

# Chapter 13, Car Loans, & the Cram Down

By: Robert L. Firth

<http://palmspringsestateplanningandbankruptcyattorney.com/>

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[Chapter 13 bankruptcy](#) allows debtors to “cram down” their car loan. What this means is that if the debtor’s vehicle is valued for less than what is owed on it, the “cram down” lowers the balance and interest rate on the car loan. The debtor must have purchased the vehicle at least 910 days (approximately 2-1/2 years) before he/she files the bankruptcy case in order to take advantage of the cram down.

We all know that a car loses its value quickly, so many consumers have a car loan balance that is much greater than what their car is worth, especially if the consumer “rolled over” all or some of the balance that was owed on the trade-in.. In a Chapter 13 bankruptcy, a repayment plan is submitted by the debtor and it outlines how creditors will be paid. The debtor’s plan can propose that the car loan lender be paid only the amount of the value of the vehicle, not the entire amount due on the loan.

The cramdown argument is that the lender is only [secured](#) for the amount of the value of the car. Any remaining amount owed on the loan is [unsecured](#). A Chapter 13 plan provides that unsecured creditors receive a percentage (0 to 100%) of what is owed to them.

In addition to lowering the balance owed on the car loan, the cram down allows the debtor to lower his interest rate. The bankruptcy court generally applies a pre-determined interest rate, which is usually the prime rate plus a little additional (known as the “Till rate after the 2004 Supreme Court decision [Till v SCS Credit Corp](#)). The court’s rate is often lower than the original interest rate on the loan.

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About Robert L. Firth

*At the law office of [Robert L. Firth](#) located in [Cathedral City, California](#), we are committed to providing quality legal representation to individuals and businesses facing difficult legal challenges. We believe in providing compassionate service at reasonable rates. If you need to speak with an attorney about bankruptcy, estate planning and probate, real estate tax deferred*

*exchanges, small business services or another important legal matter, contact the law office of Robert L. Firth at [760-699-2892](tel:760-699-2892).*