



The FindLaw Guide to Chapter 7 Bankruptcy

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Chapter 7 bankruptcy allows debtors to get rid of most of their debts and start over with a clean slate. But it also has its drawbacks, including the loss of property and a depressed consumer credit score. This guide can help you decide if Chapter 7 bankruptcy is right for you.

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Introduction

For individuals facing overwhelming debt, filing for Chapter 7 bankruptcy may be one of the few ways to get a “fresh start,” erasing the obligation to repay and giving you a chance to get on with your life. The decision to file for Chapter 7 bankruptcy is a big one, and FindLaw and its directory of attorneys is here to help.

Is Chapter 7 Bankruptcy Right for You?

Generally, a debtor can choose to file for either a Chapter 7 bankruptcy or a Chapter 13 bankruptcy. Chapter 7 bankruptcy is sometimes referred to as a “liquidation bankruptcy” because it involves gathering your property and assets, and selling them to pay off as much debt as possible before the rest of the debt is discharged. In contrast,

a Chapter 13 bankruptcy reorganizes your debt and sets up a repayment plan. So you can erase your debt with a Chapter 7 bankruptcy, or you can create a repayment plan with a Chapter 13 bankruptcy.

While a Chapter 7 bankruptcy may seem more attractive to some, you should know that not all debtors are [qualified to file for Chapter 7](#). For example, only debtors who fall below state income guidelines are eligible. So, if you make too much, you may have no other option but to file for Chapter 13.

Determining whether you make too much to qualify for Chapter 7 can be a complicated process that goes beyond simply looking at your paystubs, and you may want to work with an attorney to see if you are eligible.

Advantages/Disadvantages of Chapter 7

Declaring for Chapter 7 bankruptcy may sound like a great idea as you’re relieved of your debt. However, you should also [be aware of the downsides](#).

First, the advantages of Chapter 7 bankruptcy are that most of the things you own will be exempt from bankruptcy (meaning that you can keep it) and you will also be able to retain your future salary and earnings. In addition, the bankruptcy process is relatively quick (usually resolving in 3-6 months), so you can get back on your feet and start rebuilding your credit in no time.

The downsides of Chapter 7 bankruptcy are that you will ruin your credit score for up to ten years. You will lose your credit cards and will have a hard time getting a loan, such as to buy a home or car. In addition, you will not get out of all your debt with Chapter 7, as some debts discussed in the following section will not be discharged.



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Learn More: [Filing for Chapter 7, Debt Discharge and Property, Pros and Cons of Declaring Bankruptcy under Chapter 7](#)

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Debt Discharge

A Chapter 7 discharge releases individuals from personal liability for most debts and prevents the creditors from taking any collection actions against the debtor. However, a Chapter 7 discharge is subject to many exceptions. For example, some debts that cannot be discharged include:

- Debts for alimony and child support
- Obligations to pay recent federal, state, and local taxes
- Most student loans
- Liability from some lawsuits, such as for wrongful death in a DUI

Visit FindLaw.com to learn more about [Chapter 7 debt discharge](#).

Exempt and Non-Exempt Property

Chapter 7 bankruptcy involves taking the property and assets of the debtor and selling them to pay off as much debt as possible before discharging the rest. But debtors should know that filing for Chapter 7 does not necessarily mean you will lose all of your possessions. Instead, the law does not intend for individuals to start from scratch, and there are certain “[exemptions](#)” for property you may keep.

So, while your bank accounts, stocks, and vacation home may all be subject to liquidation, you may be able to keep your home, car, clothing, jewelry, and other personal possessions. Still, you should know that the exemptions usually do not cover the full amount of these properties, instead only exempting some value of each. For example, if you live in a million dollar home and you file for bankruptcy, you may still have to sell your home and move into a less expensive one.

You will want to talk to a bankruptcy attorney to learn what you can and cannot keep if you file for Chapter 7.

STOP

Should I Talk to an Attorney?

If you are contemplating Chapter 7 bankruptcy, you should definitely [contact an attorney](#). Chapter 7 bankruptcy can have a long-lasting impact on your life as it will severely damage your credit affecting your ability to take out loans in the future. An attorney can help tell you if you qualify for Chapter 7 bankruptcy and if this step makes sense for your individual circumstances. An attorney can also help highlight the benefits and disadvantages of filing for bankruptcy including telling you what debts you can (and cannot) get out of.

For More Information

Regarding chapter 7 bankruptcy, please visit our website at <http://www.findlaw.com> or <http://bankruptcy.findlaw.com/chapter-7/>

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