



What Is 722 Redemption In Chapter 7 Bankruptcy?

Question:

I am considering filing a chapter 7 bankruptcy, but I have a car loan on a 2000 Chrysler Cirrus LXi. I know that what I have paid on it already the KBB value of the car, but the loan still has a balance of \$7000. I want to know how to go about filing bankruptcy if I plan to use 722 redemption to get a new loan on the car with another company?

Answer:

A 722 Redemption loan is a very specific loan that is given while a chapter 7 bankruptcy is pending. 722 redemption is mostly used by debtors to buyout a vehicle that is upside down in value. For example, if your vehicle is only worth \$5,000, but your loan balance is \$9,000, bankruptcy code section 722 allows you to buy (redeem) that vehicle for \$5,000 instead of paying back the \$9,000 still owed on the car loan. Side note, the amount you pay in a 722 redemption has nothing to do with how much you have already paid for the vehicle, the redemption amount is based solely on the current market value of the vehicle.

Given the amounts usually involved in redeeming a vehicle, the debtor must usually secure some sort of financing; the major player offering 722 redemption loans is [U.S. Bank](#). Redemption can be a huge benefit to the debtor. Debtor owns a car that is worth \$10,000 but owes the bank \$20,000. Under chapter 7 bankruptcy, the client can use 722 Redemption to buy out the car at the current market value of \$10,000. In chapter 7 bankruptcy, a client can divide a secured creditor's claim into its secured and unsecured portion. In this example, the creditor's secured claim is only worth \$10,000. If the client can obtain funds or lending in the amount of \$10,000 (the secured portion), he can buy-out the lender's claim for that secured value. Thus, the client's new car loan principle would only be \$10,000.



It may seem counter-intuitive to be able to get a loan during a chapter 7 bankruptcy; there are some catches. The interest rate is extremely high, usually north of 20%. Also, with U.S. Bank in particular, if you are discharging a U.S. Bank credit card in your bankruptcy, it will not offer you a redemption loan. However, notwithstanding the high interest rate, if the car is upside down in value enough, a redemption loan usually results in the debtor paying less over the life of the loan than if she kept the original loan.

If you opt for a redemption loan, try not extend the length (or term) of the loan beyond the remainder of time on your existing loan. If you extend the loan's term too much, you could lose the financial benefit of a redemption loan because the high interest rate starts wiping out your savings. Most 722 redemption lenders will handle most of the process for you, from valuing the vehicle to providing you with the needed form documents to file with the court.

Lastly, a redemption loan, since it is a post filing debt, helps rebuild your credit.

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