REAFFIRMATION AGREEMENTS IN BANKRUPTCY

Navistar International Corp. announced in October 2012 it intends to close a truck assembly plant in Garland, Texas, by the first half of 2013, and cut jobs. Navistar claims it has too much manufacturing capacity in North America, and wants to improve its costs. Navistar employs around 900 salaried, hourly and third-party temporary workers at the Garland facility. Layoffs also hit Abbott Laboratories. The company announced letting go 550 workers across several business units and plans to cut additional workers in 2013. An estimated 100 of the layoffs were in Chicago, IL relating to sales, marketing, and operations. Abbott disclosed the job cuts in its third-quarter earnings. A $478 million pretax charge will pay for the restructuring. The layoffs represent a second round of cuts in 2012 for the drug maker. With layoffs continuing throughout the country, many people are in financial turmoil and filing for bankruptcy. Bankruptcy gives people a breather from creditors when they lose their jobs. A person does not lose everything in bankruptcy. A person can decide to keep an asset with a reaffirmation agreement. A reaffirmation agreement is a newly negotiated agreement between the debtor and a creditor. The agreement reaffirms the debt and liability of the debtor for the obligation. The agreement is generally executed to secure property the debtor needs to use. For example, a person may need to keep a car to find a job, or jewelry that has sentimental value. Prior to signing a reaffirmation agreement, a debtor must get the agreement approved by the court. At a reaffirmation court hearing, a bankruptcy judge may ask the debtor the need for the asset. If the court sees the debtor has several cars, for example, the court may ask the debtor to sell off one of the cars because along with an asset, there are costs, such as insurance. When a debtor uses estate funds to pay for the costs, it leaves less funds for the creditors. A debtor can revoke a reaffirmation agreement within 60 days after execution. In a reaffirmation agreement hearing, the debtor needs to attend in person, rather than through the person's attorney. The parties may appear by telephone if they cannot go in person if the court allows appearance at the hearing by phone. There may be a charge for the court call service. The reaffirmation hearing is attended by a creditor. The court may ask the creditor about the terms of the reaffirmation agreement, such as the payment amounts, and whether credit is extend from the original agreement. When a court sees no advantage to reaffirmation, the judge will not approve the reaffirmation even when the debtor wants to reaffirm. In a reaffirmation, if debtors are not current on payments, the asset would be sold at auction. If the auction price is below the market price, the debtor will be responsible for the difference.

Update: Abbott Laboratories is hiring back, click here to get latest updates.