California Bankruptcy Law and what it might mean for you

I just filed bankruptcy. Where's my money???

If you're considering filing bankruptcy, there is a series of traps that may be ready to spring and catch you; actually, catch your money.

Banks that freeze your accounts when you file bankruptcy

Some banks, currently reported to be Wells Fargo and Union Bank, place a freeze on the accounts of anyone who files bankruptcy. The technical reason they do this is to preserve the assets in those accounts for the bankruptcy trustee to decide the disposition of those assets. You'll get the money back if it's not given to creditors in the bankruptcy process, but why go through the inconvenience or worse of not having access to that money.

Solution: Move your money out of those banks into another one before filing bankruptcy.

Banks and credit unions where you have both deposits and debts

Those institutions may claim a "set off" when you file bankruptcy and take the money from your deposits to pay the amount you owe them. This is a complex legal issue, and litigating costs money, so avoid the issue by moving your deposits out of institutions where you also have debts (credit cards, car loan, etc.). Actually, it's a good idea to do that anyway if you think that you're going to get behind in your payments to them, regardless of whether you're going to file bankruptcy.

Automatic withdrawals

The "automatic stay" of bankruptcy is supposed to stop all collection efforts, but automatic withdrawals to pay a debt might not stop for administrative reasons. Why go through the trouble and possible expense to get that money back when it's much easier to avoid the potential problem and simply stop all automatic withdrawals before filing bankruptcy.

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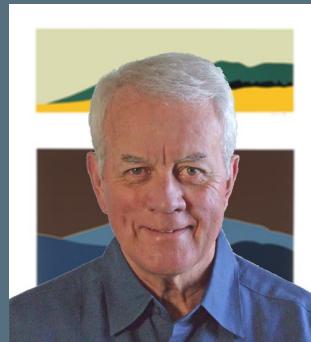
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