

Should I File For Chapter 7 Bankruptcy?

What is bankruptcy?

It is a petition you file in federal court asking it to help you deal with your debt.

How are Chapter 7 and Chapter 13 bankruptcy 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 with debts, such as traffic tickets, that you cannot discharge.

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- ❖ The [U.S. Bankruptcy Court’s](http://www.uscourts.gov/FederalCourts/Bankruptcy.aspx) website has good basic info: <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 and medical debt.

You **cannot** discharge:

- Traffic tickets and fines.
- Child support debt.
- Student loan debt, unless you can show “undue hardship.”
- Most federal income tax debt.

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

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/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 still owe

on your mortgage, second mortgage, and other home equity loans.) \$125,000 in equity is the maximum you can protect from creditors for your home, even without a bankruptcy. This is the “homestead exemption.”

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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, Workers Compensation, Unemployment Compensation, TANF, or ABD benefits.)

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- ❖ [“Money That Cannot Be Taken from You \(Garnished\) To Pay off A Debt”](#) has more info.
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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. 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 must 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.

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- ❖ Our website, www.washingtonlawhelp.org links to [How to Get Your Free Annual Credit Report](#).
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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 must dispute the debt.

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.)
- 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.
- It may affect your ability to get work.
- You cannot file Chapter 7 again for eight more years.

What if I need legal help?

- **Apply online with CLEAR*Online**
- <https://nwjustice.org/get-legal-help>
or
- **Call CLEAR at 1-888-201-1014**

CLEAR is Washington’s toll-free, centralized intake, advice and referral service for low-income people seeking free legal assistance with civil legal problems.

- **Outside King County**: Call 1-888-201-1014 weekdays, 9:15 a.m. - 12:15 p.m.
- **King County**: Call 211 for info and referral to an appropriate legal services provider, weekdays 8:00 am – 6:00 pm. You can also call (206) 461-3200, or toll-free 1-877-211-WASH (9274). You can also get info on legal service providers in King County through www.resourcehouse.com/win211/.
- **Persons 60 and Over**: Persons 60 or over may call CLEAR*Sr at 1-888-387-7111, regardless of income.

Deaf, hard of hearing or speech impaired callers can call CLEAR or 211 using the relay service of their choice.

211 and CLEAR will conference in interpreters when needed at no cost.

Free legal education publications, videos, and self-help packets covering many legal issues are available at www.washingtonlawhelp.org.

This publication provides general information concerning your rights and responsibilities. It is not intended as a substitute for specific legal advice. This information is current as of December 2017.

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