Do’s and Don’ts for People in Debt

If you find yourself with more debt than you can pay you are looking for a way out. You are faced with some very difficult choices. Unfortunately many people make choices that only make their situations worse.

The first thing you must do is take a cold hard look at your situation. Write down all of your debts on a piece of paper along with the minimum monthly payments. Then write down your income. Can you make the payments with enough money left over for food, insurance, gasoline, etc.? There is no substitute for writing it all down. Until you do that you will never figure out the best solution.

Now that you have a better idea of your financial situation you can make more informed choices. Are there areas where you can cut expenses? Be realistic. And don’t forget that you are going to need to pay for those occasional problems like car or home repairs.

If you simply don’t have enough income to make the monthly payments on those credit cards and personal loans you may want to consider bankruptcy. Bankruptcy can eliminate your debts while allowing you to keep all of your assets. Whether bankruptcy will work for you depends on a variety of financial considerations that only a qualified bankruptcy attorney can analyze.

Before you consider filing bankruptcy you will probably consider other options such as:

DON’T:

1. Take money out of retirement accounts. This is usually a bad idea. If you have to file bankruptcy your retirement accounts are exempt. That means you get to keep all of the money in your retirement accounts after you file your bankruptcy petition. Also the money you withdraw will be taxable and if you are not yet 59.5 years old you will have to pay a tax penalty.

2. Take out a second mortgage. Another bad idea. The equity in your home is another exempt asset that cannot be taken from you in a bankruptcy proceeding. At the same time debt that is secured by equity in your home is not eliminated in a bankruptcy proceeding. So trading credit card debt for mortgage backed debt is just a bad idea all around.

3. Transfer assets out of your name to avoid having them available for your creditors. We call that a fraudulent conveyance and, suffice it to say, it will cause you nothing but problems. Just don’t do it.

4. Pay lots of money to a “get out of debt company”. A few people have had success with some of these companies, but most just lose their money. It works like this; you make monthly payments for a long time and at the end you are supposed to be out of debt. Believe me, there are better and less expensive options.

DO:

1. Try to modify your first mortgage to reduce your monthly payment. It is not as easy as you think. You will need to work with your mortgage lender, provide lots of financial information and wait a long time for a final answer. But it's worth it if you can get your lender to lower your payments. Just be careful to read all of the fine print and follow the instructions to the letter.

2. Meet with a bankruptcy attorney or non-profit credit counselor. A good bankruptcy attorney will meet with you, analyze your situation and help you determine your best options, which may or may not include filing bankruptcy. Obviously you will have to pay the attorney a fee, but the cost is probably much less than you think. Ask in advance what the charge will be and if you think it is too high, then shop around. A non-profit credit counselor can often give you similar advice at no cost, but cannot represent you if the solution is a bankruptcy filing.

Times may be tough, but with the right planning many people can get into a much better financial situation.

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