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| *Indicate whether the statement is true or false.* |

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| 1. If a homeowner defaults, or fails to make the mortgage payments, the lender has the right to foreclose on the mortgaged property.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 2. Recording a mortgage ensures that a creditor is officially on record as holding an interest in mortgaged property.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 3. *Foreclosure* is the legal process by which a lender repossesses and auctions off property that has secured a loan.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 4. A debtor’s vehicle is never exempt from satisfaction of a judgment debt.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 5. A homestead exemption allows a debtor to subtract the value of the family home from the amount of a debt.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 6. In a few states, statutes allow the homestead exemption only if the judgment debtor has a family.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 7. Before filing for bankruptcy, a consumer-debtor must receive credit counseling.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 8. Rulings from bankruptcy courts are final—they cannot be appealed.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 9. The clerk of a bankruptcy court must provide consumer-debtors with information on the types of services available from credit counseling agencies.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 10. One goal of bankruptcy law is to ensure equitable treatment of creditors who are competing for a debtor’s assets.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 11. Bankruptcy proceedings are held in state courts.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 12. A debtor must be insolvent to file for bankruptcy relief.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 13. Any “person”—defined as including corporations—may be a debtor in a liquidation proceeding.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 14. To supply false information on official bankruptcy schedules is a crime.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 15. If a debtor’s income is below the median income, there is no presumption of bankruptcy abuse.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 16. An involuntary bankruptcy occurs when a debtor’s creditors are forced to accept a discharge of the debtor’s debts.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 17. A bankruptcy estate consists of all the debtor’s interests in property currently held, wherever located.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 18. An order for relief in a bankruptcy proceeding amounts to a discharge of the debts of the party petitioning for bankruptcy protection.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 19. A farmer cannot be forced into involuntary bankruptcy.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 20. The filing of a petition for bankruptcy will automatically stay most legal actions against the debtor.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 21. In the majority of states, debtors may use only federal, not state, exemptions to exempt certain property from the bankruptcy.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 22. The basic duty of a trustee is to collect the debtor’s property and reduce it to money for distribution.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 23. A preference occurs when a debtor transfers property or money favoring one creditor over others.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 24. A trustee has the power to avoid preferences.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 25. All debts are dischargeable in bankruptcy.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 26. In the distribution of the debtor’s estate, unsecured creditors take priority over secured creditors.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 27. If the assets in a debtor’s estate in bankruptcy are insufficient to pay fully all creditors, the debtor is liable for the difference.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 28. A bankruptcy court may deny a discharge based on a debtor’s conduct.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 29. The same principles that govern the filing of a liquidation petition apply to reorganization proceedings.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 30. On the entry of an order for relief in a reorganization case, the creditors generally take over the operation of the debtor’s business.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 31. For individual debtors, the plan in a reorganization case must be completed before discharge will be granted.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 32. A repayment plan case can be initiated by the conversion of a liquidation petition.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 33. In a repayment plan case, the plan must provide for payment of *all* claims in full, whether or not they are entitled to priority.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 34. Payments under a Chapter 13 plan must be completed within three to five years, depending on the debtor’s family income.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 35. A court can dismiss a debtor’s petition for a Chapter 13 adjustment if the circumstances indicate bad faith.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 36. ​Countryside Bank provides Dhani with a standard mortgage with an unchanging rate of interest to buy a home. Payments on the loan remain the same for the duration of the mortgage. This is   |  |  |  | | --- | --- | --- | |  | a. | ​a fixed-rate mortgage. | |  | b. | ​an adjustable-rate mortgage. | |  | c. | ​a workout agreement. | |  | d. | ​a violation of the law. | |

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| 37. Lenders Bank provides Mark with a mortgage to buy a home. The rate of interest is fixed for five years and then adjusts annually. This is   |  |  |  | | --- | --- | --- | |  | a. | ​a fixed-rate mortgage. | |  | b. | ​an adjustable-rate mortgage. | |  | c. | ​a workout agreement. | |  | d. | ​a violation of the law. | |

