

# Five Things You Should Know Before Declaring Chapter 7 Bankruptcy

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Filing for a Chapter 7 Bankruptcy

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([Newswire.net](#) -- December 15, 2016) -- Are you thinking about filing for a Chapter 7 Bankruptcy? Then you might want to carefully read this article because there's a lot you need to know and this article gives you a general but good-enough overview.

Even though Chapter 7 is the single most commonly filed bankruptcy chapter in the United States, most people contemplating it don't understand it or have enough facts to decide if it's the best option for them.

So, what is Chapter 7 Bankruptcy?

In order to not confuse you by speaking legalese, I'll resort to a more toned-down, layman definition.

[Investopedia](#) defines "Chapter 7" as a bankruptcy proceeding in which a company stops all operations and goes completely out of business. A trustee is appointed to liquidate (sell) the company's assets, the proceeds are used to pay off the debts, and then the remaining debt is discharged.

In other words, debtors who file for bankruptcy under Chapter 7 are asking the court to allow a bankruptcy trustee to sell all their assets and pay creditors an agreed-upon amount from the proceeds of the sale.

There might however be property exemptions, that is, property that cannot be liquidated (sold), like the debtors' homes and other personal possessions, but what is exempted or not varies from state to state.

Now that you know what a [Chapter 7 bankruptcy](#) means, here are more things you need to know before making it your option for financial relief.

## 1. Preparation and Filing

Before filing a Chapter 7 bankruptcy, debtors must first ensure to put their house in order. All financial information must be organized, and this includes loan documents, bank and credit card statements, pay stubs, etc.

Debtors will also have to complete a series of documents, like bankruptcy petition, statement of financial affairs, schedules of assets and liabilities, a schedule of executory contracts and unexpired leases, and so on.

Finally, debtors must also provide the assigned bankruptcy trustee with a copy of the [tax return](#) or transcripts for the most recent tax year as well as tax returns filed during the case.

## 2. The Means Test

Generally referred to as the most noteworthy change brought about by the 2005 Bankruptcy Law Revision (the BAPCPA), the "means test" must now be passed by debtors who file for Chapter 7 bankruptcy.

The purpose of the means test is to verify whether a debtor has the means to pay down their debts. The debtor's income is annualized for the previous 6 months and analyzed against the median income for their place of residence. If the debtor is found to have the means to pay down their debt, they might not be allowed to file for bankruptcy under Chapter 7.

## 3. Meeting of Creditors

The designated bankruptcy trustee will hold a meeting of creditors, where the debtor is put under oath and both the trustee and creditor may ask questions regarding the debtor's financial affairs and property. There may be more than

one meeting, if all questions cannot be answered in the initial meeting.

#### **4. Pros**

It's pertinent to know some benefits of declaring Chapter 7 bankruptcy, to guide the debtor's decisions.

Some notable ones are the fact that the process doesn't take too long – maximum of 6 months; property exemptions in some states might allow the debtor to keep more than needed; and finally, the debtor can start rebuilding his credit – and life – immediately after the process.

#### **5. Cons**

Of course, there are some cons too.

A Chapter 7 bankruptcy stays on the debtor's credit report for 10 years, and therefore ruins their credit for a long time. More so, all credit cards and property not exempted will be lost. Finally, bankruptcy will not relieve the debtor of alimony, child support payments, and [student loans](#).

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