

What exactly is bankruptcy? Will it wipe out all my debts?

Bankruptcy is a federal court process designed to help consumers and businesses eliminate their debts or repay them under the protection of the bankruptcy court. Bankruptcies can generally be described as "liquidation" (Chapter 7) or "reorganization" (Chapter 13). Under a Chapter 7 bankruptcy, you ask the bankruptcy court to wipe out (discharge) the debts you owe. Under a Chapter 13 bankruptcy, you file a plan with the bankruptcy court proposing how you will repay your creditors. You must repay some debts in full; others may be repaid only partially or not at all, depending on what you can afford.

When you file either kind of bankruptcy, a court order called an "automatic stay" goes into effect. The automatic stay prohibits most creditors from taking any action to collect the debts you owe them unless the bankruptcy court lifts the stay and lets the creditor proceed with collections.

Certain debts cannot be discharged in bankruptcy; you will continue to owe them just as if you had never filed for bankruptcy. These debts include back child support, alimony, and certain kinds of tax debts. Student loans will not be discharged unless you can show that repaying the debt would be an undue burden, which is a very tough standard to meet. And other types of debts might not be discharged if a creditor convinces the court that the debt should survive your bankruptcy.

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