

Chapter 13 Basics



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Chapter 13 Bankruptcy

The Basics

The information enclosed is only intended to give individuals considering bankruptcy an overview of the process. It should not be used as a legal authority and does not speak to any particular case. You should always speak to an experienced attorney prior to making any decision regarding your bankruptcy.



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Chapter 13 Basics



Chapter 13 Bankruptcy

Chapter 13 bankruptcies are a repayment program ~~that is~~ administered through the Federal Court System. Chapter 13 bankruptcies take between 3-5 years to complete. During the life of the Chapter 13 Plan, some debts will be paid in full while other debts are paid merely a percentage with their remaining balances being discharged after the plan has been successfully completed.

There are four main types of debts in Chapter 13 bankruptcies:

Class 1 debts consist of trustees' fees, attorneys' fees and other fees associated with the administration of the case. These are referred to as priority debts. Priority creditors belonging to this class of debt would include federal and state taxes, property taxes, debts owed to governmental units, child support and student loan debts. All priority debts are paid back at 100% through the life of a plan. The exception to this rule is student loan debt. Student loans are treated as a class 4 debt and their balances remain intact after the plan is completed.

Chapter 13 Continued...

Class 2 debts consist of arrears on secured debts. Most commonly these arrears are found in the financing of homes and cars. If a client has missed payments on their home or vehicle, they can spread out those missed payments over the months of their plan. This could be extended up to 60 months.

Class 3 consists of secured debts receiving other types of treatments. In some cases a 2 year car note can be extended over 60 months to lessen the monthly payment. In what is called redemption, secured debts can be paid off for the value of the vehicle over a period of up to 60 months as opposed to the amount owed on the financing note.

Class 4 creditors, or class 4 debts, consist of everyone else. Most commonly these are credit cards, line of credits, doctors, lawyers, medical bills, old apartment debts, deficiencies on

repossessed vehicles, deficiencies on foreclosed homes and any other type of unsecured revolving debt account. Once classes 1, 2 and 3 debts have been satisfied by monies paid into the plan by debtor, all monies left over are divided equally and shared amongst the class 4 creditors. As such, only a certain percentage of the class 4 debts are paid. The remaining balances, after the plan when successfully completed, will be discharged. The discharge in a Chapter 13 bankruptcy is very similar to the discharge received in a Chapter 7 bankruptcy. The main difference is that the Chapter 13 discharge only occurs after the Chapter 13 plan has been successfully completed.

If you would like more information regarding Chapter 3 Bankruptcies, please call 303-300-6684 for a FREE CONSULTATION with one of experienced attorneys.