

## Understanding the different types of bankruptcy

Written by Australian Business

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Most people have heard of a Chapter 7, Chapter 11 or a Chapter 13 bankruptcy but many do not fully understand the differences between them. If you are contemplating bankruptcy for yourself personally or your business, it is important that you educate yourself about each type of bankruptcy to know which may be right for you.

Bankruptcy court statistics show that in 2012, a total of 32,409 New Jersey residents filed for some type of bankruptcy. Thirteen of those were residents of Middlesex County and 12,974 resided in the Newark region.

### Chapters 7 and 13

These are far and away the two most commonly filed forms of bankruptcy. Of the 2012 state filings, all but 270 fell in these categories. The vast majority were consumer filings with more than 97 percent of 2012 Chapter 7 and Chapter 13 New Jersey bankruptcies filed by individuals (joint or married) and roughly 2.6 percent filed by businesses.

A Chapter 7 bankruptcy is commonly called a "liquidation" while a Chapter 13 is referred to as an "Adjustment" or even the "Wage Earner's Plan". The basic differences between the two are as follows:-In a Chapter 7 bankruptcy, secured debts are repaid with the debtor's assets; unsecured debts are forgiven-In a Chapter 13 bankruptcy, debts are managed by a trustee and a repayment plan is created and managed by the trustee; no assets are lost-Some exceptions do apply in Chapter 7 proceedings that can allow some assets to be retained

Many people commonly assume that they will lose their homes in a Chapter 7 bankruptcy but that does not always happen. The U.S. homestead exemption allows for a certain amount of a home's equity to be exempted from bankruptcy proceedings. If you have less than \$22,975 if filing a single bankruptcy or \$45,950 for married couples filing jointly, you may be able to keep your home during a Chapter 7.

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Typically, Chapter 7 is a good option for debtors with a large amount of unsecured debt and Chapter 13 is a good option for debtors with a relatively high and steady income level that are able to repay their debt once restructured.

### A word about Chapter 11 bankruptcies

A debtor must have less than \$807,750 worth of secured debt in order to qualify for a Chapter 13 bankruptcy. For people with debts beyond that amount, Chapter 11 can be an option. Originally designed for large corporations, it can be utilized by individuals but is not commonly done.

For consumers or business owners with unmanageable debt, talking with a bankruptcy attorney is always a good idea. Whether or not bankruptcy ends up being the right course of action, getting proper counsel is important.