

Congress pretty much eliminated bankruptcy in 2005. Wrong!

The rumor is still going around that Congress pretty much eliminated bankruptcy with the new bankruptcy laws of 2005. Nothing could be further from the truth. Let's take a look at what the truth is about bankruptcy after 2005.

In 2005, a U.S. Congress controlled by a party favoring companies that provide credit, not consumers, passed a new set of bankruptcy laws called Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA). This new bankruptcy code included many new provisions, some intended to make bankruptcy more difficult. Here are some highlights of the changes.

- **Credit Counseling and Financial Management courses** - You must take an approved course in Credit Counseling before your bankruptcy case is filed, and you must take an approved course in Financial Management after your bankruptcy case is filed. These courses are available online and cost as little as \$10 each. This is no big deal at all, just two small hoops to jump through.
- **Means Test** - The Means Test is intended to be a barrier to filing a Chapter 7 bankruptcy (the type that gets rid of your debts quickly). If your last six months gross income (before deductions) times 2 (to make it a yearly number) is not greater than the median income in your state for your household size, you pass the Means Test! If that gross income is greater than the median, then you need to "take" and pass the full Means Test. Your bankruptcy attorney can guide you through that and many people pass the full Means Test.
- **Your bankruptcy attorney needs to gather and process much more financial information** from you than before. This causes more work for you and your attorney and, yes, higher attorney fees than before.
- **Exemption (protection from creditors) of \$1,000,000 for IRA retirement accounts.** That is much better than before and one area where the new bankruptcy laws are better for people in debt than before.

There were other changes, but those are enough to show you that the 2005 bankruptcy laws did not "gut" bankruptcy, but simply made it more work and more expensive, and for the few who can't pass the Means Test it did eliminate a Chapter 7 bankruptcy. Considering the makeup of Congress at the time, it could have been much worse. **Instead, the core of bankruptcy remains intact.**

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