

Chapter 7 Bankruptcy Overview

A successfully filed Chapter 7 Bankruptcy completely discharges, or wipes out, most unsecured debts, including but not limited to credit cards, medical bills, utility bills, payday loans, and any other debts that do not have collateral or a hard asset attached to them. Chapter 7 bankruptcies are the most common type of bankruptcy and are commonly referred to as a "Fresh Start" Bankruptcy.

The filing of a Chapter 7 bankruptcy will also stop garnishments and civil lawsuit proceedings and, in most cases, discharge the debts underlying these proceedings. The length of a Chapter 7 Bankruptcy case is generally 3-4 months from filing the bankruptcy petition to the final discharge of debts. In order to find out if you qualify for a Chapter 7, it is important to talk with an experienced Washington bankruptcy lawyer.

Characteristics of Chapter 7 include:

1. Permanent Discharge of Unsecured Debts

In general, all nearly all unsecured debts are eligible for discharge in a Washington State Chapter 7 bankruptcy. These are debts that have no assets attached to them. For example, the following are all typically discharged in Washington Chapter 7 bankruptcy: credit cards, unpaid medical bills, repossession deficiencies, signature loans, payday/cash advance loans, most collection matters, and nearly all lawsuits.

2. Permanent Discharge of Secured Debts if the Secured Property is Surrendered

If you choose to surrender property that is carrying a debt balance, these debts are typically permanently discharged as well. For example, the secured loan on a car is wiped out (discharged) if you allow the car is repossessed or simply forfeit it and where you owe more than the car is worth (a repossession deficiency). If not already repossessed, the property can be surrendered before or after you file for bankruptcy.

3. Automatic Stay

After you sign off on your Washington State Chapter 7 Petition, our offices will electronically file it in United States Bankruptcy Court. Immediately upon filing, the court enters an order protecting you from all creditor action. In so doing, the Bankruptcy Court orders all creditors to stop all harassing phone calls, lawsuits, threats, judgments, repossessions, and garnishments. This protection Order is known as the "Automatic Stay".

4. Keep Exempt Property

Most people are able to keep all of their property in a bankruptcy. If you have furniture and household goods of average value and are willing to keep up your car payment(s), you will most likely keep all of your personal property. Retirement accounts (401(k), IRA, etc) are also exempt property that you will be allowed to keep following a final discharge of your unsecured debts in a bankruptcy proceeding.

5. Keep your House

In a Chapter 7 bankruptcy, you may continue to pay your mortgage or your car loan and keep the house or car by signing a "Reaffirmation Agreement" or, in most cases, by simply remaining current on your secured debts and continuing to make the regular payments. In effect, a reaffirmation agreement takes the place of your original agreement and essentially makes it as though you have not filed a bankruptcy on those particular loans. In many instances, however, we do not recommend filing a reaffirmation agreement. We simply recommend that you keep making your monthly payment.

Usually homeowners who file for bankruptcy do so because they do not have enough equity to refinance their home to pay of their unsecured debts. In the State of Washington for example, so long as you do not have more than \$125,000 of equity after typical closing costs from a sale, you are virtually assured of keeping your home so long as you continue to make your mortgage payments (and secured lines of credit, if any).

While filing for bankruptcy will not lower your regular monthly mortgage payment, a Washington State Chapter 13 Bankruptcy (not Chapter 7) will allow you to catch up on your payments over as long as a five-year period. In order to qualify for a Chapter 13 bankruptcy, however, you must make payments toward the amount you are behind in your mortgage AND be able to make your regular mortgage payment.

If you can now afford to make your mortgage payments, but still wish to sell your home, filing a Chapter 13 bankruptcy will cancel the scheduled foreclosure sale and give you time to list your property for sale. This will allow you to gain more profits and to net additional proceeds from your home

than you would typically earn at a foreclosure sale.

6. Keep Your Car

So long as you continue to make your car payments, you can typically keep your vehicle(s). Most people who have car payments do not have enough or any equity in their vehicle for the cars to be considered non-exempt. In fact, in the majority of cases, people owe more than their car is worth. Only in cases where you have a car that is worth considerably more than the amount owing on it, or a car of significant value where you have no loan on it at all, would you not be allowed to keep your vehicle in a bankruptcy proceeding.

Chapter 7 also gives you an option to "Redeem Your Vehicle". This process involves you paying the secured creditor the fair market value of the collateral, which is typically far lower than the amount you still owe on your current car loan. In exchange for redeeming your vehicle, the creditor provides you with the release of their lien. There are several redemption finance companies we can refer you to that will provide you with a loan will have new and lower payments based upon your vehicle's current and fair market value.

Property you cannot keep in Chapter 7 Bankruptcy

When filing for a Washington State bankruptcy, some types of property are typically non-exempt and can be used to pay at least a portion of the claims of creditors. Examples of non-exempt property include: cash and bonds (not part of a retirement account), investments over a certain amount, a second car (for single, non-married debtors), a second home, family heirlooms over a certain value, valuable collections such as paintings, coins, or stamps, and expensive trade or business equipment.

The state median income level

Under the new bankruptcy laws that took effect October 17, 2005, if your income is above your state's median income, you may not qualify for Washington State Chapter 7 protection. The median income varies from state-to-state and each state therefore has their own list of the state median income thresholds for individuals and married couples with or without dependent children. For a detailed list of Washington income threshold's, please contact our offices at 206-624-3644.

Non-Dischargeable Unsecured Debts

Certain unsecured debts are not dischargeable in a Chapter 7 Bankruptcy and must continue to be repaid in full. These include unpaid taxes, government- backed student loans, and unpaid child support. In many cases, however, your monthly payments of these debts can be restructured and lowered by filing a Washington Chapter 13 Bankruptcy.

About the Author

The attorneys at [Washington bankruptcy lawyer](#) are experienced Washington State bankruptcy attorneys. From our offices in Seattle, Washington, we successfully file hundreds of Washington bankruptcy petitions every year. The attorneys at [Seattle bankruptcy lawyer](#) know that choosing the right bankruptcy attorney may be one of the most important decisions that you will ever make. We are your experts in all Washington State bankruptcy and [Washington State foreclosure](#) matters.

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