



You May Extend, Amend, Suspend, or Convert, When Life Happens in Chapter 13 Bankruptcy!

Chapter 13 bankruptcy is the most powerful debt relief tool. Clients are often shocked to hear that because they think they are under the control of a trustee for 5 years and cannot live a normal life. That is not true. Sure, chapter 7 bankruptcies can wipe out debt, but chapter 7 bankruptcy can only effectively deal with a limited scope of debt, chapter 13 is far more comprehensive, especially when it comes to stopping foreclosure, paying back taxes, and simply getting your life back on track. However, chapter 13 bankruptcies are a 3-5 year payment plan and, let's face it, life happens. The good news is you are not stuck; there are options for dealing with life changes during chapter 13 bankruptcy. The goal of bankruptcy is discharge, but there are many paths to the destination.

So, what can you do if you can no longer make the planned chapter 13 payment? The chapter 13 debtor has 4.5 options, (1) extend, (2) amend, (3) suspend, (4) convert, and (4.5) dismiss.

I. Extend: Most chapter 13 plans are 60 months, but below median income debtors may opt for a range of 36-60 months. If the debtor is in a 36 month plan and something changes, they can extend the payment plan up to 60 months. But, a chapter 13 plan may never exceed 60 months; if you are already in a 60 month chapter 13 plan, you may not extend. Extension requires a plan amendment.

II. Amend: Amending a chapter 13 plan is by far the most common solution. At any point during your chapter 13 plan, you may request the bankruptcy court to amend your chapter 13 plan and change almost anything you like. This amendment can take many forms: from reducing the monthly payment because of reduced income, surrender a house you tried to keep by now realize you don't, to sometimes dealing with debts that arise after filing. Bankruptcy courts will generally want to see an amended plan before the courts agree to a hardship discharge or conversion.



III. Suspend: If the changed circumstances are predictably temporary, you may opt to suspend your plan payments for a short period of time; usually no more than 6 months. Plan suspension is a good option for events like major household repair, unexpected medical etc. Suspension can usually be negotiated directly with the Chapter 13 trustee with little need for court involvement. Suspension is also used in the event of job loss, the trustee, and courts, will want to suspend the plan for 3-4 months to see if the debtor can get reemployed before agreeing to conversion.

IV. Convert: If the circumstances have changed to such a degree or if strategically it makes no sense to stay in chapter 13 bankruptcy, the debtor can opt to convert the case to chapter 7 bankruptcy. The most common example in the last few years is the below median debtor who is desperate to keep their home from foreclosure despite the fact that the mortgage payment is essentially unaffordable and the house is substantially underwater. At some point, usually about twelve to eighteen months into the chapter 13 plan, the debtor comes to their senses (despite being told numerous times before filing) that it absolutely makes no financial sense to keep the house. That debtor will convert the case to chapter 7 bankruptcy and have their discharge within 3-4 months. In general, bankruptcy courts prefer conversion to chapter 7 bankruptcy versus a chapter 13 hardship discharge.

IV½. Dismiss: So long as the chapter 13 bankruptcy wasn't previously converted from chapter 7 bankruptcy, the debtor may voluntarily dismiss the case at any time without explanation. Generally, dismissal is a bad idea because all debts included in the plan can go back to the date of filing and add back interest, late fees and any other contractually obligated amounts due. But, if the debtor has a windfall of some kind, they can opt to dismiss the case and deal with creditors outside of bankruptcy. However, it is almost always better to either pay off the plan or stay in the plan, but for the sake of completeness, I included the dismissal option.



The goal of bankruptcy is discharge. It is almost always possible to get to discharge no matter what happens.

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