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| 38. George borrows funds from Hometown Credit Union (HCU) to buy real property. George signs a written instrument that gives HCU an interest in the property as security for the debt’s payment. This is   |  |  |  | | --- | --- | --- | |  | a. | a mortgage. | |  | b. | a liquidation. | |  | c. | a workout agreement. | |  | d. | a reorganization. | |

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| 39. Vito borrows $150,000 from Workers & Farmers Bank to buy a home. If he fails to make payments on the mortgage, the bank has the right to repossess and auction off the property securing the loan. This is   |  |  |  | | --- | --- | --- | |  | a. | a cram-down provision. | |  | b. | a forbearance. | |  | c. | aforeclosure. | |  | d. | ​the right of redemption. | |

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| 40. Dylan defaults on a debt to Eastside Bank. Eastside will be able to recover the debt from all of the following *except*   |  |  |  | | --- | --- | --- | |  | a. | proceeds from the sale of Dylan’s prize-winning pet dog. | |  | b. | proceeds from the sale of Dylan’s investments in stocks. | |  | c. | Dylan’s wages. | |  | d. | ​Dylan’s checking account. | |

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| ​Robin’s home is in a state that has a $60,000 homestead exemption. Robin de-faults on a $120,000 debt that she owes to Suburban Mortgage Company. Robin’s home is sold at auction for $160,000. |

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| 41. ​Refer to Fact Pattern 26-1. Suburban Mortgage may recover​   |  |  |  | | --- | --- | --- | |  | a. | $0. | |  | b. | $60,000. | |  | c. | $100,000. | |  | d. | $120,000. | |

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| 42. Refer to Fact Pattern 26-1. Robin will receive​   |  |  |  | | --- | --- | --- | |  | a. | $0. | |  | b. | $60,000. | |  | c. | $100,000. | |  | d. | $120,000. | |

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| 43. Refer to Fact Pattern 26-1. If Suburban Mortgage recovers less than it is owed, it can realize the difference from   |  |  |  | | --- | --- | --- | |  | a. | any property that Robin owns. | |  | b. | only exempt property that Robin owns. | |  | c. | only nonexempt property that Robin owns. | |  | d. | property that any other member of Robin’s family owns. | |

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| 44. Beatrix defaults on a debt to Credit Union Corporation. As a creditor, Credit Union can place liens on all of Beatrix’s property *except*   |  |  |  | | --- | --- | --- | |  | a. | ​motor vehicles used to commute to work. | |  | b. | stock in various corporations. | |  | c. | ​items that the debtor selects. | |  | d. | vacant commercial property. | |

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| 45. Carlton files a petition in bankruptcy. One of the goals of bankruptcy law with respect to a debtor is to   |  |  |  | | --- | --- | --- | |  | a. | encourage the continued use of credit to borrow funds. | |  | b. | ensure that third parties will continue to guarantee loans. | |  | c. | provide a fresh start, free from creditors’ claims.​ | |  | d. | shield assets from creditors’ claims. | |

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| 46. Lulu joins with other creditors to force Mikhail, a debtor, into bankruptcy. One of the goals of bankruptcy law with respect to creditors is to   |  |  |  | | --- | --- | --- | |  | a. | ensure that creditors will continue to lend to insolvent debtors. | |  | b. | protect creditor assets from diminution in value. | |  | c. | provideequitable treatment in the competition for debtor assets. | |  | d. | make all debtor property available for creditor claims. | |

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| 47. Franco files a petition in bankruptcy. The initial proceeding on this peti-tion will be in   |  |  |  | | --- | --- | --- | |  | a. | a federal bankruptcy court. | |  | b. | a state bankruptcy court. | |  | c. | the highest court in the state in which Franco is located. | |  | d. | the United States Supreme Court. | |

