

## The "Cram Down" Benefit of a Chapter 13 Bankruptcy

A major benefit of Chapter 13 bankruptcy is that it allows you to lower the amount that you owe on most secured debts (called a "cram down"). Secured debts are those that if you do not pay, then you will have to return that item, such as a car, furniture or house (however, the cram down option is not available for your house). When you finance a car or furniture, you typically make a number of monthly payments to repay the loan. In most cases, the value of the item you are financing decreases faster than the loan is being repaid (for example, a car purchased two years ago is now worth \$5,000.00 but the amount still owed on the loan is \$10,000.00). This is known as being "upside down." A year or two after you make a purchase, the value of the item you are paying for is usually much less than the remaining balance owed. Debts like these can be "crammed down" in Chapter 13, by paying the value of the property (usually your car or furniture) in full plus interest with the remaining balance paid as little as a penny for every dollar owed.

Another great benefit of Chapter 13 bankruptcy is that you can reduce the interest that you have to pay on a secured loan (however, you cannot lower the interest on your mortgage by filing a Chapter 13 bankruptcy). Many people have car or furniture loans where they agreed to pay 15%-30% interest, and sometimes even more. In a Chapter 13 bankruptcy you only have to pay most secured debts at the prime rate plus 1-3%, depending on the circumstances of your case. Millions of people in Chapter 13 bankruptcy will save billions of dollars each year.

The combination of cramming down a secured loan and reducing the interest rate can save you a lot of money. If you are behind on payments for a secured loan or if you simply cannot afford the monthly payment due to the high interest rate, then consider filing a Chapter 13 bankruptcy.