

722 Redemption and Bankruptcy

When you file for a Chapter 7 bankruptcy, you get relief from all of your unsecured debts. The basic rule regarding secured debts is that you must continue to pay your contractual payments in order to keep the collateral. If you want to eliminate a secured debt through bankruptcy, you can, but you must surrender the collateral to the secured creditor. There is a third option that an experienced and knowledgeable bankruptcy attorney can help you with. The third option is called "redemption."

The redemption process in bankruptcy requires the debtor to obtain a court order. The court order typically requires the secured creditor to release its lien against a particular piece of personal property in exchange for a lump sum payment from the debtor. The lump sum payment must equal the current market value of the collateral.

It is important to note that the redemption process only applies to personal property used primarily for household purposes. Examples of personal property used for primarily household purposes include vehicles, furniture, household appliances and household electronics.

The Upside

The main benefit of the redemption process is that you can retain property and pay the creditor less than the full balance on the secured debt. The secured creditor will not be able to repossess the property. Typically, you would owe more on the debt than what the collateral is worth. This is especially true in relation to vehicles, at least for the first couple of years of the loan. For example, if you owe \$15,000 on a vehicle that is now worth only \$10,000, you would only have to pay your creditor \$10,000.

The Downside

The downside is that you must be able to pay the value of the collateral in one, lump sum payment. Most debtors do not have access to enough money to pay a lump sum on a valuable piece of personal property.

If this is the case, a knowledgeable and experienced bankruptcy attorney like the attorneys here at Legal Helpers/Macey & Aleman can give you information about lenders that offer loans to cover this lump sum payment. Of course, you will have to pay this lender interest. An

experienced attorney such as the ones at our firm can help you analyze the costs and benefits of the redemption process in your particular case.