

# Chapter 13 Bankruptcy Information

---

Please visit us at [www.parrlawgroup.com](http://www.parrlawgroup.com) or find us on Facebook for detail information

## Chapter 13 Bankruptcy

Chapter 13 bankruptcy, considered the wage earners bankruptcy, is different from Chapter 7 bankruptcy. You have an option to keep your property, but you may be required to pay some or all of what you owe to your creditors over time. Your income and expenses are used to calculate a payment plan, which can last from 3 to 5 years.

### Am I eligible for Chapter 13?

Chapter 13 requires you to use your income to repay some or all of your debt. For the court to confirm your plan you must show that you can afford to meet your payment obligations. If your income is too low, the court might not allow you to file for Chapter 13.

There are also restrictions on the amount of debt you can have. Your secured debts may not exceed **\$1,149,525** and your unsecured debts cannot be more than **\$383,175**. A "secured debt" is one that gives a creditor the right to take a specific item of property if you don't pay the debt. An example of secured debt includes home mortgages, equity lines of credit and auto loans. A creditor does not have the same rights to an "unsecured debt", such as credit cards or medical bills.

### The Chapter 13 Repayment Plan

Your Chapter 13 paperwork will include a payment plan. Your repayment plan will describe in detail how much money you will pay towards your debts. In Chapter 13, certain debts must be paid back in full, these include debts called "priority debts". Examples of priority debts include child support and alimony, wages you owe to employees and certain tax obligations.

Additionally, your plan must include your regular payments on secured debts, such as a car loan or mortgage, as well as repayment of any arrearages on the debts. Arrearages include the payments you have missed on your secured debt. The total amount of arrearage is then placed into the plan and paid for from the plan payment.

The plan must show that any disposable income you have left after making these required payments will go towards repaying your unsecured debt. In some cases you don't have to repay these debts in full or at all, but you have to show any remaining income left after expenses is going to the unsecured creditors.



## Chapter 13 Bankruptcy Information

---

### **How long is my repayment plan?**

The length of your repayment plan depends on how much you earn and how much you owe. If your average monthly income over the six months prior to the date you filed for bankruptcy is more than the median income for your state, you'll have to propose a 5 year plan. If your income is lower than the median, you may propose a 3 year payment plan. No matter how much you earn, your plan will end if you repay all of your debts in full, even if you have not yet reached the 3 or 5 year mark.

### **What if I can't make my payment plan payments?**

If for some reason you cannot finish a Chapter 13 repayment plan, the bankruptcy trustee may modify your plan, or the court might let you discharge your debts on the basis of hardship.

If the bankruptcy court won't let you modify your plan or give you a hardship discharge, you might be able to convert to a Chapter 7 bankruptcy or ask the bankruptcy court to dismiss your Chapter 13 bankruptcy case. However, you would still owe your debts, plus any interest creditors did not charge while your Chapter 13 case was pending.

### **How a Chapter 13 Case Ends**

Once you complete your repayment plan, all remaining debts that are eligible for discharge will be wiped out. Before you can receive a discharge, you must show the court that you are current on your child support and/or alimony obligations and that you have completed a budget counseling course with an agency approved by the United States Trustee.

### **Which debts must I pay back?**

The forms in Chapter 13 are similar to the forms in Chapter 7. In addition, you must also file a payment plan proposing how you plan to handle your debts over the payment plan period. Under a Chapter 13 plan, you make payments, usually monthly, to the bankruptcy trustee, an official appointed by the bankruptcy court to oversee your case. The trustee in turn pays your creditors and collects a commission based on the amounts paid out under your plan. You must make every payment on time, in order to successfully complete your plan and get a discharge of your remaining debts.



## Chapter 13 Bankruptcy Information

---

### **How Much You'll Have to Pay**

Some creditors are entitled to receive 100% of what you owe them, while others may receive a much smaller percentage or nothing at all.

### **Disposable Income**

Disposable income is your income less certain allowed expenses and payments on secured loans, such as a car loan or mortgage. This income is paid towards your unsecured debts, such as credit card debts and medical bills.

### **No Surrender of Property**

If you file for Chapter 13 bankruptcy, you don't have to hand over any of your property; instead, you repay your debts out of your income. In exchange for getting to keep your property, your plan will have to pay your creditors at least the value of your nonexempt property.

### **You Must Have Sufficient Disposable Income**

To qualify for Chapter 13, you will have to show the bankruptcy court that you will have enough income, to meet your repayment obligations. Your plan must pay back certain debts in full, or the judge will not approve your plan.

### **You Must Be Current on Your Income Tax Filings**

To file for Chapter 13, you must submit proof that you filed your federal and state income tax returns for the four tax years prior to your bankruptcy filing date. If you need some time to get current on your filings, the court can postpone the proceedings.

### **Why Chapter 13 instead of Chapter 7 Bankruptcy?**

Many debtors choose not to file for Chapter 13 bankruptcy because it requires repayment of at least a portion of their debts. Instead, chapter 7 bankruptcy, wipes out many debts entirely. However, some debtors are not eligible for Chapter 7 bankruptcy.

*The information contained here is intended to be educational only; it is not legal advice nor does it create an attorney client relationship between the reader and the firm.*

