



Tips If You're Facing Debt Problems

Consequences of Filing Bankruptcy

Bankruptcy is necessary for some consumers; however there are consequences to filing, so it is wise for consumers to research all of their options. For example, a trained credit counselor may be able to help consumers avoid bankruptcy by helping them to establish a repayment plan. If filing bankruptcy is necessary, consumers should be aware of the following:

- **Bankruptcy does not relieve all debts.** Debts not dischargeable in bankruptcy generally include back taxes less than three years old, alimony, child support and debts incurred through fraud. Student loan nondischargeability was extended by the BACPA to include for-profit and non-governmental entities. To avoid foreclosure or repossession, filers must ask the bankruptcy courts permission to "reaffirm" a mortgage loan and lease agreement.
- **Bankruptcy can be expensive.** A notation that a consumer filed for bankruptcy will remain on his or her credit report for seven to ten years, depending on the type of bankruptcy filed. This notation could make it difficult for the filer to obtain any type of new loan. And, if they are able to obtain new credit, it may be hard to find a loan with affordable repayment terms. In addition to the increased cost of credit, bankruptcy filers are generally required to pay filing costs and attorney fees. Fortunately, under the new law, attorneys must disclose all their costs, enter into a written contract with the debtor and disclose that an attorney is not necessary to file bankruptcy.
- **Bankruptcy does not change financial habits.** Filing for bankruptcy may not solve a consumer's long-term financial problems. Lifestyle changes may prove to be more beneficial. The necessity of these lifestyle changes are now even more pronounced because under the new law, debtors seeking to erase all debts will now have to wait eight years from their last bankruptcy before they can file again.
- **Bankruptcy affects more than your credit.** Besides the obvious emotional issues involved, filing bankruptcy can also affect the filer's ability to rent an apartment or obtain affordable insurance. In some fields, a bankruptcy could even adversely affect the filer's ability to gain employment or promotions.

Recovering from bankruptcy

Regardless of when or why you file for bankruptcy, recovering can be difficult. Fortunately, it is possible to reestablish a new, strong financial foundation. After filing bankruptcy, consumers should:

- **Maintain or obtain adequate insurance.** In addition to required insurances, such as auto coverage and home owners insurance, health insurance is a must. In fact, research has shown that more than 20 percent of bankruptcy filers state medical expenses as the problem.
- **Establish a savings cushion.** Three to six months living expenses in an accessible savings account may make the difference between a minor financial setback and a serious financial problem.
- **Improve creditworthiness.** One safe way for consumers to reestablish good credit is to get a [secured credit card](#). With a secured card, consumers make a deposit into a savings account with a bank to secure a line of credit. The credit card company then issues a card and a line of credit for at least the amount of the deposit.

For more information

For more information, consumers can visit www.bankruptcy.org.



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