

Bankruptcy Options for When You Can't Raise Your Debt Ceiling

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It is an interesting comparison to watch what is going on Washington with their attempts to raise the debt ceiling and comparing that to your own debt issues. The government has bills to pay, no money, and so it wants its credit line increased to be able to make ends meet. Things don't work that with you and me. When we have bills to pay and no money, [credit cards](#) work for a while, but eventually the credit card must be paid. And as you may have experienced, asking the credit card company to raise your debt ceiling often results in the opposite - a reduction in your credit line.

When your debt ceiling is maxed out and you can no longer deal with the debt issues, bankruptcy is an option. Bankruptcy is very effective at dealing with [credit card debt](#), [medical bills](#), [car loans](#), and even helping you deal with your [mortgage](#).

Credit Card Debt

Bankruptcy was invented for handling credit card debt. At least it seems like it was. If your main financial problem is large amounts of unpaid credit card debt a [Chapter 7 bankruptcy](#) filing will generally eliminate it completely. There is no payment plan and the credit card company will not be able to pursue you for this debt down the road. [Chapter 13 bankruptcy](#) can also help you eliminate your credit card debt, however in a Chapter 13 bankruptcy you will be required to pay back a portion of this debt over a 3 to 5 year period. For most people in a Chapter 13 case the pay back on credit card debt is minimal.

Medical Bills

Like credit card debt, [medical bills are eliminated through a Chapter 7 bankruptcy filing](#). Those that have gone through serious medical issues often have large amounts of debt - even those with health insurance. This is an area where I see people go through the most conflict as to whether to file bankruptcy or not. It is often easy to file bankruptcy on the credit card companies due to their constant collection calls, but with medical bills the services received were usually very helpful and needed. There does come a time when reality sets in that despite your appreciation for what was done to help you in your time of need, the bills are simply too large and there is no realistic way for you to pay them.

At that point bankruptcy is a good option as they will be completely eliminated. As with credit card debt, if you end up filing a Chapter 13 bankruptcy there will be some pay back to these creditors.

Lawsuits

If you are being sued the bankruptcy filing will [eliminate the lawsuit](#) and discharge the debt that you are being sued on. This will help you avoid having a judgment entered against you and eliminate possible [garnishment of your wages](#).

Car Loans

Sometimes it is a bad car loan that pushes people into bankruptcy. Or more often a bad car loan that has already been repossessed and now the bank is coming after you for the balance. If you still have your car and can continue to make the monthly payment you can keep your car both in a [Chapter 7 bankruptcy](#) as well as a [Chapter 13 bankruptcy](#) case. In a Chapter 7 you may be able to reduce the amount you pay on your car through a process called redemption. Redeeming your vehicle means that you pay your bank the value of your car, not what you actually owe on it (assuming you owe more than the car is worth). For instance, if you owe \$15,000 on your car, but it is only worth \$7,000, in a Chapter 7 bankruptcy you could redeem your car by paying the \$7,000 to the bank and the remaining balance would be discharged. You have to pay it all at once, and usually people have to get new financing to do this. I can give you direction on how to obtain this financing.

In a Chapter 13 bankruptcy you can reduce your interest rate and often pay much less for your car. The Chapter 13 bankruptcy has a tool known as a "[cram-down](#)". The Cram Down is where you pay, through your Chapter 13 plan, the value of your car, not what is owed. This is paid through your monthly Chapter 13 plan payment. The only catch here is you must have purchased your car at least 910 days (about 2 1/2 years) prior to your bankruptcy case being filed.

Mortgage Loans

If you can't afford your home or if you are so far behind on your payments that you are having difficulty getting caught up, bankruptcy can help. Chapter 7 bankruptcy is a good tool if you are looking to [walk away from your home](#). You can surrender your home through the Chapter 7 bankruptcy process and have no future liability on the home.

If you are behind on your payments, Chapter 13 bankruptcy is set up to provide you up to 5 years to get caught up on payments. You may even be able to [eliminate your second mortgage or home equity line of credit](#) through a Chapter 13 bankruptcy.

Debt wouldn't be as big of a problem if every time we needed to loan more money we could simply raise our credit limits. But that is not how the world works for you and me. We can't raise our personal debt ceilings. If you are dealing with the stress of debt, give me a call. I offer a free bankruptcy consultation. Learn what your options are. Having information on what is available will help you in regaining control over your financial life and help you sleep at night. I can be reached at (480) 420-4028 or via email at john@skibalaw.com.