**NEW BANKRUPTCY LAW**

**Bankruptcy Abuse Prevention and Consumer Protection Act of 2005**

Consumers who would have filed for debt relief in a Chapter 7 bankruptcy in the past will now have a much more difficult time doing so. Essentially, if your income is greater than the state median income, your motion to file Chapter 7 will be dismissed and you will be placed in a Chapter 13 repayment plan of five years. The new bill will result in more people having to file Chapter 13 bankruptcies, as opposed to Chapter 7.

As part of the new law

* Consumers will be required to receive credit counseling from an approved nonprofit credit counseling agency where consumers will learn about alternatives to bankruptcy and how to improve credit management skills.
* This counseling must occur within 180 days prior to filing for bankruptcy.
* Any of your creditors can dispute your request for Chapter 7 and can move that the request be denied in lieu of a five-year repayment plan under a Chapter 13 bankruptcy.
* Your income must be less than your state’s median income or you will have a hard time qualifying for a Chapter 7.

The good news for consumers who filed for bankruptcy in the past was that rebuilding their credit reports and scores was possible. As long as a consumer could re-establish credit and pay their bills on time, their scores increased significantly within a few years’ time. There were also plenty of reputable lenders who would do business with a bankrupt consumer because they realized that these people were now free of all of their debts. They also knew that most consumers who filed did so for reasons other than poor credit management skills, still making them good credit risks.

**The new bill will change all of this.**

* Consumers will still be saddled with their debts, and those lenders who had programs for bankrupt consumers will likely sit on the sidelines until consumers have paid well through their Chapter 13 bankruptcy.
* This will take up to five years in most cases, thus delaying the consumer’s ability to rebuild their credit and credit scores quickly.
* You will be forced to pay higher rates, or face outright declination for years.

All told, the new bankruptcy reform bill is a huge win for credit grantors and a huge loss for the vast majority of consumers who file for bankruptcy protection.