

# Chapter 13 Bankruptcy – Is It Worth The Trouble?

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Potential Chapter 13 bankruptcy clients frequently tell me about some horror story about a friend who filed Chapter 13 and everything went wrong.

For many people, Chapter 13 is a great tool for financial restructuring. For others, it is not the right solution. Some people need to file Chapter 7 instead. In this article, I will go over some pros and cons of Chapter 13 bankruptcy.

**Pro:** Chapter 13 stops the foreclosure of your home. In a chapter 13, we take the past due payments and spread them out over the life of your plan. We don't need the permission of your mortgage company to file for Chapter 13 protection.

**Con:** Chapter 13 does not lower your future house payments. This is the number one reason you will hear people say that they filed their case to stop the foreclosure on their home but lost it anyway a few months later. When you make all of your future mortgage payments on time after your case is filed, the mortgage company cannot take your house. However, when you miss payments, the mortgage company will go to the bankruptcy court and file a motion for relief from the automatic stay so that they can restart the foreclosure process.

**Pro:** In a Chapter 13, you may be able to wipe out all of your credit card and medical debts. With these debt burdens eliminated, this should make it a lot easier for you to pay your future mortgage payments.

**Con:** If you have a large income that is over the median for your area of the country, you may not be able to eliminate any debt. However, even in a worse case scenario, you won't have to pay any interest or late fees on unsecured debt in a Chapter 13 bankruptcy.

**Pro:** You can lower your interest rate on the amount you are paying for your car to around five percent. I've seen many clients come into my office who are paying more than thirty percent interest on their cars! Chapter 13 is a huge benefit to these clients.

**Con:** If you don't complete your case, all that interest that would have been eliminated in your case now comes back to life. You must finish your plan payments to get this benefit from your case. The number one reason a Chapter 13 case gets dismissed is because the client loses their job in the middle of the case and can no longer afford the payments. Most people whose case gets dismissed for this reason will usually refile their case once they are back to work.