

# **BANKRUPTCY & DEBT MANAGEMENT**

## **Bankruptcy Alternatives: Why Bankruptcy is Usually the Best Solution**

This article will describe the various bankruptcy alternatives and specifically compare debt management to bankruptcy. There are several bankruptcy alternatives available to you. However, bankruptcy may be the best solution. Bankruptcy succeeds where debt management fails. Many people who seek my advice concerning their bankruptcy options inquire about private debt management or debt consolidation. Many are apprehensive about bankruptcy because someone has convinced them that they should at least try debt management before filing a bankruptcy.

## **Bankruptcy Alternatives: Debt Management**

Debt management, in most areas, is simply where you hire an attorney or other representative to work or negotiate directly with your creditors. Sometimes debt management can lower your monthly payments. Sometimes debt management can work to reduce the interest rate on a particular debt. In other cases, debt management can reduce the total balance owed to a particular creditor.

Generally, debt management will not apply to a majority of your debts. Mortgage payments, vehicle payments, tax obligations, student loans, payday loans and medical bills are often excluded or rejected from most forms of debt management. So, as a tool, debt management may not be among the most appropriate bankruptcy alternatives. Basically, debt management targets credit-based debts, like personal loans, lines of credit and credit cards. And, many people who tried debt management stated it failed because only a handful of the creditors could be included in it, which resulted in little to no relief at all!

The biggest problem with debt management is that repayment arrangements only work if someone can afford large monthly payments or can commit to the payments for an extended period of time. Frequently, the attorney or debt management agency will arrange for itself to be paid its fee for services before any payments are made to your creditors. Recent observers have noted that many of the debt management agencies now advertising on TV and radio are actually owned and organized by the credit card industry.

A lesser known fact about debt management is that these arrangements are purely voluntary. Creditors can quickly opt out of the program or refuse further payments and then turn the account over to collection agencies. Commonly, they do this without much notice and you start receiving nasty collection calls and letters—the exact things that drive most people into trying debt management! The result is terribly unfortunate: you enroll with a debt management agency, make your payments but then, to your surprise, you continue to receive collection phone calls and letters. Thus, among the bankruptcy alternatives, debt management may not turn out to be the best solution, even if debt consolidation companies tell you that debt management is among the most effective bankruptcy alternatives.

### **Bankruptcy Alternatives: Bankruptcy is Enforced by Law**

As you consider your bankruptcy alternatives, keep bankruptcy in mind. Bankruptcy works because bankruptcy cases are filed and at all times proceed in a court of law. Bankruptcy cases provide immediate relief that is issued and enforced by a federal judge upon filing. Chapter 7 cases are normally completed within 90 to 120 days. Chapter 13 cases last between 3 and 5 years. Creditors can not “opt-out” or refuse to acknowledge or abide by the bankruptcy filing. Creditor participation is mandatory and is not dictated by the amount or type of the debt involved. Bankruptcies are petitions for relief filed in a Federal bankruptcy court. Once a judge approves the bankruptcy, a court order is issued. This Order is called the discharge order, discussed elsewhere. The discharge is a permanent injunction binding on your creditors from collecting on the debts, forever.

### **Bankruptcy Alternatives: The Downsides to Debt Management**

Many people have tried debt management. I am sure that it has been successful for at least some people. However, what I am seeing more and more of lately that is particularly distressing is the increasing number of people who have paid thousands to a debt management agency over several months, or even years, and still end up filing a bankruptcy case. Unfortunately, I have seen many people who have burned through savings accounts and 401(k) plans trying to keep their debt management plan alive. If only more people would have considered bankruptcy as an option much sooner, instead of throwing away hard-earned dollars at debt management.

## **Bankruptcy Alternatives: Conclusion**

This article has provided you with some specific information related to bankruptcy alternatives, specifically as they related to debt management. Consider your bankruptcy alternatives carefully.

[Debt settlement](#)