

Cramdowns and Lien Strips: How Bankruptcy Can Help Decrease Your Arizona Mortgages

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A popular bankruptcy topic is how it can help you with your mortgage(s). Arizona has been one of the hardest hit states in the country by the housing market crash, and those affected desperately want to improve their financial situation. In desperation people turn to bankruptcy to solve all of their problems.

There are two common tools in bankruptcy that relate to mortgages. The first is called a "Lien Strip," and the second is a "Cramdown." It's important to note that these tools are only available in a [Chapter 13 bankruptcy](#). (Chapter 13 requires monthly payments.)

Lien Strip

A Lien Strip will not provide protection or relief from a first mortgage, but it does provide complete protection and relief from second mortgages or third mortgages if you have them (or home equity lines of credit). A [Lien Strip](#) eliminates any lien or mortgage that is not supported by the value of your home. For instance, if you owe \$100,000.00 on your first mortgage and \$50,000.00 on a second, but the value of the home is only \$75,000.00, then the second mortgage is not supported because the entire value is swallowed up in the first mortgage. However, if the value of your property is even one penny more than the amount you owe on the first mortgage then you may not strip the second mortgage from the home. Basically, a Lien Strip is an all-or-nothing deal, but it is a powerful tool to eliminate 2nd and 3rd mortgages on real estate.

LIEN STRIP	CHAPTER 7	CHAPTER 13
PRIMARY RESIDENCE (1 st Mortgage)	Unavailable	Unavailable
PRIMARY RESIDENCE (2 nd or 3 rd Mortgage)	Unavailable	Available
INVESTMENT PROPERTY (1 st Mortgage)	Unavailable	Unavailable
INVESTMENT PROPERTY(2 nd or 3 rd Mortgage)	Unavailable	Available

Cramdown

A [Cramdown](#) is very different from a Lien Strip. A Cramdown is not an all-or-nothing deal. Through a Cramdown, you can get partial relief from a mortgage by forcing the lender to accept the fair market value of the home in full satisfaction of the debt. In other words, if you owe \$100,000.00 on a first mortgage and the value of the house is only \$75,000.00 then you could force the lender to accept \$75,000.00. The practical drawback to a Cramdown is that the fair market value of the home must be paid off within the time frame of the Chapter 13 plan (3-5 years). In most cases, it is not feasible to accomplish such a feat if the amount that has to be paid is too large. However, in some circumstances it is very useful. A major limitation of a Cramdown is that it is not available to any mortgage on your primary residence.

CRAMDOWNS	CHAPTER 7	CHAPTER 13
PRIMARY RESIDENCE (1 st Mortgage)	Unavailable	Unavailable
PRIMARY RESIDENCE (2 nd or 3 rd Mortgage)	Unavailable	Unavailable
INVESTMENT PROPERTY (1 st Mortgage)	Unavailable	Available
INVESTMENT PROPERTY(2 nd or 3 rd Mortgage)	Unavailable	Available

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