you paid or what it would cost to buy a replacement.

You also only need to look at your equity in property. This means that you count your exemptions against the full value minus any money that you owe on mortgages or liens. For example, if you own a \$50,000 house with a \$40,000 mortgage, you count your exemptions against the \$10,000 which is your equity if you sell it.

While your exemptions allows you to keep property even in a Chapter 7 case, your exemptions do not make any difference to the right of a mortgage holder or car loan creditor to take the property to cover the debt if you are behind. In a Chapter 13 case, you can keep all of your property if your plan meets the requirements of the bankruptcy law. In most cases you will have to pay the mortgages or liens as you would if you didn't file bankruptcy.

### **What Will Happen to My Home and Car If I File Bankruptcy?**

In most cases you will not lose your home or car during your bankruptcy case as long as your equity in the property is fully exempt. Even if your property is not fully exempt, you will be able to keep it, if you pay its non-exempt value to creditors in Chapter 13.

However, some of your creditors may have a "security interest" in your home, automobile or other personal property. This means that you gave that creditor a mortgage on the home or put your other property up as collateral for the debt. Bankruptcy does not make these security interests go away. If you don't make your payments on that debt, the creditor may be able to take and sell the home or the property, during or after the bankruptcy case.

There are several ways that you can keep collateral or mortgaged property after you file bankruptcy. You can agree to keep making your payments on the debt until it is paid in full. Of you can pay the creditor the amount that the property you want to keep is worth. In some cases involving fraud or other improper conduct by the creditor, you may be able to challenge the debt. If you put up your household goods as collateral for a loan (other than a loan to buy them), you can usually keep your property without making any more payments on that debt.

### **Can I Own Anything After Bankruptcy?**

Yes! Many people believe they cannot own anything for a period of time after filing for bankruptcy. This is not true. You can keep your exempt property and anything you obtain after the bankruptcy is filed. However, if you receive an inheritance, a

property settlement, or life insurance benefits within 180 days after filing for bankruptcy, that money or property may have to be paid to your creditors if the property or money is not exempt.

### **Will Bankruptcy Wipe Out All My Debts?**

Yes, with some exceptions. Bankruptcy will not normally wipe out:

(1) money owed for child support or alimony, fines, and some taxes;

(2) debts not listed on your bankruptcy petition;

(3) loans you got by knowingly giving false information to a creditor, who reasonably relied on it in making you the loan;

(4) debts resulting from "willful and malicious" harm;

(5) student loans owed to a school or government body, except if:

- the loan first became due more than 7 years before the bankruptcy was filed **or**

- the court decides that payment would be an undue hardship;

(6) mortgages and other liens which are not paid in the bankruptcy case (but bankruptcy will wipe out your obligation to pay any additional money if the property is sold by the creditor).

### **Will I Have To Go To Court?**

In most bankruptcy cases, you only have to go to a proceeding called the "meeting of creditors" to meet with the bankruptcy trustee and any creditor who chooses to come. Most of the time, this meeting will be a short and simple procedure where you are asked a few questions about your bankruptcy forms and your financial situation.

Occasionally, if complications arise, or if you choose to dispute a debt, you may have to appear before a judge at a hearing. If you need to go to court, you will receive notice of the court date and time from the court and/or from your attorney.

## **Will Bankruptcy Affect My Credit?**

There is no clear answer to this question. Unfortunately, if you are behind in your bills, your credit may already be bad. Bankruptcy will probably not make things any worse.

The fact that you've filed a bankruptcy can appear on your credit record for ten years. But since bankruptcy wipes out your old debts, you are likely to be in a better position to pay your current bills, and you may be able to get new credit.

## **What Else Should I Know?**

**Utility Services** - Public utilities, such as the electric company, cannot refuse or cut off service because you have filed for bankruptcy. However, the utility can require a deposit for future service and you do have to pay bills which arise after bankruptcy is filed.

**Discrimination** - An employer or government agency cannot discriminate against you because you have filed for bankruptcy.

**Driver's License** - If you lost your license caused in an accident, bankruptcy will allow you to get your license back.

**Co-signers** - If someone has co-signed a loan with you and you file for bankruptcy, the co-signer may have to pay your debt.

## **How Do I Find a Bankruptcy Attorney?**

As with any area of the law, it is important to carefully select an attorney who will respond to your personal situation. The attorney should not be too busy to meet you individually and to answer questions as necessary.

The best way to find a trustworthy bankruptcy attorney is to seek recommendations from family, friends, or other members of the community, especially any attorney you know and respect. You should carefully read retainers and other documents the attorney asks you to sign. You should not hire an attorney unless he or she agrees to represent you throughout the case.

In bankruptcy, as in all areas of life, remember that the person advertising the cheapest rate is not necessarily the best.

Many of the best bankruptcy lawyers do not advertise at all.

Paying for debt counseling is almost never a good idea. There is almost nothing that a paid debt counselor can offer other than a recommendation about whether bankruptcy is appropriate and a list of highly priced debt consolidation lenders. There is no good reason to pay someone for this service. A reputable attorney will generally provide counseling on whether bankruptcy is the best option. This avoids the double charge of having to pay a counselor and then an attorney. If bankruptcy is not the right answer for you, a good attorney will offer a range of other suggestions.

Document preparation services also known as "typing services" or "paralegal services" involve non-lawyers who offer to prepare bankruptcy forms for a fee. Problems with these services often arise because non-lawyer cannot offer advice on difficult bankruptcy cases and they offer no services once a bankruptcy case had begun. There are also many shady operators in this field, who give bad advice and defraud consumers.

When first meeting a bankruptcy attorney, you should be prepared to answer the following questions:

- \* What types of debts are causing you the most trouble?
- \* What are your significant assets?
- \* How did your debts arise and are they secured?
- \* Is any action about to occur to foreclose or repossess property or to shut off utility service?
- \* What are your goals in filing the case?

### **Can I File Bankruptcy Without An Attorney?**

Although it may be possible for some people to file a bankruptcy case without an attorney, it is not a step to be taken lightly. The process is difficult and you may lose property or other rights if you do not know the law. It takes patience and careful preparation. Chapter 7 (straight bankruptcy) cases are easier. Very few people have been able to successfully file Chapter 13 (debt adjustment) cases on their own.

**Remember: The law often changes. Each case is different. This pamphlet is meant to give you general information and not to give you specific legal advice.**