



# Should I File For Chapter 7 Bankruptcy?

## What is bankruptcy?

It is a legal process to help people who are unable to pay their outstanding debts.

## How are Chapter 7 and Chapter 13 bankruptcies different?

**Chapter 7:** the court discharges your debt. Your bills “vanish.” You are no longer responsible for them. You get a clean slate and a chance to start over with no debt.

**Chapter 13:** the court puts you on a three- to five-year payment plan to repay your debts. This can help you try to avoid foreclosure of your home or pay off other debts, such as traffic tickets or legal financial obligations (LFOs), that you cannot discharge.

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❖ The [U.S. Bankruptcy Court](http://www.uscourts.gov/FederalCourts/Bankruptcy.aspx)'s website has good basic information:  
<http://www.uscourts.gov/FederalCourts/Bankruptcy.aspx>

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## My wages are being garnished. Can a bankruptcy help?

The day you file for bankruptcy, the court issues a “**stay**.” This means all collection action, including garnishment, must stop immediately.

## Which bills can I discharge in a Chapter 7?

You can discharge **most** bills, including credit card debt, hospital and medical debt, debt owed to a former landlord, and debt owed due to the repossession of a vehicle.

You **cannot** discharge:

- Traffic tickets and fines (but you can discharge the collection and interest charges).
- Legal financial obligations.
- Child support debt.
- Student loan debt, unless you can show “undue hardship.”
- Most federal income tax debt.

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❖ [My Driver’s License was Suspended. Can I Get it Back?](#), available at WashingtonLawHelp.org, has more on what to do about unpaid traffic tickets and fines.

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## When should I think about Chapter 7 bankruptcy?

You can only file for bankruptcy once every eight years. Before filing for Chapter 7, at least one of these should be true:

- You have a lot of debt **and** income and/or assets a creditor could take.
- You lost your driver license after being in an accident while uninsured. You need your license back.
- You have a lot of debt **and** close to \$125,000 equity in your home. (“**Equity**” is the amount you would get from a sale after paying the bank what you owe on your mortgage, second mortgage, and other home equity loans.) \$125,000 in equity is the most you can protect from creditors for your home, even without a bankruptcy. This is the “**homestead exemption.**”

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❖ If you have more than \$125,000 of equity in your home, you may want to consider filing a Chapter 13 bankruptcy.

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- ❖ **NOTE:** To keep a secured property (like a car or furniture that creditors could repossess) when you file for Chapter 7, you must **“reaffirm”** this debt. Reaffirmation may be a bad idea, especially if it is a high interest loan or for an asset worth less than you still owe. It can lead to more financial trouble that bankruptcy cannot fix. Always discuss reaffirmation of debts with a bankruptcy lawyer **before** reaffirming a debt with a creditor.
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## When do I not need bankruptcy?

- You are not working.
- You do not have assets that creditors can take (garnish).
- Your income is protected from garnishment. (**Examples:** Creditors cannot garnish Social Security, SSI, unemployment compensation, TANF, or ABD benefits, child support you receive, retirement pensions, or federal student loan proceeds.)

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- ❖ Read [Money That Cannot Be Taken from You \(Garnished\) To Pay off A Debt](#) to learn more.
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If the creditor cannot collect from you, you do not need to file for bankruptcy.

## I need to file for Chapter 7 Bankruptcy. Do you have tips?

- File only if you really need to. You can only file for Chapter 7 once every eight years.
- If you file for Chapter 7, **you should list all your debts in the bankruptcy petition.** Generally, you cannot discharge debts not listed.
- Before filing, get a copy of your **free** credit report from all three credit-reporting agencies. The reports may list different debts so you want to request your report from all three agencies.

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❖ [How to Get Your Free Annual Credit Report](#) explains what you need to do.

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- After you discharge your debts in a bankruptcy, check your credit report. All the discharged debts should show a zero balance. If they do not, you want to immediately speak to the attorney who helped you file the bankruptcy.

## What are the downsides of chapter 7?

- It may be harder to get credit. Credit could cost you more. (**Example:** you may only be able to get credit to buy a car with a very high interest rate.)

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❖ You can start rebuilding your credit immediately after filing for bankruptcy. Talk with a credit counseling agency that does not charge for their services. (The National Foundation for Consumer Counseling has a list of member agencies online at [www.nfcc.org](http://www.nfcc.org).) Learn how to get a secured credit card, keep up with your debts that were not discharged, and how to make a budget.

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- It will be on your credit report for ten years.
- You will lose the credit cards you currently have.
- The court may not consider some belongings, such as an expensive car, exempt. You could lose them as part of the bankruptcy.
- Depending on the kind of debt, the court may not discharge all your debts in the bankruptcy.
- You cannot file a Chapter 7 bankruptcy again for eight more years.



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## Get Legal Help

- Outside King County, call the CLEAR Hotline at 1-888-201-1014 weekdays between 9:15 am - 12:15 pm.
- In King County, call 2-1-1 weekdays between 8:00 am - 6:00 pm. They will identify you to a legal aid provider.
- Seniors (age 60 and over) can also call CLEAR\*Sr at 1-888-387-7111 (statewide).
- You can also apply online with CLEAR\*Online: [nwjustice.org/get-legal-help](https://nwjustice.org/get-legal-help)

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