Published based on Chapter 13 Bankruptcy Law Facts

Chapter 13 Bankruptcy Law Facts

Although things may be slowly improving, the world economy is still on a knife edge right now and businesses are still finding trading conditions tough. Many people have been made redundant in the past year, and when this happens there is always a corresponding increase in the number of people who file for bankruptcy.

Bankruptcy is open to both companies and businesses, and the two most common forms of bankruptcy are chapter 7 and chapter 13. Chapter 13 is often preferred by business, as it allows the company to carry on trading, if it is found that it is likely to have a long term future, despite its short term financial difficulties. A chapter 7 banktuptcy on the other hand, means that all assets are liquidated, preventing any form of continued trading.

However, not everyone wants to file under chapter 7 and lose everything, including their credit rating. OK, a credit rating is badly affected by a chapter 13 bankruptcy too, but not as badly as a chapter 13 which stays on ones credit record 2 years less than a chapter 7 bankruptcy.

The point of a chapter 13 bankruptcy is that a business may be struggling to make its financial commitments, but can perhaps see that things will improve in the short term. By filing under chapter 13, no assets are sold, and in the case of a business, it can keep trading.

This is because the bankruptcy court will have agreed what is called a "repayment plan". This is a schedule of repayment over 3-5 years, depending on the court and agreed with the creditors. The individual or business is then protected from their creditors and can concentrate on getting the business, or the individual's personal financial affairs, back on track.

As long as the repayment plan is adhered to by the individual or business, the creditors may not pester the business or individual for payment.

Chapter 13 bankruptcy allows businesses to stay in business, and individuals to regain control of their financial affairs, without either having to sell of their personal assets. It also ensures that creditors a remunerated as far as possible, which generally means being paid in full unless the individual or business defaults on the repayment plan, unlike a chapter 7 bankruptcy, where the creditors merely get a proportion of the amount of money raised from the sale of the assets.

Although it all sounds very easy, bankruptcy should be avoided at all costs, as it brings it's own set of fiancial difficulties later.

Before declaring yourself bankrupt, it's very important that you consult with professional adviser concerning your financial position. This is because declaring yourself bankrupt has serious implications for you credit score and general financial health in later years.