

When To Consider Filing For Bankruptcy

by Paul D. Sullivan

Despite having a bad reputation, the truth is that most people file for bankruptcy after a life-changing event such as a divorce, losing a job or experiencing serious illness or injury. Sometimes, breaking free from the past is the only way to move forward. But how do you know when it is time? For some people, the decision is easy and obvious. With massive debts and no income, the relief of bankruptcy provides needed relief and an opportunity for a fresh start.

But what about less obvious situations? How do you know when it is time to file for bankruptcy? Really, the decision comes down to whether or not you will ever be able to pay off your debts. At the end of the day, this is often a personal decision only you can make. But here are a few things to think about.

Are you eligible to file for bankruptcy? Although it is a misconception that you can only file for bankruptcy once, there are limits on how often you can do so. You can only file for Chapter 7 bankruptcy once every eight years. This means that if you have filed under Chapter 7 in the past seven years, you will have to wait before you can do so again. You can file for Chapter 13 reorganization more often than that, but you can not have more than one case open at the time time.

Have you done a budget analysis? Sitting down and writing out a thorough and complete description of all your expenses and income can help create a solid picture of what your financial situation actually looks like. List all ongoing anticipated expenses and income. If your ongoing expenses significantly exceed anticipated income, bankruptcy alone will do little to help. The first step in that case is to cut expenses any

where you can. Bankruptcy makes sense when certain types of past debts have become unbearable and unmanageable. If you make enough to cover your day-to-day living expenses, but not enough to get out from under certain past debts, bankruptcy may be a good option for you. Not all debts are dischargeable through bankruptcy. For example, in general student loans remain after bankruptcy.

Have you considered alternatives to bankruptcy? In some cases it may be possible to work out informal payment agreements with creditors so long as you maintain contact and keep the lines of communication open. It may also be possible to refinance your debt at a lower rate that may have a longer maturity than the existing debt. Sometimes just having one bill to pay instead of several can make a significant difference.

Whether or not to file for bankruptcy is an important decision that should be made carefully and with all the information. The differences between the various types of bankruptcies can be technical and confusing. In order to best protect yourself, I always recommend individuals considering bankruptcy meet with an attorney. This is a major decision, and one best made with the help of a professional.

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