

Understanding the Bankruptcy Reform

Many people are confused about the new bankruptcy law that went into effect in October. The new law:

- Requires debtors to get credit counseling
- Sets new rules for determining whether you can keep your house
- Changes the rules for valuing cars
- Clarifies guidelines for keeping retirement assets
- Lengthens the time you must wait before filing again
- Increases the number of documents you must provide
- Makes it more difficult to discharge debts in Chapter 7

Chapter 7 bankruptcies often let you shelter certain assets such as personal property and home equity (depending on your state's laws), sell everything else, and use the money to pay off your debts, even if you end up paying much less than you owe. Most of your remaining debts are canceled.

Under the new law, more people will be required to use Chapter 13, which directs you to file a plan with the court to repay your debts over three or five years. You can keep more property than under Chapter 7, but the plan is more difficult to complete. About two-thirds of those who filed Chapter 13 never finished their workout, and many eventually switched to Chapter 7 -- which may no longer be an option.

If you earn less than the median household income in your state (generally around \$60,000 for a family of four), you'll still be able to file under Chapter 7. But if you earn more than that and can afford to pay back at least \$100 per month (based on your income and "reasonable expenses," as determined by the IRS, not your own budget), you'll generally have to file under Chapter 13.

Counseling required

The new law also requires you to get credit counseling from an approved non-profit agency before you can file for bankruptcy. The Executive Office for U.S. Trustees has officially approved GreenPath to provide this pre-bankruptcy counseling to consumers throughout most of the nation.

The price of filing

Many experts believe that the added complexities of the new law could increase the total cost of filing under Chapter 7 from about \$500 to between \$1,500 and \$2,000. And there are other prices to consider --- costs that will follow you for years after your case closes. A Chapter 13 bankruptcy will remain on your credit record for seven years; Chapter 7 stays for ten years. And you'll have a tough time qualifying for a loan with a bankruptcy on your record. Lenders who do extend you credit will generally charge very high interest rates. For these reasons, bankruptcy should always be considered as a last resort.