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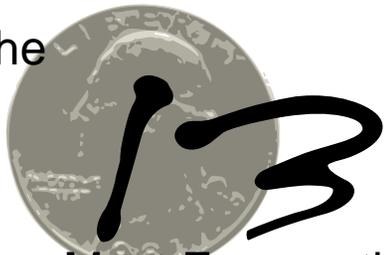
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Most Frequently
Asked Questions
About Bankruptcy



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Most Frequently Asked Questions About Bankruptcy

Bankruptcy is one option for Maryland families faced with financial problems. This publication is not a substitute for legal advice, but will help you think through important questions before making a bankruptcy decision. Remember, filing for bankruptcy can have long-term consequences for your family. No bankruptcy decision should be made without family discussion and proper legal advice.

What is bankruptcy?



Bankruptcy is a protection provided by the law to allow you to renegotiate or discharge debts to get a "fresh" start.

Is there a difference between Chapter 7 and Chapter 13 bankruptcies?



Yes. Chapter 7 bankruptcy, often called "straight" bankruptcy, terminates most debts. All nonexempt property must be turned over to creditors or sold by a court-appointed trustee. Chapter 13 is a repay-

ment plan that allows debtors to keep property and pay all or part of their debts over a 3- to 5-year period without pressure from creditors.

Is filing for bankruptcy free?



No. You are required to pay a court filing fee and attorney costs. The filing fee is currently \$175. Bankruptcy attorney fees vary and currently are about \$800 for Chapter 7 and \$1,500 for Chapter 13.

Will bankruptcy dismiss child support and/or alimony payments?



Child support and alimony are NOT exempt from bankruptcy; therefore, regular payments must continue during and after bankruptcy.

Are my school loans and income taxes dismissed in bankruptcy?



Federal, state, and local taxes are not generally discharged when filing bankruptcy. However, income taxes may be discharged if you owed them for a 3-year period before filing for bankruptcy and your taxes were properly filed each year.

Your guaranteed federal student loans are not dischargeable with bankruptcy unless there is evidence that the loan payment will continue to put financial hardship on you or your family. Student loans provided by sources other than the govern-

ment also may be exempt from bankruptcy.

Does bankruptcy mean giving up a home, car, or personal belongings?

The type of bankruptcy filed will determine what real and personal property you may keep.



What happens to my cosigned loans when bankruptcy is filed?



If there is a cosigner and bankruptcy is filed, the cosigner can be held responsible for the balance of the loan, unless the court grants special permission. The cosigner can be protected by making arrangements to pay the loan balance in full at the interest rate in the original loan contract.

Can bankruptcy prevent job opportunities?



While the law expressly prohibits employers from firing you, it is unclear whether or not an employer is prohibited from not hiring you because you went through bankruptcy.

If married, can only one spouse file for bankruptcy?

In a common-law property state such as Maryland, one spouse may file for bankruptcy. The bankruptcy will include the filer's separate property and jointly held debts. Jointly owned



property such as a home or bank account are generally protected.

Will bankruptcy damage chances of getting credit in the future?

Bankruptcy will remain on a credit report for 10 years. Many credit applications ask the question, "Have you *ever* filed for bankruptcy?" *not* "Have you filed for bankruptcy in the last 10 years?" As a result, many creditors are reluctant to extend credit to individuals with a bankruptcy history. Therefore, it is important to carefully consider bankruptcy. It should be viewed as a final option.



Are there any long-term consequences of bankruptcy?

In certain situations some bankruptcy information will be given out for the rest of your life. For example:



- When applying for a job paying more than \$20,000.
- When applying for life insurance with a face value more than \$50,000.
- When applying for a mortgage or other loan for more than \$50,000.

Can I file bankruptcy again?

You must wait 6 years before filing Chapter 7 again. Chapter 13 can be filed any time.



What should I do if I cannot pay my bills?

- Contact all creditors, explain the financial problem and ask for a decrease in payment amounts.
- Stop using your credit cards.
- Sell assets you can do without.
- Borrow the cash value of your life insurance policy to pay your debts.
- Seek help developing a debt repayment plan from your local Extension office or from other nonprofit financial professionals in the county.
- Consider bankruptcy options. If a regular income is available, Chapter 13 may be your best option. Chapter 7 may be the best option if no income is available.



Adapted from Celvia S. Dixon,
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