

# The Chapter 13 Cramdown

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[Chapter 13 bankruptcy](#) provides a method for the debtor to reduce the amount of a vehicle loan. This process is called a “cramdown.” If your car is worth less than what you owe on your car loan, you may be able to use a cramdown to reduce the balance and interest rate on your loan. The cramdown is only available in a [Chapter 13](#) case; you cannot do it in a [Chapter 7](#) filing.

A vehicle is an asset that depreciates in value fairly quickly. Thus, it is common for consumers to owe more on their loan balance than the value of their car. This is commonly referred to as being “upside down.” By filing a Chapter 13 bankruptcy, a debtor may be allowed to reduce the balance on the car loan down to the amount of the value of the car. In order to take advantage of a car loan cramdown, you must have purchased the car at least 910 days (about 2 ½ years) before you file your bankruptcy case.

The cramdown begins by the debtor proposing that the car lender be paid only the value of the car (instead of the entire amount due on the loan) in his Chapter 13 plan. For example, if you owe \$10,000 on your truck and it is only worth \$8,000, the debtor claims that the lender has a secured claim of \$8,000 and an unsecured claim of \$2,000. The basis for this argument is that if the lender were to repossess the vehicle and sell it, the lender would only receive \$8,000. It is common for unsecured creditors to receive a small percentage of their claim, so this can be a significant savings for the debtor.

The cramdown procedure also allows the debtor to lower his interest rate on the car loan. The interest rate is determined by your specific bankruptcy court. It is most commonly the prime interest rate with a little extra added. Typically, this rate is lower than your original contract rate.

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About Jerry R. Lowe

*If you are considering filing for bankruptcy protection, call Fresno bankruptcy attorney [Jerry R. Lowe](#) at (559)513-8535. Mr. Lowe provides representation for debtors in Chapter 7 and Chapter 13 bankruptcy matters throughout California's Central Valley in communities such as Fresno, Clovis, Reedley, Sanger, Selma, Madera, Chowchilla, Oakhurst, Coarsegold, Auberry, Prather, Coalinga, Avenal, Corcoran, Hanford, Lemoore, Tulare and Visalia.*