



## 5 Reasons Why Chapter 13 Bankruptcy is Better Than Debt Settlement

Carl H. Starrett II

Not too long ago, I started an advertising campaign on a local radio station. I excitedly tuned into the station and listened for my first "spot" to run. The station's staff had not entered the proper "conflict codes", so they also ran an advertisement for a debt settlement company right after mine. The debt settlement company made lots of empty promises and it inspired me to write this article. Here are 5 reasons why I believe that chapter 13 bankruptcy is a better option for people who wish to repay some of their debts than hiring a debt settlement company that tries to settle doubts outside of bankruptcy:

1. Debt forgiveness received from bankruptcy is not taxable. If you settle a debt for less than what you owe, the creditor must send you an IRS 1099 form if the amount forgiven is greater than \$600. If you pay \$2000 to settle a \$4000 debt, you might have taxable income of \$2000. Debts that are forgiven in bankruptcy are never taxable.
2. Chapter 13 Bankruptcy lets you deal with all of your creditors in one proceeding. A confirmed Chapter 13 repayment plan is binding on all of your creditors, even creditors such as the IRS or your care lender. Debt settlement companies, however, typically only work with unsecured creditors such as creditor card companies and they won't assist you with tax debts. Some creditors like American Express will only work with the borrower and not a debt settlement company. The automatic stay created by the filing of a bankruptcy prohibits any of your creditors from suing you.
3. Chapter 13 bankruptcy gives you more control than debt settlement. In Chapter 13, you submit a payment proposal to the court based on your ability to pay. If you can convince the Chapter 13 trustee and the judge that your plan complies with the law and is proposed in good faith, you don't have to worry about negotiating with multiple creditors.
4. You can modify some car loans in Chapter 13. If you purchase a car and the original loan is more than 910 days old, a Chapter 13 bankruptcy could help you force the lender to

modify the loan. A number of my clients have used Chapter 13 to reduce the balance of their care loan and reduce the interest to as little as 4.25%.

5. Some debtors can use Chapter 13 to get rid of a second mortgage. If a debtor's home is worth less than the balance owed on a first mortgage, a homeowner that qualifies for Chapter 13 can get a court order stripping the second mortgage from their home. I recently helped a couple remove a \$116,000 second mortgage from their home. Debt settlement cannot promise that.

Debt settlement companies often play on a debtor's feelings of guilt about their debts or promote myths about how bankruptcy can harm a debtor's credit rating while ignoring the harm caused by debt settlement. I have yet to see a satisfied debt settlement customer come through my doors and Chapter 13 gives the debtor the opportunity to provide a court ordered plan to get their financial affairs back in order.

If you are in financial difficulty and are in Southern California, a free a consultation is just a phone call away. Please call me today at (619) 448-2129 to explore you options for a fresh start with bankruptcy.

**About the Author:** [Carl H. Starrett II](#) has been a licensed attorney since 1993 and is a member in good standing with the California State Bar, the San Diego County Bar Association and the [National Association of Consumer Bankruptcy Attorneys](#). Mr. Starrett practices in the areas of [bankruptcy](#), [business litigation](#), [construction](#) and [corporate planning](#).