Previously successful people have had to declare bankruptcy, and gotten bankruptcy loans, recently because of COVID-19.

Restaurants and bars are prime examples, but many other companies like Gold's Gym, Hertz, GNC and Chuck E. Cheese to name a few have had to invoke bankruptcy protection with bankruptcy loans.

Many of these filings were under Chapter 11 of the U.S. Bankruptcy Code. Chapter 11 allows companies to restructure their debts, formulate a survival plan, and continue to operate. If there is no hope of continued operation, one alternative is to file under Chapter 7. A Chapter 7 filing invokes a liquidation process that disposes of the company's assets while dividing the proceeds among creditors.

If you have a business and you did not sign for anything personally, you could possibly avoid any personal credit issues since the business entity would have been responsible for all debts.

As most small business owners understand, however, it's very difficult for a new business to operate without signing for something personally whether it's a lease, a bank loan, or even a guaranty to a food supplier. Therefore, even if your business files for bankruptcy, anything you have personally signed for will quickly become your personal responsibility. Worse, any taxes owed by the business may be assessed to the officers and directors, and these taxes are usually not dischargeable in bankruptcy

The Struggle Continues with Bankruptcy Loans



In other situations, a consumer may have lost their job and this can result in bills due that just cannot be paid. Even with COVID-19 relief provisions that have staved off some rent and mortgage payments, some unfortunate individuals are being crushed under the weight of debt because their cash flow has been seriously restricted.

This is another reason that some of those affected by COVID-19 have had to declare bankruptcy.

Not Financial Death



In previous times, personal bankruptcy used to be considered. financial death, but this is no longer the case. There is life after bankruptcy, as The Moran Law Group explains: "Damaged credit improves over time, just like wounds heal. A credit report is not like a wine glass that once it's broken, it's gone forever."

Important note: For example, if you are going to declare bankruptcy in Kentucky, or Illinois, or any other state for that matter, make sure you do it right. Consult with a bankruptcy attorney before you file to make sure that everything that can be discharged is actually discharged.

No Scarlet Letter for Bankruptcy Loans



No one is going to know you filed bankruptcy by just looking at you, and if you do things correctly, you may be able to still live in your home.

State vs. Federal Exemptions

Different states have different bankruptcy exemptions, i.e. the list of items that can't be attached or taken by creditors. Check out this chart to view the top five exemptions under Texas law, for example, compared to federal law. This chart is courtesy of the National Bankruptcy Forum:

Type of exemption	Texas law	Federal law
Homestead	Unlimited, except by acreage based on location of the property	$23,675 of equity in principal place of residence

Personal property	Up to $100,000; $50,000 if a single adult without a family. Includes clothing and food, up to two firearms, several animals, limited jewelry, and more	$12,625 aggregate value on household goods, plus federal wildcard exemption applicable ($1,250 plus $11,850 of any unused portion of your homestead exemption)
Vehicle	Entire value of one motor vehicle per licensed household member	$3,775
Wages	Exempt for personal services, except for the enforcement of court-ordered child support payments	Income you've earned but not yet received becomes part of your bankruptcy estate
Pension/retirement	Exempt, including benefits for teachers, police officers, municipal employees, etc.	Exempt, with a cap of about $1.28 million on IRAs and Roth IRAs

What Now?

If you have declared bankruptcy, these are the important things you need to do now to begin your recovery.

Credit Cards



Before debit cards became so popular, newly bankrupt individuals worried that they would not be able to get a plane ticket without a credit card. This is not true now, as a debit card can be used to purchase plane tickets. Unfortunately, credit cards are necessary for some transactions, like car rental—even though Hertz is in Chapter 11 bankruptcy itself—and you'll need to get a card.

Luckily, newly bankrupt persons can apply for a secured credit card that works like a regular credit card except that you have to guaranty your card with a cash deposit. This is valuable it because you will have started to rebuild your credit as new on time payments will be reported to credit bureaus.

Another good strategy is to ask a relative to add you as a user on one of their credit card accounts. That way, you'll have a fresh line of credit and again, on-time payments will help raise your score.

Vehicle



If you owed money on your vehicle, it could be repossessed during the bankruptcy. Either let that happen or talk to your lender about other possibilities. You may be able to refinance the old loan with a cosigner, and there are other ways that a lender may help allow you to stay in your vehicle. If nothing else, make sure you find some reliable transportation—even a used beater that runs may be better than taking the bus.

Utilities



Your local electric company will automatically discharge your old bill, but you may have to come up with a small deposit to continue service. Consider using a cosigner for the account if utility companies are giving you trouble.

Applying for a New Job



Smaller employers may not care about your credit score, but larger ones regularly access credit reports, and a fresh bankruptcy could cause some employers to think twice about your application. Therefore, make sure you engage the services of a quality recruiter along with a professional resume writer to help ensure that you won’t be automatically rejected because of bad credit.

Invoke Sympathy



You just declared bankruptcy. You're emotionally devasted. Use this as leverage to keep lingering creditors from bothering you. If you owe money to the IRS, contact them and ask for some time to get your finances in order. A 120-day hold on your account can be welcome, and you can use that time to regroup.

If you have unfortunately lost your home and have to rent an apartment, consider renting from a landlord you can talk to personally, rather than a property management company that might automatically reject you. If you can explain your situation directly to a landlord, you might be given a chance you wouldn't otherwise be afforded.

Personal bankruptcy is not to be taken lightly, but it's not the end of the world. Many people that declared bankruptcy during the Great Recession that began in 2008 are now homeowners. Yes, bankruptcy is a financial setback, but with diligence and hard work, you can overcome any short-term issues that it creates.