

Deciding whether or not to declare bankruptcy is a difficult decision. Bankruptcy will affect your future credit negatively. It may also affect your relationships, your self-image, and your mental health. However, it can also improve your short-term quality of life and possibly keep you from losing your home, car, or other essentials.

Pros & Cons of Bankruptcy⁹⁹

Personal bankruptcy is generally considered the debt management *tool of last resort* because the results are long-lasting and far-reaching. It's the financial equivalent of major surgery – not something you should undergo unless it's absolutely necessary. You should consider the pros and cons carefully before making a decision.

Benefits:

- When you file for bankruptcy, it stops all collection actions by creditors, including foreclosure, repossession, and garnishments. If you have filed with an attorney, they can shield you by handling all inquiries from creditors.
- Most states allow you to exempt your home, car, and other essential assets and items.
- Declaring bankruptcy now can get you started on rebuilding your credit, your finances, and your life sooner.
- While nothing will get rid of student loan debt, bankruptcy can prevent your lenders from aggressive collection action.

Drawbacks:

- You will lose all of your credit cards (unless you pay them off before filing.)
- You may also have to give up some luxury possessions.
- A recent bankruptcy makes it nearly impossible to get a mortgage. It will take about five years to be able to do so again.
- A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home or car, get life insurance, and sometimes even get a job.
- Not all debts may be discharged in a bankruptcy, such as student loans and back taxes.

If you are overwhelmed by your debts, cannot realistically pay them back in less than 5 years, and decide to file for bankruptcy, it is recommended to file with a bankruptcy lawyer. Note that attorneys and filing fees can be expensive and there are usually options for free legal services. To learn more about the steps toward filing for bankruptcy, visit: <https://www.debt.org/bankruptcy/>

⁹⁹ Original material from Peerlink National Technical Assistance Center.