



# The Hidden Costs of Bankruptcy

... and the options you may not have considered.

If you or someone you know is facing overbearing financial obligations and have considered declaring bankruptcy, the whole world—not just a mortgage—may feel upside-down. But during this stressful time, it is important to understand the processes and consequences of bankruptcy and any feasible alternatives in order to make the most informed decision. This report will help shed light on the complicated subject of bankruptcy, as well as some lesser-known alternatives.

Declaring bankruptcy, or legally stating one's inability to pay off debt, can provide a homeowner with relief from creditors and—if faced with foreclosure—protection from a lender's deficiency judgment. However, it can also leave the individual with lasting financial and emotional wounds. While declaring bankruptcy may temporarily halt foreclosure proceedings and allow for the reorganization of debt, in most instances the homeowner will be forced to vacate the property and foreclosure will be imminent.

Bankruptcy is also stated on one's public record and can remain there for 7 to 10 years. This lowers one's credit score significantly, showing lenders and future employers a history of financial challenges and low creditworthiness. For instance, a low credit score due to bankruptcy could inhibit future attempts to obtain another home mortgage, and may affect an employer's willingness to hire an individual.

The emotional effects of bankruptcy are less recognizable than the fiscal ones but no less distressing. Declaring bankruptcy is ranked among the top life-altering negative events one can endure and it can negatively affect one's emotional and psychological state, making recovery a challenge.

“(Individuals considering bankruptcy) are too wrapped up in the emotions of the situation to see other options. But when you're standing on the outside and not in the middle of the financial mess, it's easy to see other alternatives.” - David Ramsey (daveramsey.com)

## SPECIFICS

A deficiency judgment is an action taken against a debtor or borrower whose foreclosure sale or short sale did not cover the entire mortgage debt owed to the lender. A lender's ability to pursue this course depends on the conditions of the original loan, as well as the state in which the loan was issued. In certain circumstances, educated real estate agents can help reduce or eliminate a deficiency judgment on behalf of their clients.

As a CDPE-designated agent, I can help you understand these alternatives and work with you to settle on the best path for your future.

Perhaps the most damaging misconception about bankruptcy is that it is a “get out of debt free” card. It cannot erase the financial obligations of taxes, student loans, child support or alimony. In addition, bankruptcy is not a solution for everyone. Each situation is unique,



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laws vary by state, and the procedure is complex and lengthy. It begins with a petition for bankruptcy, including whether you fall under chapter 7, 11 or 13 of the Federal Bankruptcy Code, which can be up to 60-pages long. Then you need to gather and organize personal documents stating assets and liabilities, income and expenditures, contracts and leases, and other financial affairs. Filing for

### What Chapter am I in?

There are various “chapters” of bankruptcy, and following is a brief description of the most common options for which an individual can file (for a greater understanding of these options, contact an attorney specializing in bankruptcy):

- **Chapter 7** involves the liquidation of one’s assets. A designated trustee will sell the person’s nonexempt property and distribute the proceeds to the individual’s creditors.
- **Chapter 11** requires a plan of reorganization that includes information on the debtor’s assets, liabilities and business affairs sufficient enough for a creditor to assess the plausibility of the plan.
- **Chapter 13** allows the debtor to pay debt over a time of 3 to 5 years. This type can prevent foreclosure if the homeowner can make all mortgage payments during the years of the payment plan.

bankruptcy is a legal process and if it is your decision to pursue this path, you should consult with a specialized bankruptcy attorney. If you need help finding one, I can assist you. In order to confidently choose a solution for your circumstances, it is important to be aware of any potentially less-damaging alternatives. In many cases, mortgage payments represent the largest portion of an individual’s debt. It’s helpful to consider looking at one’s debt with the mortgage payment eliminated or replaced by a lower rental payment. Would this alleviate the financial strain?

Homeowners facing financial hardship, showing a monthly shortfall and heading toward insolvency may qualify for a short sale, in which a home is sold for less than the mortgage amount owed.

A short sale is a dignified alternative to foreclosure, with less harmful effects on a homeowner’s credit score, future home loan eligibility, employment and security clearance. Through this process, certain homeowners may even be able to recover some existing equity. Short sales have become a strong and beneficial solution for homeowners, and lenders and the government are fully supporting them.

If you are considering bankruptcy because of overwhelming mortgage payments, you may not see any light at the end of the tunnel. However, I am here to assist you. As a CDPE-designated agent, I can assist you in evaluating options for your particular situation. Bankruptcy is not always an inevitability, and it might not be right for you. Contact me today and let me help you find a successful path for a more stable and happy future.

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