

When Chapter 7 Bankruptcy Is Better than Chapter 13

Most people choose Chapter 7, if they have a choice. Here are some reasons why.

Most people who file for bankruptcy choose Chapter 7 bankruptcy because it's fast, effective, easy to file, and doesn't require payments over time.

Advantages of Chapter 7 Bankruptcy

A typical Chapter 7 bankruptcy case is opened and closed within three to six months, and the person filing emerges debt-free except for a mortgage, car payments, and certain types of debts that survive bankruptcy, such as student loans, recent taxes, and unpaid child support.

(Although you can lose property in Chapter 7 bankruptcy, most filers don't. Bankruptcy lets you keep most necessities -- if you have little to begin with, chances are good you'll be able to keep all or most of your property (unless you pledged the item as collateral for a loan).

However, not everyone is eligible to use Chapter 7 bankruptcy. If your income is sufficient to fund a Chapter 13 repayment plan, after subtracting what you'll spend on certain allowed expenses and monthly payments for child support, tax debts, secured debts (such as a mortgage or car loan), and a few other types of debts, you won't be allowed to file for Chapter 7 bankruptcy.

Drawbacks of Chapter 13 Bankruptcy

Probably the main reason most people prefer Chapter 7 bankruptcy is that it doesn't require you to repay any portion of your debts, as Chapter 13 bankruptcy does. And if you use Chapter 13 bankruptcy, you must complete the entire three- to five-year repayment plan in order to have your remaining debts discharged (unless the court lets you off the hook early, for hardship reasons). The majority of those who file for Chapter 13 bankruptcy don't complete their plans, so filers run a very real risk that their debts won't ultimately be discharged.

Despite this major potential drawback, there are some good reasons why people who are eligible for both types of bankruptcy choose to use Chapter 13.