We examine how household balance sheet heterogeneity affects bankruptcy decisions, following an exogenous income shock. We exploit government payments in one, but not other, Canadian provinces, that varied exogenously based on family size. Receiving the payment reduces the count of bankruptcies, with the fewer remaining filers having higher net balance sheet benefits of bankruptcy (unsecured debt discharged minus liquidated assets forgone). Receiving the income shock thus causes households who would receive lower net balance sheet benefits under bankruptcy law, to select out of bankruptcy. Our results are consistent with household balance sheet heterogeneity impacting the propagation of exogenous macroeconomic shocks.