What Is A Chapter 13 Bankruptcy?

Many consumers that are bogged down in debt frequently turn to bankruptcy as a form of restoring their financial status back to a zero balance. Unfortunately many of these same consumers are confused when it comes to the difference between a Chapter 13 bankruptcy and a Chapter 7 bankruptcy.

Before explaining what a Chapter 13 is I want to make sure that you are familiar with what the definition of bankruptcy actually means. It is basically a legal process that is filed in a court of law. The reason for filing this debt elimination strategy is to relieve individuals or businesses that cannot pay their current financial obligations of those same debts. This allows them a fresh start on their finances.

A Chapter 13 bankruptcy which normally runs around $185 to file is commonly referred to as reorganization bankruptcy. This form of debt elimination is filed by consumers that wish to ay their debt off between a period of 3 to 5 years. This is a preferred strategy for individuals that wish to actually keep some of their possessions and have the means to financially meet their normal living expenses while still having money left over to pay towards their accumulated debt.

When filing a Chapter 13 the individual will present a bankruptcy petition which list the consumer's schedule of assets and liabilities. Immediately following this the person filing bankruptcy will have to present a repayment plan that is carefully reviewed by the debtor's creditors to see if it meets their needs. If there are no objections or points of argument then both the creditors and consumer filing bankruptcy must follow the reorganization plan.

Additional confirmation tests remain before a reorganization bankruptcy takes place. One of these tests compares the amount that the unsecured creditors will receive under the plan to the amount they would receive under a Chapter 7 bankruptcy. Basically what this means is that all unsecured creditors must be able to receive the same amount of monetary compensation under a Chapter 13 as they would for a Chapter 7. A final test requires that the individual filing bankruptcy must also pay all of their disposable income into the repayment plan.

A Chapter 13 is especially beneficial for consumers interested in keeping on to some very important possessions such as their home. For instance if the consumer has missed several house payments and is facing the scary possibility of a foreclosure they can effectively halt the foreclosure by filing for Chapter 13 bankruptcy. This is normally referred to as an automatic stay. This allows time for the consumer to catch up on missed payments. If the individual is unable to effectively catch up during this reorganization period then the foreclosure proceedings will continue as before.

When it comes to a Chapter 13 or any other form of bankruptcy it is highly recommended that an attorney who is knowledgeable in bankruptcy law be consulted in order to receive the most accurate information. One additional note - although a bankruptcy can restore an individual's financial status it does so with the high price of that same consumer's credit suffering a blemished record for about 10 years making it difficult to obtain future credit when needed.

Timothy Gorman is a successful webmaster and publisher of Debt-Relief-Solutions.com. He provides more debt relief, consolidation and bankruptcy information that you can research in your pajamas on his website.