

Bankruptcy... A Last Option Only

By Mike Killian

Bankruptcy is available when all other means have failed and the unpaid debt is simply beyond the means of the consumer to repay. Therefore, it is essential to understand other options and to determine which option is the least detrimental to your credit rating.

Communicating with a creditor early on is always the best. Sometimes interest can be lowered or a more convenient payment due date can be worked out. Possibly a client can just pay the interest alone for a month. These options usually do not affect your credit report. Late payments, however, do adversely affect your credit file and score since payment history is 35% of your score. Therefore communication at the first sign of trouble is essential.

Though care must be taken, there may be an option of consolidating debts and having a lower payment over a longer period of time. But the consumer must realize that more interest will be paid because of the longer payback period. Additionally I personally believe that borrowing your way out of debt is rarely a good idea... nor is consolidating unsecured credit card debt into a secured home equity loan. However, like communicating with a creditor does not affect your credit file, debt consolidation will not adversely affect your credit either.

This is the stage that debt counseling should be a very strong consideration. A Debt Management Program (DMP) can be set up by a debt-counseling agency. Repayment usually occurs within 5 years. Again care must be taken to avoid unscrupulous agencies and I recommend checking the Better Business Bureau as well as talking to former clients. What is the agency's track record, how do they handle debt payment and how flexible are they to your needs? These should all be key questions to a perspective agency.

A counseling agency does not usually report to a credit bureau. However, if payments are not handled correctly by the agency and payment is late, the creditor will probably insure the credit bureau is notified. Therefore it is essential to ask the perspective agency key questions as suggested above.

On final option before bankruptcy might be negotiating a debt reduction. Again the consumer must use caution for a couple of reasons. Any reduction of debt above \$600 will result in a 1099, which IRS will tax as added income. Additionally no creditor is going to reduce the debt owed unless they think that is all they will get. Therefore your payments must be 2-3 month behind which means your credit has been destroyed.

And then there is Bankruptcy. Just as debt negotiation is a desperate measure, bankruptcy is even more desperate and should be considered ONLY as a last measure. Specific advice on bankruptcy in your particular state should come from a bankruptcy attorney.

But be aware that all bankruptcies remain on a consumer's credit file for 10 years. Additionally, there are costs associated with bankruptcy. Filing fees run approximately \$200 and attorney's fees vary but are not cheap. There are also two counseling courses now required by law. A budget and credit-counseling course is required before filing and a debt education course after. Course fees run about \$36 to \$50 each.

Most commonly, a consumer will file a Chapters 7 or 13. If a consumer's income is within the state's medium income and there is very little equity in possessions, Chapter 7 is most common. If however the consumer has an above average income or needs to protect the equity in a home or other property, Chapter 13 is required. If approved by the court, Chapter 7 excuses the debt. On the other hand, Chapter 13 is essentially a debt repayment program. It is similar to a Debt Management Program (DMP) as stated above except that it is court ordered and the time limits are less restrictive. Additionally a DMP may not even find its way to your credit report. And even if it does appear, it must be removed within 7.5 years. Bankruptcy is guaranteed to be on a credit file for 10 years.

What is the correct action for you? I don't know and only the consumer can decide that. However, getting professional advice from a counseling agency and if needed an attorney is always the best course of action.

SPECIAL NOTE: This article is being given to Accelerated Trust, Inc. Anyone with similar concerns or in anyway in need of assistance can call Accelerated Toll Free at 800-810-5250 and discuss their options for getting out of their economic situation.