



What Happens To My Car When I File a Chapter 7 Bankruptcy?

Published on October 19, 2009 by **Kathleen Munden**

When you file a Chapter 7 bankruptcy case, all creditor actions, including repossession of vehicles, is prohibited. In fact, if your vehicle has been repossessed shortly before the case is filed, it may be possible to force the creditor to return it. However, if you wish to keep your vehicle, you must bring the payments current quickly, or the court may allow the creditor to continue with repossession efforts.

You have three options concerning your vehicle when you file a Chapter 7 case:

1. **Reaffirmation.** If you reaffirm the debt on your vehicle, it means that you agree to continue making payments and that if you stop doing so, the creditor can repossess the vehicle. If you reaffirm a loan on a vehicle and it is repossessed after your bankruptcy discharge, you will be held responsible for any balance remaining after the car is sold at auction. You should not reaffirm the debt unless you are sure you will be able to make future payments. I also advise my clients not to sign reaffirmation agreements unless the creditor offers them better terms under the reaffirmation agreement (which is essentially a new contract on the vehicle), such as lowering the interest rate and/or reducing the balance owed. In the vast majority of cases, creditors will not repossess a vehicle even if you fail to sign a reaffirmation agreement, so long as you continue to make your required monthly payments.
2. **Redemption.** You may also consider redeeming your vehicle, if you have the resources to do so. Under a redemption, you pay the creditor the present value of the vehicle all at once, and are not

responsible for the unsecured portion of the debt, which is the amount over the value of the vehicle. For example, if your vehicle is worth \$5,000 and you owe \$10,000 on it, you can pay the creditor \$5,000 and the remaining balance is discharged in your bankruptcy.

3. **Surrender.** If you simply cannot afford your vehicle, the best option may be to surrender it. If you surrender the vehicle, the creditor must accept the vehicle as full satisfaction of the debt, and may not pursue you to collect any balance remaining on the debt after the vehicle is auctioned.

Often, it makes more sense to purchase an inexpensive vehicle for cash and surrender your vehicle if you can no longer afford it. You can then trade in that vehicle after your bankruptcy is completed, and purchase a vehicle on credit. While you will probably have to pay a high interest rate on a vehicle after your bankruptcy is over, it may be more affordable than the vehicle you have surrendered. Additionally, making on-time payments on a vehicle, whether a new one or one reaffirmed in your bankruptcy, will improve your credit score relatively quickly.

For advice about how to handle your vehicle in a bankruptcy case, you should consult with a reputable bankruptcy attorney who can explain your options and help you decide the best course for you.