

## **Bankruptcy or Credit Counseling?**

Credit counseling is a program designed to help those who are in a state of debt and cannot find a solution to their debt problems. They offer services that will allow to devise a plan that is tailored to your specific needs and goals. Credit counseling agencies do not erase your debt. Instead they work with you to budget money so that you can pay off the debt often times by debt consolidation.

Bankruptcy is very different. It will completely clear your debt in most cases and you will no longer be hassled by collection agencies and their attorneys. There are two kinds of bankruptcy; the one that is right for you will depend on your situation.

Chapter 7 bankruptcy is a liquidation proceeding. The debtor turns over all non-exempt property to the bankruptcy trustee who then converts it to cash for distribution to the creditors. However, in almost EVERY case, the debtor keeps all of his or her property. The debtor receives a discharge of all dischargeable debts usually within four months. In the vast majority of cases the debtors have no assets that they would lose so Chapter 7 will give that person a relatively quick "fresh start".

Chapter 13 Bankruptcy is also known as a reorganization bankruptcy. In Chapter 13, the debtors retain ownership and possession of all of their assets, but must allocate their future income to repaying creditors, generally over a period of three to five years. The amount to repay depends on how much is earned, the amount and types of debt owed, and how much property is owned.

So, which is better, bankruptcy or credit counseling? In almost every case, bankruptcy is the better option because it erases all of your debt with less strain on your credit.

First, what is the amount of credit card debt versus non-credit card debt. Credit counseling typically only resolves debts surrounding credit cards. So, say for example you have only \$20,000 in credit card debt but a deficiency judgment from a short sale of \$250,000 than bankruptcy, which would eliminate both debts, would be a better choice.

Second, credit counseling is not always better for your credit. In fact, credit counseling is usually WORSE for your credit. When you enter into a credit counseling you typically stop paying all of your creditors but instead pay only the credit counseling company. As such, each credit card company begins reporting your account as delinquent because you are not making a payment to them. This negative report will continue for the life of your credit counseling plan. So if your credit counseling plan is scheduled for 48 months you will have 48 months of delinquent payments. As such, you will have bad credit for at least the life of the plan, if not longer. To the contrary, bankruptcy is an immediate and substantial hit on your credit but you can begin to repair your credit IMMEDIATELY.

Third, even if you begin and are successfully making payments under a credit counseling plan a creditor may still pursue a judgment against you, and even worse, obtain a wage garnishment. Therefore, if you make 36 successful payments to a credit counseling company a creditor can still ruin such efforts by filing a lawsuit against you which will lead to bankruptcy in the end. To the contrary, in bankruptcy, with a few exceptions, all debt is eliminated and a creditor cannot pursue for any amount due and owing.

In the end, whether bankruptcy or credit counseling is better for your will depend on your individual facts and as such you should always consult a professional.

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