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| 48. Maya wishes to appeal a decision from a federal bankruptcy court. Maya may appeal to   |  |  |  | | --- | --- | --- | |  | a. | no court—there is no appeal from a bankruptcy court decision. | |  | b. | afederal district court. | |  | c. | the U.S. Supreme Court. | |  | d. | a state intermediate appellate court. | |

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| 49. Lindsay operates a sole proprietorship, a corporation, and a partnership. Lindsay wants to obtain relief for her individual debts and the debts of her corporation and partnership. For each of these, Lindsay may file a petition in bankruptcy for relief through   |  |  |  | | --- | --- | --- | |  | a. | a liquidation. | |  | b. | a reorganization. | |  | c. | a repayment plan. | |  | d. | a family-farmer bankruptcy plan. | |

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| 50. Patty files a petition in bankruptcy. At the moment of filing   |  |  |  | | --- | --- | --- | |  | a. | an automatic stay  goes into effect. | |  | b. | Patsy’s debts are discharged. | |  | c. | Patsy’s petition is dismissed. | |  | d. | Patsy’s property is distributed to her creditors. | |

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| 51. Rhea’s voluntary petition for bankruptcy is found to be proper. The order for relief is effective as soon as​   |  |  |  | | --- | --- | --- | |  | a. | Rhea files the petition. | |  | b. | Rhea posts a bond to cover the costs of the proceedings. | |  | c. | Rhea’s creditors agree to the terms. | |  | d. | the trustee collects and distributes the property of Rhea’s estate. | |

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| 52. Donna goes through an involuntary bankruptcy proceeding. An involun-tary bankruptcy occurs when   |  |  |  | | --- | --- | --- | |  | a. | a debtor files forms designated for the purpose in a bankruptcy court. | |  | b. | a debtor is unable to pay his or her debts as they come due. | |  | c. | ​a debtor’s creditors force the debtor into bankruptcy proceedings. | |  | d. | a debtor’s debts exceed the fair market value of his or her assets. | |

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| 53. Troy files a petition for bankruptcy. Troy must include with the petition   |  |  |  | | --- | --- | --- | |  | a. | proof of each creditor’s claim. | |  | b. | a list of creditors and the amount of the debt owed to each. | |  | c. | all of his debit and credit cards to be disposed of by the court. | |  | d. | an affidavit testifying to his having read the Bankruptcy Code. | |

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| 54. Kofi files a petition for bankruptcy. Kofi must include with the petition   |  |  |  | | --- | --- | --- | |  | a. | a plan to turn over his future income to the trustee. | |  | b. | a certificate proving attendance at a credit-counseling briefing. | |  | c. | a provision of adequate means for the petition’s execution. | |  | d. | a statement of preference for one creditor over another. | |

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| 55. Rodger’s creditors try to force him into involuntary bankruptcy. The creditors will be unsuccessful if Rodger   |  |  |  | | --- | --- | --- | |  | a. | owns a business that employs fewer than ten people. | |  | b. | is a farmer. | |  | c. | has a medical condition. | |  | d. | has to pay child support. | |

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| 56. Leif has fifteen creditors. To force Leif into bankruptcy proceedings, at least three creditors must join the petition and their unsecured claims must add up to at least   |  |  |  | | --- | --- | --- | |  | a. | $500. | |  | b. | $15,325. | |  | c. | $100,000. | |  | d. | $500,000. | |

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| 57. Umiko files a petition for bankruptcy. Her creditors must file with the court their proof of claims against her assets within   |  |  |  | | --- | --- | --- | |  | a. | fifteen days of the order for relief. | |  | b. | thirty days of the filing of the petition. | |  | c. | sixty days of the automatic stay. | |  | d. | ninety days of the creditors’ meeting. | |

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| 58. Harold files a bankruptcy petition. The resulting automatic stay will apply to Harold’s payments for   |  |  |  | | --- | --- | --- | |  | a. | alimony. | |  | b. | childsupport. | |  | c. | all of the choices. | |  | d. | acar. | |

