Module 3 Article

What Happens In Bankruptcy?

What's The History & Purpose Of Bankruptcy

The history of bankruptcy laws dates back to ancient times, when certain types of debt relief were offered to individuals in Rome, Greece and other parts of the world. In Europe, bankruptcy laws were first developed during the Middle Ages, with the earliest known example being a French law in 1350 which allowed creditors to seek relief from debtors who had become insolvent. Since then, bankruptcy laws have evolved over time in response to changing economic conditions and technological advances.

Today, the purpose of bankruptcy laws is still largely focused on protecting creditors but also serves a secondary purpose of helping people in financial distress get a fresh start. Bankruptcy laws provide debtors with options for resolving their debts without facing legal consequences such as wage garnishment or property seizure. Bankruptcy can also help protect assets that would otherwise be liquidated by creditors.

In addition, modern bankruptcy laws include measures designed to prevent abuse by unscrupulous debtors who may attempt to take advantage of the system by hiding assets or fraudulently obtaining credit cards through false statements or misrepresentations. These measures include providing greater transparency into the process for both creditors and debtors alike, allowing for more accurate assessments about what assets can be included in bankruptcy proceedings and which cannot.

The Impact Of Declaring Bankruptcy

Bankruptcy can have a drastic and long-lasting effect on a person's assets, employment, and future access to credit. When someone declares bankruptcy, their assets are liquidated in order to pay back creditors. This may include important items such as cars and houses, as well as any other property of value that the debtor owns. In some cases, individuals may be able to keep certain assets depending on their state's laws. However, all debts must be paid back before filing for bankruptcy.

The effects of bankruptcy on employment can also be significant. Many employers view bankruptcy as a sign of financial mismanagement or irresponsible behavior and may be less likely to hire someone who has declared bankruptcy in the past. Additionally, when someone is in the midst of filing for bankruptcy they may find it difficult or impossible to gain any new employment opportunities due to lack of access to credit and financing needed to start or fund a new business venture.

Finally, the effects of bankruptcy on future access to credit are often severe. After filing for bankruptcy individuals will likely experience problems obtaining loans from banks or other lenders due to their poor credit history. Some lenders may also require higher interest rates when dealing with bankrupt individuals as well as increased collateral requirements if lending out large sums of money. Furthermore, individuals who have declared bankruptcy may have difficulty getting approved for credit cards or even renting an apartment since their financial reputation has been tarnished by declaring Bankruptcy.

Liquidation Versus Reorganization Bankruptcy
When deciding between filing for liquidation bankruptcy or reorganization bankruptcy, understanding the differences is critical. Liquidation bankruptcy, also known as Chapter 7 bankruptcy, is a process that allows debtors to surrender their assets and have them sold off to pay creditors. The remaining debts are then discharged. However, any assets that are considered exempt from being sold off may be kept by the debtor. Reorganization bankruptcy, commonly referred to as Chapter 11 bankruptcy, is a form of debt restructuring where creditors agree to extend repayment terms or reduce the amount of money owed in exchange for monthly payments over time. This type of bankruptcy allows the debtor to keep possession of all assets while allowing them to make organized payments over a period of time.

The primary difference between the two types of bankruptcies lies in how they approach debt repayment. Liquidation bankruptcies look at disposing of certain assets and discharging all remaining debts. Whereas reorganization bankruptcies focus on restructuring existing debts into more manageable payment plans that are spread out over a longer period of time than originally agreed upon with creditors. This allows debtors to remain in possession of their assets while paying back what they owe in an organized manner rather than having all those debts discharged at once.

Another difference between these two forms of bankruptcy is how much the debtor must pay back in each case. In liquidation bankruptcies, the debtor will not have any outstanding balances after their assets are sold in order to repay creditors; any remaining balances would be completely discharged if they qualify for this form of relief under US law. On the other hand, debtors who choose a Chapter 11 reorganization plan will generally still have some portion of their original debt amounts that need to be repaid over time with interest.

In addition, liquidation bankruptcies generally take less time than reorganization ones since there is no negotiation required with creditors about repayment terms or restructuring agreements; whereas Chapter 11 cases require active participation from both parties and sometimes can take months or even years before reaching a mutually satisfactory resolution due to complicated negotiations involved in such proceedings.

In Conclusion
The negative impacts of Bankruptcy can linger for many years after filing and can be extremely difficult for those affected by it to overcome financially speaking. Although there are various forms of relief available such as debt consolidation programs or individual voluntary arrangements that could help alleviate some aspects of the situation, it is still very important that potential borrowers take appropriate measures before declaring Bankruptcy in order to prevent further damage being done in the long run.

However, at its core, bankruptcies are still about protecting creditors and providing people with an opportunity for a fresh start when they find themselves overwhelmed by unmanageable levels of debt. But today’s bankruptcy laws offer far more protection than ever before--protecting not only creditors but also those individuals in need of a second chance after becoming economically distressed due to unforeseen events like job loss or illness.

STANDARDS: 5.12.11a, 5.12.11b, 5.12.11c