

Brenda Schmitt, ISU Extension  
Family Resource Management Field Specialist  
641-423-0844

## **Managing Tough Times: Chapter 7 Bankruptcy**

Bankruptcy is usually the absolute last option and it's even less attractive since the new bankruptcy statutes went into effect in October of 2005. There are two main types of personal bankruptcy; chapter 7 and chapter 13. Chapter 7 is the worst kind of bankruptcy with respect to your credit. There's no going back. Your non-exempt assets are sold, and the proceeds are used to satisfy your creditors to the extent the proceeds of the sale will allow it. Potential debtors should realize that the filing of a petition under chapter 7 may result in the loss of property.

The advantage to the Chapter 7 is that your debts are eliminated, not reorganized. All your debts are eliminated, except if you owe the IRS. They always get their money, so be aware of this if your primary debt is tax related. Tax related debts are given priority status, meaning they are exceedingly difficult to get out of paying. The IRS will not go away by merely filing bankruptcy, and many state departments of revenue work the same way. It's best to reach a settlement with the IRS to reduce as much of your back tax bill as possible because eventually, you'll have to pay it.

In addition to eliminating your debts, a chapter 7 bankruptcy will pretty much eliminate your creditworthiness for the next 10 years; that's how long a chapter 7 will stay on your credit report. You'll still be able to get credit of course, especially after a few years have elapsed, but it will cost you much more, and you will have fewer options than before you filed.

An individual cannot file chapter 7 if during the preceding 180 days a prior bankruptcy petition was dismissed due to the debtor's willful failure to appear before the court or comply with orders of the court, or the debtor voluntarily dismissed the previous case after creditors sought to recover property upon which they hold liens. Individuals filing chapter 7 must receive credit counseling from an approved credit counseling agency either in an individual or group briefing within 180 days before filing.

One of the primary purposes of bankruptcy is to eliminate certain debts, giving an honest individual a "fresh start." After a chapter 7 bankruptcy, the individual will no longer be liable for the forgiven debts. Although an individual chapter 7 case usually results in forgiven debts, some types of debts are not discharged. A bankruptcy discharge does not eliminate a lien on property.

For more information about Chapter 7 bankruptcy, go to  
<http://www.uscourts.gov/bankruptcycourts/bankruptcybasics/chapter7.html>