

Dangers of Chapter 7 Bankruptcy

Filing a Ch. 7 bankruptcy comes with some risks you must consider.

Effects on Credit

- A Chapter 7 bankruptcy will appear on your credit report for 10 years. All the debts you had before filing will still appear on your report but will indicate that they are “discharged in bankruptcy.” Any bankruptcy is a hit to your credit, and it will take time for your credit score to improve.

Not All Debts are Discharged

- Certain debts are not discharged in bankruptcy, like recent income taxes, child and spousal support, student loans, criminal fines, and debts incurred through fraud. Under Chapter 7, if you have any of these debts, you will still be personally liable for those debts after discharge.

Loss of Property

- Any nonexempt property could be lost. The trustee can sell nonexempt assets to pay off creditors. Examples of nonexempt property include cars, homes, jewelry, expensive musical instruments, cash in bank accounts, stocks or bonds, stamp, or card collections.
- Nonexempt property is property that no exemption can be applied to. The most frequently used exemptions for Illinois are \$3,600 for a car, \$50,000 for a home that you live in, and a \$4,000 wildcard that can be applied to anything. So, if you have a car or home that is not encumbered close to full value (there is not a loan or mortgage that is close to or more than the value of the property) the property is at risk. The bankruptcy trustee could sell the property, pay off any liens (including loans and mortgages) and give any remaining proceeds to your creditors.

Ch. 7 can only be filed once every 8 years

- You must wait 8 years from the date of filing a successful Ch. 7 before you can file another Ch. 7 and receive a discharge.

Ch. 7 bankruptcy cannot be voluntarily dismissed

- Once you file a Ch. 7, you have no right to voluntarily dismiss the bankruptcy petition. So if the trustee finds assets and intends to sell those assets to pay your creditors, your assets would be at risk!