Auto Lien Stripping Under the New Bankruptcy Act

If you filed for Chapter 13 bankruptcy under the old law, you could have chosen to "strip down" the auto lien on your vehicle. Stripping down an auto lien means reducing the debt you owe on your vehicle. In other words, you would reduce your car payment to the value of the car only and you get to pay a lower interest rate.

For example, you may owe $10,000 plus interest on a car that is worth only $5,000. If you stripped down your auto lien under a Chapter 13 bankruptcy, you would only have to pay the $5,000 plus a lower interest rate.

Note that your car is considered a secured debt under Chapter 13. A secured debt is a debt where the creditor takes your property as collateral. Homes and vehicles are examples of secured debts. If you do not pay your secured debt, your creditor has the right to take your vehicle or home.

New Bankruptcy Law Changes

With the new bankruptcy law in effect, auto lien stripping has been restricted. Now you can only reduce the principal owed and the interest rate on your vehicle if you bought your car more than two and a half years (910 days to be exact) prior to your bankruptcy filing.

Conclusion

Depending on your circumstances, the inability to "strip" the lien on your car could mean you can not afford a Chapter 13 plan. If you can not afford a Chapter 13 plan, you may not be able to prevent the repossession on your car. This could be disastrous. You would lose mobility. It could be difficult to travel to your place of employment. Since you must go to work to pay your living expenses, this obviously creates a hardship. If you are in serious financial trouble, you should NOT WAIT to file for bankruptcy immediately.