

Bankruptcy Process: Can I Be Sued For a Debt That Has Been Charged Off?

By Arizona Bankruptcy Attorney John Skiba

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Prior to meeting with me for a bankruptcy consultation many people will have pulled a copy of their credit report to get an idea of the total amount of outstanding debt. Often they will see that certain debts have been “charged off” or “written off” by a certain creditor yet they are still receiving collection calls on that debt on a near daily basis.

This leads to the question as to why a creditor can continue to try and collect on a charged off debt? First, it is important to know that, yes, the creditor can continue collection efforts against you on a charged off debt or they can sell the debt to a debt buyer or collection agency who then will try and collect the money from you. Charged off does not mean that you are no longer liable.

At any stage of the collection process the creditor may decide to “charge off” or “write off” the debt. This simply is an internal process for tax and accounting purposes of the creditor and does not impact your liability on the debt. The debt is no longer considered an asset for the creditor’s books but is shown as a loss and thus reducing the creditor’s taxable income. If you make a payment on a debt that has been charged off then the creditor will have to report that as income.

It is important to understand this process because many are lured into a false sense of security when they see that a creditor has charged off a debt – thinking that now they won’t be pursued by the creditor. The opposite is often true with the creditor then filing for suit or hiring a collection agency to continue collection efforts.

How Bankruptcy Can Help

Bankruptcy, whether it is chapter 7 bankruptcy or chapter 13 bankruptcy, can help with these types of debt problem. Typically debts that are charged off are unsecured, meaning that there is no collateral or property securing the loan. Credit cards and medical bills fall into this category. The filing of a bankruptcy case will generally eliminate these types of debts completely, whether they have been charged off or not.

I offer a free bankruptcy consultation where we can discuss your specific debt situation and help you determine if bankruptcy is a good option for you.

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