

## Bankruptcy vs. Debt Consolidation Programs

Very often people come to see me after having tried being in one of those Debt Consolidation programs. Others are just starting to have trouble with debt and are considering all their options and ask me for my opinion on Debt Consolidation programs. Here is what I tell them: Debt consolidation is premised on the assumption that there is money available in the household income that can be used to pay toward debt after reasonable living expenses are considered. Some of these places do a good job analyzing a client's circumstances and others will throw people into payment plans despite an apparent inability to pay... and I'm not sure of any good way to tell who's who except to say NEVER go with any agency that is not a Non Profit. They are not very regulated and the horror stories attorneys have heard from clients could fill a book. If one is recommended to you by a collection agent of a bank, it is probably financially supported by that same bank.. shocker, I know. You will also see claims in their ads that going with them does not negatively impact your credit score. I have a list of clients who would respectfully disagree. Finally, none of them have the ability to give you any real kind of guaranteed result. They say they will go "negotiate" with your bank. Websters.com defines this as "*–verb (used without object) to deal or bargain with another or others, as in the preparation of a treaty or contract or in preliminaries to a business deal.*" which means the bank still has the option of not agreeing to any changes, they still have the option of messing with your interest rates, going into a program on some debt may cause negative consequences when the others see what you're doing AND THEY CAN STILL SUE YOU!! Bottom line, going into a debt consolidation/reduction program is the same game and desired result as going into a Chapter 13 with none of the guarantees and protections of a Chapter 13 Bankruptcy.

So why is bankruptcy better? Some people, despite their desire to pay their debt, simply can't afford it. After paying the mortgage/rent, utilities, car insurance, keeping the family fed/clothed/etc, there is simply nothing left that can be used to pay towards debt without creating more debt. Using new debt to manage current debt is like being on a hamster wheel that you will never escape. Debt consolidation cannot help these folks. Chapter 7 bankruptcy will stop the wheel and let you get the chance to catch your breath and finally have the opportunity to start living within your means. Yes, it stinks to bail on your promise to pay back the debt, but what stinks worse is the inability to provide for yourself and your family because of debt.

So what if there is money left over at the end of the month that could be used to pay toward debt, but it's not enough to keep every creditor happy, or even not enough to make more than minimum payments and make dents in the balances? This is when we start comparing Chapter 13 to debt consolidation programs. A Chapter 13 Bankruptcy Plan can be between 36 and 60 months long. The day the petition is filed with the Court several very cool things happen: 1) all interest rates on unsecured debt are reduced to 0% (except student loans and recent IRS debt) 2) The banks don't get a choice!! Finally! YOU GET TO TELL THE BANKS HOW IT'S GOING TO BE! 3) Chapter 13 can manage and do some very impressive things with secured debt that the debt consolidation guys could only dream of doing 4) Chapter 13 will pay off and sometimes discharge

IRS debt (again something way outside the realm of the debt consolidation folks). 5)  
Your Chapter 13 Plan is a FEDERAL COURT ORDER. As long as you do everything you're supposed to do during the Plan, it's guaranteed that you will be debt free, or incredibly close, by the end after paying between pennies on the dollar to 100 % of the balances you owed on the day you filed. It's not discretionary. See if a debt counseling firm can promise you any of that (they can't and if they do, they're fibbing!)

At the end of the day, if you are in the position of not being able to handle your debt on your own, please take advantage of a free consult with a bankruptcy attorney BEFORE committing to any other debt relief options.