

Community Legal Aid

A non-profit law firm serving the legal needs of low-income individuals and families in central northeast Ohio



www.communitylegalaid.org

What You Need to Know About Bankruptcy

What Is Bankruptcy?

Bankruptcy is a legal proceeding in which a person who cannot pay his or her bills can get a fresh financial start. Filing for bankruptcy immediately stops all of your creditors from seeking to collect debts from you, at least until your debts are sorted out according to the law.

What Can Bankruptcy Do for You?

Bankruptcy may make it possible for you to:

- Eliminate your obligation to pay most or all of your debts. This is called a "discharge" of debts. It is designed to give you a fresh financial start.
- Stop foreclosure on your house or mobile home and allow you an opportunity to catch up on missed payments. Bankruptcy does not, however, automatically eliminate mortgages and other liens on your property without payment.
- Prevent repossession of a car or other property, or force the creditor to return property even after it has been repossessed.
- Stop wage garnishment, debt collection harassment, and similar creditor actions to collect a debt.
- Restore or prevent termination of utility service.
- Allow you to challenge the claims of creditors who have committed fraud or who are otherwise trying to collect more than you really owe.

What Bankruptcy Cannot Do?

Bankruptcy cannot cure every financial problem, nor is it the right procedure for every individual in financial distress. In bankruptcy, it is usually **not** possible to:

- Eliminate certain rights of "secured" creditors. Common examples of these types of

creditors are car loan and home mortgage providers. But bankruptcy can force secured creditors to take payments over time in the bankruptcy process and bankruptcy can eliminate your obligation to pay any additional money if your property is taken.

Nevertheless, you generally cannot keep the collateral (ex. car or home) unless you continue to pay the debt.

- Discharge certain types of debts, such as child and spousal support, certain other debts related to divorce, most student loans, court restitution orders, criminal fines, and some taxes.
- Protect cosigners on your debts. When a relative or friend has co-signed a loan and the consumer discharges the loan in bankruptcy, the cosigner may still have to repay all or part of the loan.
- Bankruptcy does not allow you to discharge debts that arise after bankruptcy is filed.

What is Exempt Property?

Exempt property is property that the court allows you to keep after filing for bankruptcy. Exempt property will not be sold to pay-off creditors. Examples of exempt property include:

- \$132,900 in home equity
- \$3,675 in equity in a car,
- \$450 in cash,
- \$1,550 in jewelry,
- \$2,325 in tools of your trade,
- \$12,250 in household goods, and
- \$1,225 of additional equity (wild card)

Can I Own Anything After Bankruptcy?

Yes! Many people believe they cannot own anything for a period of time after filing for bankruptcy; this is not true. You can keep your exempt property and anything you obtain after the bankruptcy is filed. However, if you receive an inheritance, a property settlement, or life insurance benefits within 180 days after filing for bankruptcy, that money or property may have to be paid to your creditors if the property or money is not exempt.

Will Bankruptcy Affect My Credit?

There is no clear answer to this question. Unfortunately, bankruptcy will remain in your credit history for ten years. However, different creditors have different policies regarding bankruptcy. You may experience no difficulty in obtaining new credit.

*This handout is meant to give you general information and not specific legal advice.
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