

How Chapter 13 Bankruptcy Can Resolve Your Foreclosure

by [Frank Pipitone](#) on July 16, 2012

As we head into the dog days of Summer, it seems that mortgage banks are starting to ramp up foreclosures. There is more pressure than ever on distressed homeowners.

An [interactive map provided by Newsday](#) shows the breakdown of Long Island foreclosures by community and percentage. Of course, the housing crisis is not specific to Long Island and has impacted communities throughout the country.

Many homeowners look for solutions in the wrong places. While forbearance, short sale and [mortgage modification](#) are legitimate options, often [chapter 13 bankruptcy](#) is a more effective solution.



Here's why.

The Automatic Stay

In my opinion, this is one of the most powerful legal tools available. The [automatic stay](#) is an immediate court ordered injunction that stops all civil proceedings against the person who filed the bankruptcy.

Essentially, the stay stops all creditor action against the debtor, including foreclosure.

If you are facing foreclosure, filing a [chapter 13 bankruptcy](#) will impose the automatic stay and immediately stop the foreclosure proceeding. If nothing else, this could give you the necessary time to regroup financially.

A Structured Repayment Plan

Obviously, if you are in foreclosure, you have defaulted on your monthly payments. These missed payments accrue into mortgage arrears.

Mortgage arrears add up quickly and most homeowners do not have the capacity to pay off the arrears and get current. This "lump sum" payment is just not an option.

[Chapter 13 bankruptcy](#) allows you to create a plan to pay the arrears over time. By spreading these payments over 3 to 5 years, you are able to get current and get out of foreclosure through this repayment plan.

Once the Bankruptcy Court approves the plan, the mortgage bank must accept the payments.

Reduction of Debt

In addition to restructuring mortgage arrears, [chapter 13 bankruptcy](#) could allow you to restructure and reduce credit card debt.

Depending on certain conditions, you may be able to pay off a percentage of your credit card debt through the repayment plan and discharge the remaining balance. This reduces your overall credit card balance and payments. This frees up additional disposable income to make mortgage payments and save moving

forward.

There is really no easy solution to foreclosure. Foreclosure is extremely difficult because of the emotional ties that we have to our homes. Our homes are not large piggy banks holding equity for our futures. They are the places where we live, eat, sleep and make memories.

As a foreclosure solution, [chapter 13 bankruptcy](#) is often overlooked due to the misconceptions and stigmas associated with the bankruptcy process. If your home is in foreclosure, please explore all options.

If you are a homeowner facing foreclosure, please check out [Charleston Foreclosure Defense Blog](#). It is an excellent resource and the insightful articles can answer many of your foreclosure questions.

Image courtesy of [I am not I](#).