An Increase in Bankruptcy Claims due to Covid-19, What You Should Know

Bankruptcy and Misconceptions

Bankruptcy is a term commonly used by many but is understood by few. Bankruptcy is when someone who is unable to pay off their debt seeks relief from them. There are certain misconceptions that come with filing for bankruptcy. The main one is assuming that the term bankruptcy is synonymous with broke. A person can have money or assets and still need to file for bankruptcy if their debts are too outstanding.

So, filing for bankruptcy does not mean one is broke and is not something to be ashamed of. Bankruptcy is meant to be utilized as an option when experiencing financial hardship. There are different elements that go into filing for bankruptcy and one will not always be eligible. When filing for bankruptcy there are different things to know so it is important to talk to a bankruptcy attorney. The process of bankruptcy can be tiring but it is more bearable when one knows the general process.

An increase in claims due to Covid-19

Businesses

Currently a lot of businesses have been filing for bankruptcy. These filings have been largely due to the current coronavirus pandemic which left many businesses unable to pay their debts. As the pandemic continues on, many businesses may have to eventually file for bankruptcy.

The current covid-19 (coronavirus) pandemic has led to an increase in the number of bankruptcy claims. The beginning of the pandemic brought about an initial 3-month lockdown which lost many businesses a large source of their income. The lockdown initially thought to last 3 months has since stretched into 6 months with no signs of ending. This has caused even more businesses and individuals to file for bankruptcies.

The lockdown significantly reduced businesses' profits for a couple of reasons. One is because it forced businesses to close their doors and limited them to takeout only. Doing this severely limited the amount of patrons businesses can get because some of them are not well known. Some businesses also do not use online services as those can negatively impact a business's earnings. Another reason is because lockdown also restricted everyone to their houses.

With limited exposure, businesses rely on foot traffic for customers. This is especially true for small businesses. Without the usual foot traffic, they are unable to attract new customers thereby decreasing their daily income.

Large restaurant corporations such as California Pizza Kitchen have filed for bankruptcy due to loss of income and inability to pay their debts. With large corporations filing for bankruptcy the question begs how are small businesses doing? Many small restaurant businesses are also in danger of filing for bankruptcy. Thankfully, some of them are still alive due to the push to support local businesses by different communities.

Individuals

At the onset of the pandemic, a lot of individuals were laid off due to their jobs closing down. Some were given the option to work from home, but those whose jobs did not have that option lost their jobs. The loss of jobs was slightly mitigated by the $1200 stimulus check given to citizens. However, for non-citizens this did not help and the loss of their jobs set them back in any debt payments.

While the initial stimulus check was helpful, there has been no sign of another stimulus check. And since lockdown has stretched into 6 months, the debts of individuals are only going to get bigger. With no money coming in to pay their rent or bills, there is not enough money to pay off debts. As a result, individuals will have to file for bankruptcy to have their debts forgiven or extended.

As pandemic and lockdown continues, it is projected that more businesses and individuals will need to file for bankruptcy. With the economy already in decline, it is important to fully understand the different aspects to bankruptcy.

The 6 chapters of bankruptcy

There are different factors that go into making a bankruptcy claim and it is important to understand them prior. The best person to get this information from is a bankruptcy attorney as it is their field of expertise. There are 6 different types of bankruptcy to file for, and there are different qualifications for each chapter. So, talking to an attorney will better inform you about the choices. Prior to visiting a bankruptcy lawyer, here are some things to know about bankruptcy.

The most common bankruptcies people tend to file for are chapter 7 and chapter 13. Since these are the most popular ones, people tend to think that they are the only ones available. That is where they are wrong, as there are many more types of bankruptcies to apply for. Due to the large amount of information needed to fully understand how bankruptcy works, information usually gets left out. Another reason it is important to connect with a bankruptcy lawyer as they will fully explain what you should know.

Chapter 7

This is the most common type of bankruptcy that people tend to file for and is usually preferred by most. Chapter 7 bankruptcy erases what is called unsecured debts such as credit card debts. Additionally, there is no repayment plan involved with this type of bankruptcy. Some people may not qualify for this type of bankruptcy if they make too much money. However that decision is usually up to the courts, so consulting with an attorney prior is helpful.

Aside from income, there are other qualifications that one must meet to be eligible for this type of bankruptcy. The qualifications also vary by state so there is no cookie method to determine eligibility as it varies by person. Typically, all if not most of a person’s assets are sold to pay off their debts with chapter 7 bankruptcy. Lastly, it is important to note that a chapter 7 bankruptcy remains on one's credit report for 10 years.

