

The difference between Chapter 7 bankruptcy and Chapter 13 bankruptcy

Before deciding whether to file bankruptcy it is important to know what your options are.

Posted on **May 23, 2014** by [LaShawn Brown](#), Michigan State University Extension

Looking up a credit report can be a scary task for some people. Debts such as charge-offs, collections, and unpaid medical bills can make some people believe filing for bankruptcy is the only option. [Michigan State University Extension](#) suggests looking at all of your options because bankruptcy may not be the only answer. Before choosing to file for bankruptcy, it is important to understand the difference between chapter 7 and chapter 13 bankruptcies.

[Chapter 7](#) bankruptcy is a liquidation that allows consumers to clear unsecured debt such as credit cards, collections, medical bills, consumer loans, etc. However, it is important to note some debt such as student loans will not be included in the bankruptcy and must still be paid. It is also important to note that Chapter 7 will remain on your credit report for 10 years. In addition, in [2005 legislation](#) was passed that requires consumers to attend credit counseling, meet income requirements, and pass a means test.

The means test is a “comparison of the debtor’s income to the median income in the individual’s domiciled state” (DeLaurell & Rouse, 2006). If consumers do not meet chapter 7 requirements, chapter 13 may be an option.

[Chapter 13](#) bankruptcy allows consumers to reorganize their debts into a 3-5 year repayment plan. Consumers must create a [plan](#) to pay off some or all debts. Once approved by the bankruptcy trustee, an “automatic stay” which prevents creditors from trying to take further actions will be granted. Chapter 13 will remain on your credit report for seven years.

Before deciding on bankruptcy, perhaps you may want to seek out a credit counselor or financial planner for alternative options. You may also want to attend a Money Management workshop or complete an online course such as [eHomeMoney.org/msue](#). According to the [Federal Trade Commission](#) (FTC), it is important to seek out reputable [credit counselors](#) to assist you in determining if bankruptcy is the best option for you.

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