

## BANKRUPTCY

Bankruptcies can generally be described as "liquidation" or "reorganization". "Liquidation" bankruptcy is called Chapter 7. Under a Chapter 7 bankruptcy, a consumer or business asks the bankruptcy court to wipe out (discharge) the debts owed. In exchange for the discharge of debts, the business's assets or the consumer's nonexempt property is sold (or "liquidated"), and the proceeds are used to payoff creditors.

There are several types of reorganization bankruptcy. Consumers with secured debts under \$871,550 and unsecured debts under \$269,250 can file for Chapter 13. Family

farmers can file for Chapter 12. Consumers with debts in excess of the Chapter 13 debt

limits or businesses can file for Chapter 11 process. In any reorganization bankruptcy, you file a plan with the bankruptcy court proposing how you will repay your creditors. Some debts must be repaid in full; with others you pay only a percentage while others aren't paid at all. Some debts have to be paid with interest; some are paid at the beginning of the plan and some at the end.

When you file either kind of bankruptcy, an "automatic stay" goes into effect. The automatic stay prohibits virtually all creditors from taking any action to collect the debts you owe unless the bankruptcy court lifts the stay and lets the creditor proceed with collection.

In a Chapter 7 case, several forms are filed with the bankruptcy court listing income and expenses, assets, debts and property transactions for the past two years. The cost to file is

\$200, which may be waived for people who receive public assistance or live below the poverty level. A court-appointed trustee is assigned to oversee the case. About a month after filing, you must attend a "meeting of creditors" where the trustee reviews your forms and asks any questions. Despite the name, creditors rarely attend. If you have any nonexempt property, you must give it (or its value in cash) to the trustee. Three to six months later, the case is over.

Chapter 13 is a little different. The same forms are filed plus a proposed repayment plan, in which you describe how you intend to repay your debts over the next three, or in some cases, five years. The cost to file is \$185 (it cannot be waived), and a trustee is assigned to oversee the case. Here, too, you attend the meeting of

creditors. Often one or two creditors attend this meeting, especially if they don't like something in your plan. After the meeting of the creditors, you attend a hearing before a bankruptcy judge who either confirms or denies your plan. If your plan is confirmed and you make all the payments called for under your plan, you often receive a discharge of any balance owed at the end of your case.