12 myths about bankruptcy

**Will you lose your house and retirement savings? When will you be able to borrow money again? Get the facts on these questions and more.**

Like most big, bad scary things, [**bankruptcy**](http://www.bing.com/search?q=personal%20bankruptcy&FORM=MSMONY) has a reputation based on a few tidbits of truth and a lot of embellishment. And like most creepy crawlies, it's not nearly as frightening once you know the truth.

With a mind toward declawing the monster, here are a dozen misconceptions about bankruptcy:

**1. Everyone will know I've filed for bankruptcy.** Unless you're a prominent person or a major corporation and the filing is picked up by the media, the chances are very good that the only people who will know about a filing are your creditors. While it's true that bankruptcy is a public legal proceeding, the number of people filing is so massive that very few publications have the space, manpower or inclination to run all of them, although some local newspapers do print the names of those who have filed in that community.

**2. All debts are wiped out in** [**Chapter 7 bankruptcy**](http://www.bing.com/search?q=chapter+7+bankruptcy&form=MSMONY)**.** You wish. Certain types of debts cannot be discharged, or erased. They include child support and alimony, student loans, restitution for a criminal act and debts incurred as the result of fraud.

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**3. I'll lose everything I have.** This is the misconception that keeps people who really should file for bankruptcy from doing it, says Chris Viale, the chief operating officer of Cambridge Credit Counseling in Massachusetts.

"They think the government will sell everything they have and they'll have to start over in a cardboard box," Viale says.

While bankruptcy laws vary from state to state, every state has exemptions that protect certain kinds of assets, such as your house, your car (up to a certain value), money in qualified retirement plans, household goods and clothing.

"For most people, they'll pass through a bankruptcy case and keep everything they have," says John Hargrave, a bankruptcy trustee in New Jersey. If you have a mortgage or a car loan, you can keep the property as long as you keep making payments (like the rest of us).

**4. I'll never get credit again.** Quite the contrary. It won't be long before you're getting credit card offers again. They'll just be from subprime lenders that will charge very high interest rates. "There are innumerable companies that will provide credit to you," says California bankruptcy attorney and trustee Howard Ehrenberg.

"I don't advise any of my clients to run out and run up the bills again, but if someone does need an automobile, they can go and will be able to get credit," he says. "You don't have to go underground or something to get money." (Do you know your credit rating? Take MSN Money's [**quiz**](http://money.msn.com/credit-rating/your-credit-score.aspx) for an estimate.)

**5. If you're married, both spouses have to file for bankruptcy.** Not necessarily. "It's not uncommon for one spouse to have a significant amount of debt in their name only," Hargrave says. However, if spouses have debts they want to discharge that they're both liable for, they should file together. Otherwise, the creditor will simply demand payment for the entire amount from the spouse who didn't file.

**6. It's really hard to file for bankruptcy.** It's really not. Technically, you don't even need an attorney -- you can do the paperwork without one. However, going through the procedure alone is not recommended.

**7. Only deadbeats file for bankruptcy.** Most people file for bankruptcy after a life-changing experience, such as a divorce, the loss of a job or a serious illness. They've struggled to pay their bills for months and just keep falling further behind.

**8. I don't want to include certain creditors in my filing because it's important to me to pay them back someday, and if the debt is discharged, I can't ever repay them**. Bless you for even thinking about such a thing. You're no longer obligated to repay them, but you always have the opportunity. If your conscience won't let you sleep because you didn't pay your debts, there's nothing in the bankruptcy code that prevents you from doing that once you're back on your feet. But it is nearly impossible to leave any account with a balance out of your list of creditors. In general, all creditors receive notification of your bankruptcy filing, whether they are listed in the petition or not.

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**9. Filing for bankruptcy will improve my credit rating because all those debts will be gone.** Filing for bankruptcy is the worst "negative" you can have on your credit report. Unlike other negatives, which stay on your report for seven years, bankruptcy can be there for 10 years, but you do get to rebuild your credit eventually.

**10. You can't get rid of back taxes through bankruptcy.** Generally speaking, this is true. However, there is such a thing as tax bankruptcy, says tax educator Eva Rosenberg, known on the Web as [**TaxMama**](http://www.bing.com/search?q=TaxMama&form=MSMONY).

**11. You can only file for bankruptcy once.** The truth is, you can file for Chapter 7 bankruptcy only once every eight years, says Justin Harelik, Bankrate's bankruptcy adviser. For Chapter 13 reorganization, you can file more often than that.

Of course, that doesn't make it a good idea.

"Multiple bankruptcies are really bad," Rosenberg says. "Many people get into the habit of once they've done it, it becomes a way of life. This is not good for your karma." Or your credit rating.

**12. I can max out all my credit cards, file for bankruptcy and never pay for the things I bought.** That's called fraud, and bankruptcy judges can get really cranky about it.