
Bankruptcy

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes get a job. However, it is a legal procedure that offers a fresh start for people who can't satisfy their debts. Individuals who follow the bankruptcy rules receive a discharge—a court order that says they do not have to repay certain debts.

There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court.

Chapter 13 allows persons with a steady income to keep property—like a mortgaged house or a car—that they otherwise might lose. In Chapter 13, the court approves a repayment plan that allows you to use your future income to pay off a default during a three-to-five-year period, rather than surrender any property. After you have made all payments under the plan, you receive a discharge of your debts.

Known as straight bankruptcy, **Chapter 7** involves liquidation of all assets that are not exempt. Exempt property may include automobiles, work-related tools and basic household furnishings. Some of your property may be sold by a court-appointed official or turned over to your creditors. You can receive a discharge of your debts through Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow people to keep certain assets, although exemption amounts vary. Note that personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

For more information about bankruptcy, read “Answering Your Legal Questions About Bankruptcy” by the Wisconsin Bar Association. It is available on their “Legal Explorer” website at <http://www.legalexplorer.com/legal/legal-QA.asp>.