

5 Steps to Preventing Bankruptcy



ABOUT THE AUTHOR

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While every situation is different and sometimes bankruptcy is unavoidable, there are steps which can be taken both before and during a financial crisis to increase your odds of preventing bankruptcy. Just as important as knowing what to do, however, is knowing what not to do. This article will address both angles and hopefully provide you with some concrete, fresh ideas which you can apply to your own life.

Nobody likes to think about their financial problems. It causes stress, depression, and familial difficulties. Ignoring it, however, is not going to make it go away. Missing payments on credit cards and other types of revolving debt can have catastrophic consequences. Balances can double or triple in the span of a few months thanks to increased interest rates and penalties. Cars can and will be repossessed in the middle of the night if payments are missed. Credit scores that were pristine for decades can be demolished in a couple of months. If you gain nothing else from this article, let it be this – don't ignore a brewing financial crisis.

Budget Early and Well

If I had to choose one thing that would have prevented my clients from filing bankruptcy more than any other factor that was within their control, this would be it. People naturally get used to a certain lifestyle and loathe giving it up in the face of crisis. Do yourself a favor and nip this one in the bud. Realistically assessing your budget and trimming non-necessities may make the difference down the road between losing or keeping your home.

While plenty of books have been written on this subject and I will be happy to recommend some to those who ask, all you really need for this step is a pencil, a piece of paper,

and a few months' worth of bills. Itemize your monthly income and expenses and leave room for cyclical bills and seasonal needs. Make sure everyone in your family is on the same page and review your expenditures weekly, at least for the first couple of months. Creating and sticking to a budget is not a fun experience, but the rewards you reap from the experience will pay off in spades.

Use Cash As Often As Possible

This step plays directly off of the previous one. If you have a solid budget in place, you should have no problem using cash or a debit card to take care of your expenses. Not only does using cash help to keep you accountable and reinforce your budget, it also prevents you from digging deeper into debt and allows a credit cushion to build in case of a true emergency. No one likes to carry wads of cash around and I wouldn't recommend doing so. However, carrying a small amount of cash in your wallet or purse and bringing a little extra when necessary should not be terribly burdensome.

Pay Your Bills on Time

I touched on this in the opening paragraphs, but this is another area where I often see people making mistakes and suffering devastating consequences as a result. It is not uncommon for a person with great credit to see their interest rate increase by a factor of three for missing one credit card payment. Credit card companies have little sympathy in these situations and the increased interest rate can drag you down to bankruptcy like an anchor. I see it all the time. Again, if you have a good budget in place, this should not be an issue.

Aside from credit card debts, late payments can also have a drastic effect on vehicle loans and home mortgages. Vehicle loan contracts typically have language in them which allow the lender to pick up your car and sell it shortly after a payment is missed. While some contracts provide grace periods, missing a second payment is a sure fire way to guarantee the repossession of your car, short of a bankruptcy filing. Most home mortgage lenders typically have a longer time scale and more regulatory hoops to jump through before they can foreclose on your home for missed payments, but these payments ordinarily constitute the bulk of most families' monthly budgets and can be impossible to make up once they become derogatory.

No Payday Loans

These loans have become the scourge of our lending market for a number of reasons and luckily many states are rushing to keep them in check. Regardless, these credit arrangements are everywhere and are usually the last step taken by people in a financial storm before they file bankruptcy. Not only do these lenders charge outrageous interest rates, sometimes compounding on a daily basis, they also put you at risk for criminal charges under the hot check laws. Do yourself a favor and examine every other lending possibility before you consider payday loans.

Know Your Rights

In my legal career, I have heard just about every myth spread and scare tactic used by creditors today. Whether that means you read up on the law yourself or consult with a local attorney, let the law work in your favor and don't let yourself be taken advantage of by creditors and unscrupulous debt consolidation companies. Read through every contract you sign and do not be afraid to ask tough questions. Ignorance may be bliss, but not when you realize that the area directly above the signature line on your business loan included a personal guarantee which now means you and your marital property are liable for that failed company venture that your partners bailed on. Better yet, after paying on your car loan for seven years you may find out that the title is not being released to you because you defaulted four years earlier on a line of credit through the same bank that was cross-collateralized with your car loan.

If you have any doubts as to what you are signing, let an attorney review it for you first. Most attorneys charge a minimal fee for doing so and the process can save you a bundle down the road.

Conclusion

In short, budgets are good, payday loans are bad, ignorance is not bliss, and cash is king. Pay your bills on time and cut your expenses while it still makes a difference. I hope these notes have been helpful and I welcome any feedback, constructive, critical or otherwise.