Chapter 9

This type of bankruptcy is for towns, cities, counties, districts and any similar locations. It involves a repayment plan to pay back what is owed. All, if not most of a person's assets are sold to pay off their debts. While this type of bankruptcy does not forgive debts, it does give debtors extra time to pay off their debts.

Chapter 11

Chapter 11 bankruptcy is mainly for businesses that need financial help but are not in danger of shutting down. With this type of bankruptcy, the business is reorganized so they can prioritize their debts. However, the reorganization also allows them to keep operating while still paying off their debt. Similar to chapter 7 bankruptcy, there are also qualifications to meet for this bankruptcy chapter.

Business owners who do not want to shut down their business will gravitate toward this chapter. It allows them to keep operating and provides them extra time to pay off their debts. During the current climate, this option is the most appealing for them,

Chapter 12

This type of bankruptcy is limited to fisherman and farmers. It allows them to use a repayment plan to pay back their debts over time. The general amount of time to pay the debts is three years, however when needed that time can be extended. This chapter also prevents the need for liquidation of assets. The farmers and/or fishermen do not need to sell their assets to pay back their debts.

This chapter is designed to be more economical as it is less expensive than chapter 11 and offers more flexibility. To be eligible for this bankruptcy chapter, one must have a regular annual income. For other requirements on this chapter of bankruptcy, it is best to seek the advice of a bankruptcy lawyer.

Chapter 13

Chapter 13 bankruptcy unlike chapter 7 does not forgive all debts and allows one to keep their assets. With this chapter, one pays back a portion of their debts over a time ranging from 3 to 5 years. The payments required depends on income and the amount of debt accumulated. This bankruptcy type also prevents any foreclosure on properties owned and allows for time to catch up on payments.

While this chapter of bankruptcy does not erase all one's debts, some people see it as a great option. To be eligible for this chapter, there is a debt limit among other qualifications. There is also a notation on the credit report for seven years after similar to chapter 7 bankruptcy.

Chapter 15

This chapter of bankruptcy deals with foreign cases as the main objective to promote cooperativity between countries. A person uses this chapter when filing for bankruptcy in another country when they have assets in the United states. This chapter of bankruptcy while a viable option for some is best explained by a bankruptcy attorney. Depending on the countries involved, the rules can be different.

Credit counselling Courses

When filing for bankruptcy, it is a requirement that the filer attend a credit counselling course both before and after. The purpose of these courses is to prevent future financial hardships by educating debtors on all things finance. These classes of course do not cover everything one needs to know about finance. However, it does go over essential knowledge that is generally helpful and can be applied in the future.

The price of the classes vary depending on which service is used. Classes range from sixty minutes to two hours and upon completion, a certificate is provided to show the courts. There are both online and in-person options for these classes, however due to covid-19 they are currently mainly online. There are no cons to taking a credit counselling course, and ultimately it is beneficial for one’s finances.

The role of a Bankruptcy Attorney

Similar to the credit counselling courses, a bankruptcy attorney is there to advise you on the best financial decisions. Contacting one at the last minute or right when you want to file is ill-advised. Instead, you should seek one out the minute you start experiencing financial hardships and want to explore your options. Whether those options include taking out an additional loan or filing for bankruptcy, it is best to seek one out. Talking to a bankruptcy lawyer early on is beneficial to your financial life and peace of mind.

As the number of bankruptcies continue to rise, it is important to consider one’s options. This includes consulting with a bankruptcy attorney. There are many different types of bankruptcy lawyers and they specialize in different fields. Too often people make the mistake of thinking that all bankruptcy attorneys are the same. They are not and do not use the same methods or practices. Hence why it is always important to explore all options and consult with multiple bankruptcy attorneys.

Consulting with different attorneys is also in the best interest of your finances and efforts. When you consult with different attorneys, you will get different perspectives tailored to your circumstances. Seeking out only one attorney will not provide you with enough perspectives and options to make the best choice. This way you will identify the best option for yourself and your finances thus helping your financial future. If you are in the area, you can start by scheduling a visit with San Diego Bankruptcy attorney Tristan Brown.

The best option

There are pros and cons that come with a bankruptcy claim. Ultimately, you are the only one who can decide whether it is the best option for you. The most important thing to do is speak to a bankruptcy lawyer and get their advice. Then take your time to fully consider your options and discern whether you want to take this step. Should you decide to go through with a bankruptcy claim, you should do so proudly, knowing it’s your best option.

The last thing to note is that you should always stay up to date on your finances. There will always be circumstances beyond our control such as a pandemic. However, knowing where you stand financially will always be in your best interest. Knowing such things will help you know what choices to make and when to make them.