Research paper on legal environment of business

Business, Company

Bankruptcy law protects people or companies that are unable to service their loans or other debts that they have accumulated from creditors (Andrew, 2013). The debts may be due to unavoidable situation which is not entirely their fault. The most common types of bankruptcies are chapter 11 and chapter 7. Chapter 11 mainly deals with debts involving large amounts of money. On the other hand, chapter 7 covers for companies and people who are unable to service their loans. Chapter 7 is also known as liquidation and it involves appointing a trustee, who collects and sells assets from debtor, and finally distributes the earnings to the creditors.

People file for bankruptcy due to different reasons. Firstly, persons file for bankruptcy to reduce the legal obligation to pay for most of their debts. This is also referred to as debts. Secondly, people file for bankruptcy to reduce the risk of their property being repossessed. Although a creditor may have the mandate to reposes a debtor’s property, however, once the debtor files for bankruptcy, the creditor may be compelled to return the reposed assets. Thirdly, a person may file for bankruptcy due to a recent loss of a job. Loss of work makes people unable to pay for their loans and these forces them to file for bankruptcy (Jennifer, 2012).

Quite often, many people are concerned about how bankruptcy cases will affect their interest rates on loans and credit cards. Most lenders are cautious with borrowers who file for bankruptcy after being issued with the credit (Phillip, 2009).

Normally, interest rates charged on loans and credit cards tend to increase when a person files for bankruptcy. It is advisable for people to be borrowing manageable credit that they are sure of repaying.

References

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