

Can bankruptcy reduce your mortgage payments?

I'm often asked if bankruptcy can reduce mortgage payments. **The short answer is "No" plus "Maybe"**. We'll take a look at both parts of that answer.

Let's start with the fact that we're talking about a **Chapter 13 bankruptcy**, a payment-plan bankruptcy. There are some places in the United States where this discussion might be appropriate for a Chapter 7 bankruptcy (no payments, just get rid of your debts), but California isn't one of those places.

- **The "No" part** - The bankruptcy code prohibits modifying the terms of a mortgage on your home (principal residence). It doesn't matter that your home may be worth less than you owe on it.
- **The "Maybe" part** - **If you have more than one mortgage on your home, any of them that are not protected by equity in the home can have the lien (secured interest) "stripped" from those mortgages.** Those lien-stripped mortgages become unsecured debts (like credit card debts) to be paid the same percentage as other unsecured debts.

What does that mean? Let's take an example.

- **Your home is worth \$300,000**, less than it used to be worth. **You owe \$400,000 on a 1st mortgage, \$100,000 on a 2nd mortgage, and \$50,000 on a 3rd mortgage.** You have to make payments on all three mortgages and wonder if there is anything that bankruptcy could do to help.
- Notice that **if your home were sold and you received \$300,000 for it, all of that amount would go to pay (partially) the 1st mortgage. There would be no money left to pay anything on the 2nd and 3rd mortgages.** Those two mortgages are not protected by any equity in your home (the equity is all used up by the 1st mortgage).
- **Therefore you could "strip" the liens from the 2nd and 3rd mortgages and no longer have to make the payments on them.** Of course that reduces your monthly mortgage payments.

This is definitely one of those "don't try this at home" things, and a Chapter 13 bankruptcy is anything but simple. So be sure to consult with a qualified bankruptcy attorney in your area if you think "lien stripping" might be able to help you.

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