

The Pros and Cons of Filing Bankruptcy

There is no question—whether or not to declare bankruptcy is a very hard decision. It affects your future credit, your reputation, and your self-image. It can also improve your short-term quality of life considerably, as the calls and letters stop. Here is a list of pros and cons to consider as you decide whether bankruptcy is the correct option for you.

Cons	Pros
Most tax debt is non-dischargeable.	Bankruptcy can make old tax liabilities (older than three years) go away.
Bankruptcy will ruin your credit for some time to come.	Missed debt payments, defaults, repossessions, and lawsuits will also hurt your credit, and may be more complicated to explain to a future lender than bankruptcy.
Declaring bankruptcy now might make it harder to do later if something worse comes along.	Declaring bankruptcy now can get you started sooner on rebuilding your credit, and you can almost certainly get a Chapter 13 plan if there is another disaster before you are entitled to file another Chapter 7 case to liquidate your debts again.
Bankruptcy will not get rid of your student loan debt.	Nothing will get rid of student loan debt, and at least bankruptcy will prevent your lenders from aggressive collection action.
You will lose all your credit cards.	Your credit cards probably got you in this mess to start with, so it is hard to see that as a bad thing. In addition, it may be possible to salvage one or two if your lawyer recommends it.
Bankruptcy is an admission of defeat.	Bankruptcy is facing reality, and it can allow you to have a new start.
Bankruptcy is an embarrassment.	Harassing phone calls from creditors, dunning letters, repossessions, cancelled credit cards, declined charge authorizations, and lawsuits - they are all embarrassing as well.
Your name will be in the paper and in court records once you file.	Your name will also certainly be in court records, and may be in the papers, if you are sued to collect a debt.
Bankruptcy will make it nearly impossible to get a mortgage, if you do not already have one.	There are lenders who specialize in lending to "bad risks," although that is an unfair characterization to make of someone who has taken a major step to solve financial difficulties.
You may lose some of your luxury possessions.	Most state exemptions allow you enough so that most things you own, particularly the things you <i>need</i> although not luxuries, will be exempt from bankruptcy, with plenty to spare.
You will have to explain to a judge or trustee how you got into a financial mess.	Both judges and trustees have heard far worse stories than yours.

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