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| 59. Norma files a petition in bankruptcy. She turns her assets over to O’Brien, who sells them and then distributes the proceeds to Norma’s creditors. O’Brien is   |  |  |  | | --- | --- | --- | |  | a. | a preferred creditor. | |  | b. | a bankruptcy court judge. | |  | c. | abankruptcy trustee. | |  | d. | adebtor. | |

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| 60. Roland files for Chapter 7 bankruptcy. After all his assets have been sold and the proceeds distributed among his creditors, Roland’s remaining debts   |  |  |  | | --- | --- | --- | |  | a. | ​are discharged. | |  | b. | paid by the court. | |  | c. | must be paid by Roland. | |  | d. | are put on hold until Roland has sufficient means to pay them. | |

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| 61. ​Daniel is a trustee for a federal bankruptcy court. Daniel’s duties include   |  |  |  | | --- | --- | --- | |  | a. | collecting the debtor’s available estate. | |  | b. | establishing priority for the payment of unsecured creditors. | |  | c. | operating a debtor’s business to obtain maximum profit for creditors. | |  | d. | submitting to an examination under oath by the creditors. | |

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| 62. Milos files a petition in bankruptcy. His dischargeable debts include   |  |  |  | | --- | --- | --- | |  | a. | ​domestic-support obligations. | |  | b. | ​student loans unless the lender would suffer undue hardship. | |  | c. | court costs, trustee fees, and attorney’s fees associated with the bankruptcy. | |  | d. | unsecured credit-card debt. | |

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| 63. Cassie files a voluntary petition in bankruptcy for relief through a liquidation. Among her debts that will *not* be discharged are included claims​   |  |  |  | | --- | --- | --- | |  | a. | ​by creditors who were not notified of the bankruptcy. | |  | b. | ​for money to be paid for goods not delivered. | |  | c. | for contributions to employee benefit plans. | |  | d. | for long overdue credit-card debt. | |

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| 64. Gem Jewelers files a voluntary petition for bankruptcy. In listing its as-sets, Gem in-tentionally does not include certain valuable stones. After Gem is granted a discharge, Hasty Catering, one of Gem’s unsecured creditors whose claims were discharged, learns of the fraud. Hasty can   |  |  |  | | --- | --- | --- | |  | a. | do nothing. | |  | b. | enforce its claim against Gem. | |  | c. | file an involuntary petition for bankruptcy against Gem. | |  | d. | take possession of the stones with or without a breach of the peace. | |

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| 65. Creditors hold judgments on overdue debts against AAA Auto Repair when the debtor receives a discharge in bankruptcy. AAA’s discharge will   |  |  |  | | --- | --- | --- | |  | a. | ​extend the time for payment of the overdue debts. | |  | b. | ​have no effect on the creditors’ judgments. | |  | c. | require creditors to re-file their collection actions. | |  | d. | void any creditor’s judgment on a discharged debt. | |

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| 66. Wild River Tours Corporation wants to formulate a plan under which it pays a portion of its debts and is discharged of the remainder while continuing in business. To accomplish this goal, Wild River should file a petition in bankruptcy for relief through   |  |  |  | | --- | --- | --- | |  | a. | a liquidation. | |  | b. | ​a reorganization. | |  | c. | a repayment plan. | |  | d. | a straight bankruptcy plan. | |

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| 67. To adjust debt and institute a repayment plan, Bianca—who is not a corporation, a partnership, or a family farmer or fisherman—may file a petition in bankruptcy for relief through   |  |  |  | | --- | --- | --- | |  | a. | a liquidation. | |  | b. | ​a reorganization. | |  | c. | a repayment plan. | |  | d. | a straight bankruptcy plan. | |

