CHAPTER 4

Wipe Out Debts Without Bankruptcy

In 1938 a federal law was passed known as the Wage Earner Plan. It is administered by the same branch of our courts that handles bankruptcy. You must be a wage earner to use the law - that is the primary requirement. The Wage Earner Plan does not in itself 'wipe out' debts, but a little-known proviso of your filing requires that your creditors must appear to verify your indebtedness to them. Statistics indicate that 40% fail to appear, in which case, those debts are indeed 'wiped out'. In some cases 100% of the creditors fail to appear, which enables you to wipe out ALL your debts without bankruptcy. If some of the creditors do appear, then the court allows you to spread your payments out over a three-year period in smaller amounts so that you can afford to pay.

Once you file under the Wage Earner Plan, you stop bill collectors, lawsuits, judgments, assignments, seized bank accounts, and other actions against you. And to top it off, your credit rating is, in many cases, improved because you made an honest effort to work with the lending firms. Additionally, if the seller used deceptive trade practices to induce your purchase, your debt may be wiped out under the provisions of the Uniform Commercial Code. Under the Homestead Act, your residence can be exempted from levy to the extent determined by local law. Check at your local courthouse.

The Lure Of Easy Bankruptcy

Traditionally, personal bankruptcy has been a desperate last resort for those so deeply in debt and harried by creditors, that there really seemed to be no other solution. The typical profile included low-income, under-educated clerical workers or laborers, or perhaps transient non-homeowners. Common age groups were those who were in there twenties, or those over sixty five years of age.

This is no longer the case. Today's profile includes people with good jobs, even families with two incomes. It is not surprising to find those with six-figure incomes declaring bankruptcy. The process comes no longer out of a dire necessity, but it is now a means by which people can rid themselves of debts that cramp their lifestyle.

The most common applicants for bankruptcy include recent college graduates who file in order to avoid paying back government-guaranteed student loans. Their rationale? They feel society owed them an education. *(This is no longer allowed!)*

You will also find older, "keep up with the Jones's" types, filing for bankruptcy. From suburban executives to Wall Street professionals, they are unwilling to live within their means.

The passage of the Federal Bankruptcy Act of 1978 made the whole process much easier. This change significantly liberalized personal filing procedures in the name of consumer rights.

Chapter 7 makes no reference at all to the debtor's income. It permits debtors to clear the slate by turning over all their assets except those specifically exempted to creditors. Among the exemptions: Up to $7,500.00 equity in the debtor's house (15,000 if both file); $4,000.00 in accrued dividends; $1,200.00 in automobile equity; $500.00 in jewelry; $200 per category of household items (including clothing, books, etc.) and more!

Chapter 13 requires that debtors show only a regular income to handle a reasonable three-year payback plan. The court's definition of reasonable happens to be as little as 1% to 10%, even when a payment of 50% could easily be managed.