

THREE COMMON TYPES OF BANKRUPTCY



The types of bankruptcy are named for their chapters in the United States Bankruptcy Code:

CHAPTER 7

LIQUIDATION OF ALL NON-EXEMPT ASSETS

A court-appointed trustee or administrator takes possession of any nonexempt assets, liquidates these assets (often times through an auction) and then uses the proceeds to pay creditors. Can be used by all individuals and businesses.

CHAPTER 11

REORGANIZATION – PRIMARILY USED BY LARGER BUSINESSES

Pursuant to the confirmed plan of reorganization, the debtor repays a portion of its debts and discharges others. Designed to allow businesses to continue operating, while repaying creditors through a court-approved plan of reorganization.

CHAPTER 13

ADJUSTMENT OF DEBTS – TYPICALLY USED BY WAGE EARNERS AND SMALL BUSINESSES

The debtor proposes a plan to repay debts, usually over a 3-5 year period. This repayment plan must be approved by the Court. While plan is in effect, the debtor is protected from lawsuits, garnishments and other creditor actions.

Note: Title companies need approval from the courts to close any transaction that includes bankruptcy filing.

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