

Alternatives to Bankruptcy

Introduction to Bankruptcy Alternatives

As you consider bankruptcy alternatives, you must realize that you are in financial distress. However, there are several bankruptcy alternatives to consider and we'll cover a few in this article. It's basic human nature to want to keep your promises and bankruptcy seems, at best, like an admission of failure and, at worst, a deplorable thing to do. These are very trying times for you. But it's also a great time to honestly reflect on the things that got you into this situation and to brainstorm about ways to solve your problems. There are several ways to file bankruptcy as well as several bankruptcy alternatives.

Bankruptcy Alternatives: Do Nothing

One solution is to do nothing. If your only source of income is a government benefit or a disability payment, a creditor can't garnish your wages. If you have no major property, there's nothing for a creditor to seize. Many people think that creditors can seize their property on their own if you don't pay a debt. The fact is, creditors must obtain a court order and that costs money and takes time. Also, most "exemptions" come from state law and allow most people to protect the majority of what they own so that a creditor can't force you to sell anything. If a creditor can't touch your income or your property, you are probably "judgment proof," meaning there's no way a creditor can force you to pay through the legal system. However, some "judgment proof" debtors may want to file bankruptcy anyway to stop harassing phone calls or simply clear up their credit report. But, keep in mind that even if you are "judgment proof" you are still subject to lawsuits, phone calls and collection proceedings and you can be forced to appear at court hearings, so there could still be major inconvenience and embarrassment involved with "doing nothing." Nevertheless, this may be one of the best bankruptcy alternatives.

Even if you are not judgment proof, you still have the option of doing nothing. Most statutes of limitations for debt is around 7 years (though this varies from state to state). However, it is not uncommon for creditors to contact and sue you anyway which would cause you expense and inconvenience to defend yourself. Also, it would be very rare for a creditor to allow a statute of limitation to expire before taking action. The debts and the creditors don't go away. In addition, your credit score is severely damaged.

Bankruptcy Alternatives: Settle Your Debt

Another solution is to try to settle your debt, either on your own or through a so-called "debt settlement agency". Debt settlement involves negotiating with creditors to accept less than what you owe them. Whether you try it by yourself or hire an agency to do it for you, it's very difficult to get all your creditors to accept less than what they think they can demand from you. It only takes one creditor to sue you and ruin your consolidation plan. Take care as you consider your bankruptcy alternatives.

Debt settlement only works, typically, if you can pay a lump sum of money up front. Most creditors will not accept reduced amounts in payments over time. Often, this means you will have to incur "new" debt to pay off the debt you already have. This may not prove to be the most attractive of the bankruptcy alternatives. If the monthly payment is reduced or the interest is lowered, that probably just means you'll stay in debt for many more years to come. Debt settlement agencies market their services aggressively, often claiming to be "non-profit", but their failure to deliver is notorious. Also keep in mind that "non-profit" does not mean "free." It is common that the fees paid to debt settlement companies and credit counseling agencies will often far exceed the cost of hiring a lawyer to file a bankruptcy for you. Therefore, this option is among the least attractive of the bankruptcy alternatives.

Even negotiating a favorable settlement and paying the agreed amount will still adversely impact your credit score. The fact that you were once in default will not be erased from your credit history, thus negotiating may not be the most attractive of the bankruptcy alternatives.

Needless to say, one of the best bankruptcy alternatives is to come up with a careful budget and see what spending you can cut out to pay your debts as you originally promised. This is among the best bankruptcy alternatives. You know your situation much better than anyone else. This exercise can be an eye-opening experience. Even if you are considering bankruptcy alternatives, it is still an excellent idea to contact a bankruptcy attorney and get an opinion on how bankruptcy could help you.

[Bankruptcy debt management](#)