Chapter 7 Bankruptcy

A Chapter 7 bankruptcy is a liquidating bankruptcy in which an independent Bankruptcy Trustee gathers and sells the debtor's non-exempt assets and uses the proceeds to pay creditors.

Filing a petition under Chapter 7 triggers a mandatory "automatic stay" halting collection actions against the debtor and the debtor's property. 11 U.S.C. § 362(a). As long as the stay is in effect, creditors generally may not initiate or continue lawsuits, wage garnishments, foreclosure or even make telephone calls demanding payment or seeking to collect the debt from the debtor or debtor's property. Mortgage loans secured by a lien against property cannot be foreclosed without an order of the bankruptcy court granting relief from the automatic stay and granting authority to proceed with levy and sale of the property.

At the end of the proceedings, a debtor is generally granted an Order of Discharge of his or her debts. The Discharge means that the debtor no longer has "personal" liability for the debts listed in the bankruptcy case. This is designed to give a debtor a "fresh start" and a creditor can no longer initiate or continue any legal or other action against the debtor to collect a discharged debt. 11 U.S.C. § 727.