

Bankruptcy

Bankruptcy is a last resort when a person(s) is so deeply in debt that there is no other way to resolve the problem. Bankruptcy is a legal process to get out of debt when you can no longer make all your required payments. Two of the basic forms of bankruptcy are:

Chapter 7 allows you to erase most of your debt. To qualify, you typically must be unemployed or have a very low income. You must take part in financial counseling as well. (As of 2005, congress changed the bankruptcy laws to make it harder to declare Chapter 7 bankruptcy).

Chapter 13 allows you to repay many of your debts over a period of time, usually no more than 5 years. A court typically oversees the repayment plan to see that you follow the procedure.

Not all debts will be erased by bankruptcy. Some that will not be erased include:

- * Student loans
- * Child support
- * Alimony
- * Fines & penalties for crimes committed

Bankruptcy is a court judgment and a public record. Anyone who can lend money can see this record. Potential employers can request a credit report and see this record. A bankruptcy can send a powerful message about “responsibility”, possibly the “wrong message”.

Going bankrupt is serious and can stay on your credit record for up to 10 years. Bankruptcy makes it much harder and more expensive to buy a house or car. It makes it harder to get other credit during that time. Bankruptcy has an impact on other consumers because lenders will usually raise rates on loans and services to compensate for the loss of revenue they would have had. Bankruptcy affects everyone!

Bankruptcy provides a chance for people who have had unforeseen or unavoidable misfortune the ability to start over and rebuild their lives. But for those who go bankrupt because of irresponsible borrowing or who just decide to “take the easy way out” (default on their obligations) it makes it hard on everyone.

What can an individual who filed bankruptcy do in the aftermath?

- Pay your bills on time
- Build a new reputation
- Get counseling
- Set goals with the help of budgeting