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| 68. A petition for a discharge in bankruptcy under Chapter 13 may be filed by   |  |  |  | | --- | --- | --- | |  | a. | Gracie, the sole proprietor of Home Net Services. | |  | b. | Internet Portals & Pages, a partnership. | |  | c. | World Web Services, Inc., a corporation. | |  | d. | all of the choices. | |

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| 69. Philo files a petition in bankruptcy for relief through an individual’s repayment plan. He is granted a discharge. Debts that will *not* be discharged include claims for   |  |  |  | | --- | --- | --- | |  | a. | all debts provided for by the plan. | |  | b. | money owed for services rendered. | |  | c. | allowed claims not provided for by the plan. | |  | d. | credit-card debt. | |

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| 70. Jill believes that she should file a plan for a Chapter 13 discharge in bankruptcy. A court will confirm her bankruptcy plan if it provides for   |  |  |  | | --- | --- | --- | |  | a. | the completion of all payments to all creditors within six years. | |  | b. | the payment of 100 percent of all obligations in full. | |  | c. | the surrender of all collateral to the creditors. | |  | d. | the turnover of the debtor’s future income to the trustee. | |

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| 71. Current City (CC) is a retail seller of television sets. CC sells Dhani a $3,000 large-screen, high-definition, LED set on a retail installment security agreement in which he pays $100 down and agrees to pay the balance in equal installments. CC retains a security interest in the set, and perfects that interest by filing a financing statement centrally. Two months later, Dhani is in default on the payments to CC and is involun-tarily petitioned into bankruptcy by other creditors. Discuss CC’s right to repossess the TV set and whether CC has priority over the trustee in bankruptcy. |

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| 72. Shippers Dispatch Corporation orders office equipment from Office Outfitters, Inc., which has an unperfected security interest in the equipment until it is paid for. Meanwhile, Shippers Dispatch takes out a loan from Capital Credit, Inc., subject to a security interest in Shippers Dispatch’s building and equip-ment, which Capital perfects. Shippers Dispatch files a bankruptcy petition under Chapter 7. If the petition is granted, in what or-der will Shippers Dispatch’s creditors be paid? |

**Answer Key**

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| 1. True |

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| 2. True |

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| 3. True |

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| 4. False |

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| 5. False |

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| 6. True |

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| 7. False |

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| 8. False |

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| 9. True |

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| 10. True |

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| 11. False |

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| 12. False |

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| 13. True |

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| 14. True |

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| 15. True |

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| 16. False |

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| 17. True |

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| 35. True |

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| 38. a |

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| 39. c |

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| 40. a |

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| 41. c |

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| 42. b |

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| 43. c |

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| 44. a |

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| 46. c |

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| 47. a |

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| 49. a |

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| 50. a |

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| 51. a |

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| 52. c |

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| 53. b |

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| 54. b |

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| 56. b |

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| 59. c |

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| 60. a |

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| 61. a |

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| 62. d |

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| 63. a |

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| 65. d |

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| 66. b |

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| 67. c |

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| 68. a |

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| 69. c |

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| 70. c |

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| 71. ​CC will not be able to repossess the set.  The filing of the in-voluntary petition in bank-ruptcy operates as an automatic stay of any creditor’s action against the debtor or the property of the debtor.  If CC knowingly violates the automatic stay, CC could be liable to any injured party for actual damages suffered, all costs, reasonable attorneys’ fees, and even possibly punitive damages.  Therefore, CC’s right of reposses-sion is cut off by the bankruptcy proceeding. |

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| 72. The order of the priority of the creditors in this problem is (1) Capital, which has a perfected security interest in Shippers Dispatch’s building and equipment, and (2) Office Outfitters, which has only an unper-fected security in-terest in Shippers Dispatch’s office equipment. This is because, un-der the priority es-tablished by the Bankruptcy Code, and between the creditors listed in this question, those with perfected security interests have the highest priority. In almost cases, including this one, the claims of unsecured credi-tors are paid last, if at all. |