



Understanding
Chapters 7 & 13 Bankruptcy
From the Creditor's
Perspective

A Quick Guide
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Who We Are

Nearly 90 years of serving the
creditors' rights industry

Weltman's Culture of Excellence

Our Mission:

To operate as a full-service creditors' rights organization, dedicated to success in our industry, while building long-term, mutually-beneficial relationships with our clients and communities.



Our Vision:

To be the nation's leading provider of creditors' rights solutions.

Strategic Business Units

Our range of services allows for the complete handling of files and matters through each step of the collection, legal, and recovery process, utilizing one or more of our specialty practice groups, or a combination of our services.



The diagram consists of five blue rectangular boxes arranged in two rows. The top row contains three boxes: 'Consumer Collections', 'Commercial Collections', and 'Bankruptcy Recovery'. The bottom row contains two boxes: 'Real Estate Default' and 'Litigation & Defense'. On the left side of the bottom row, there is a light blue arrow pointing right towards the 'Real Estate Default' box. On the right side of the bottom row, there is a light blue arrow pointing left towards the 'Litigation & Defense' box.

Consumer
Collections

Commercial
Collections

Bankruptcy
Recovery

Real Estate
Default

Litigation &
Defense

Chapter 7 Bankruptcy

"Liquidation Bankruptcy"



Chapter 7 Bankruptcy Overview

A Chapter 7 bankruptcy does not involve the filing of a plan of repayment, but rather, an appointed trustee will gather and sell the debtor's nonexempt assets. The proceeds from this liquidation will be used to pay back creditors.

In exchange, the debtor will be discharged of his or her debts.

Chapter 7 Eligibility



To qualify for relief under Chapter 7, the debtor may be an individual, a partnership, a corporation, or other business entity. However, only an individual can get a discharge.

When a debtor files a petition with the bankruptcy court, they must be able to provide the following information:

- A list of all creditors, the amount owed, and the nature of the claims
- The source, amount, and frequency of the debtor's income
- A list of all of the debtor's property
- A detailed list of the debtor's monthly living expenses: food, clothing, shelter, utilities, taxes, transportation, medicine, etc.

If the debtor's income is above the median level for their state, they must pass a "means test" to be eligible.

Non-dischargeable Debt

Certain types of debts are non-dischargeable by operation of law:

- Taxes
- Student loans
- Domestic support obligations

Certain debts may be deemed non-dischargeable through affirmative action by the creditor:

- Fraud
- Conversion

Chapter 7 discharge does not affect a creditor's lien rights. Liens will survive the bankruptcy absent affirmative action by debtor to avoid the lien.



Chapter 13

Bankruptcy

The "Wage Earner's Plan"



Chapter 13 Bankruptcy

The "Wage Earner's Plan"

Chapter 13 allows for an adjustment of debts for individuals with a regular income. Through this chapter, a debtor is able to keep property and pay debts over time, typically 3 to 5 years, depending on the debtor's monthly income. Chapter 13 acts as a debt consolidation, allowing the debtor to make a single monthly payment to a Chapter 13 trustee. The trustee then distributes those funds to the debtor's creditors, in accordance with a court approved plan. Through this process, the debtor generally has no direct contact with his or her creditors.

Any individual is eligible for Chapter 13, as long as their secured and unsecured debts are under a specific threshold.

Individuals are able to modify the terms of their secured and unsecured debts, with certain exceptions, and extend them over the life of the Chapter 13 plan.



Does the debtor need to repay all of their debts with a Chapter 13 bankruptcy?

No - the debtor can reduce how much is paid to unsecured creditors and under specific circumstances, secured creditors as well.

If you have a secured claim in which the debtor is seeking to reduce payoff or interest, you should consult with an attorney to know your rights. There are restrictions on when this can and can't be done.

General unsecured debts such as credit cards and medical bills, for example, can be discharged in a Chapter 13 just as they would in a Chapter 7 - but only after the agreed upon repayment plan is completed in its entirety.

Key Takeaways:

Chapter 7

- Debt discharge for those below a certain income level
- Non-exempt assets will be **liquidated** to pay unsecured creditors
- Secured liens are still attached to collateral after discharge absent a court order indicating otherwise

Chapter 13

- Reorganization of debt through a **payment plan**
- Can get a debt discharge same as a Chapter 7, but only after successful completion of the proposed Chapter 13 plan
- Reserved for individual debtors and sole proprietorships
- Gives the debtor the ability to protect non-exempt assets and cure default on secured loans



Get In Touch ➤

Learn about Weltman's bankruptcy solutions

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