



# Declaring Bankruptcy Is No Easy Out

by Andrew Beattie ([Contact Author](#) | [Biography](#))

Filing for [bankruptcy](#) is the last resort in personal finance - the rope thrown to someone stuck in a quicksand of debt. Drowning in debt is as serious as it sounds, but declaring bankruptcy is no easy out - it carries serious consequences. These consequences include increased difficulty in securing loans, apartments, cars, insurance and almost anything involving a credit check. It may also mean paying more for these items in increased interest payments if you're successful in securing them. (Read our related article [The Importance Of Your Credit Rating](#) for more information.)

In most cases, people are better off avoiding a bankruptcy. If you feel like your debt is pulling you under, read on for some tips on how to claw your way back. (To learn all the stages of bankruptcy proceedings, check out [Changing The Face Of Bankruptcy](#) and [What You Need To Know About Bankruptcy](#).)

## Make a Damage Report

Most people who are considering filing for bankruptcy have a good idea of how much they owe in loans and credit compared to how much they earn. This is important, but in order to avoid bankruptcy, you need to take a much more in-depth look at your financial situation. If you are married and have children, this will have to be a family activity. Clear off your kitchen table and get out all your loan statements, bills, [budget](#), basically everything you can think of. The loan/credit card payments and the bills for essentials - power, heat and water, but not cable, gym membership, or other luxury services - will represent your base payments. (To see a user-friendly budget planner, check out the "'Til Debt Do Us Part" guru Gail Vaz-Oxlade's [Budget Worksheet](#).)

If these essentials already exceed your net income, you will either have to drastically change your lifestyle (sell the house, get a smaller apartment, take on a second job, etc.) or reach for the lifeline and file for bankruptcy. It should be noted that filing bankruptcy will still require the aforementioned lifestyle change, and it will also mangle your credit rating and limit the techniques you can use to rebuild. If you think you can change your lifestyle enough to impact your finances - and you most likely can! - then figure out how much income you have left after your essential payments. Now you need to make a plan to live on what is left of your income and, if possible, increase the payments on your loans.

## Hack, Slash, Burn and Sell

The softest cuts come in the form of substitution. If you have a gym membership that could be canceled in favor of running in the park or a workout DVD from the discount bin, then do it. Similarly, going out for dinner, ordering food in, double-ply toilet paper, and even your car are up on the cutting block if cheaper alternatives will work.

Harder cuts come in the form of selling whatever non-essential items you can. If you're really serious about getting out of debt, you should consider selling your stereo, books, Bruce Springsteen box set, leather jacket, dishes and anything else that you can live without and that someone on eBay or in a pawnshop will pay for. The money raised from the sale will provide a lump-sum payment to use against your highest interest loan. (For more information on getting your cash flow in order, read [Get Your Budget In Fighting Shape](#).)

Speaking of high-interest debt, it is time to stop using it. Keep a single low-limit, low-interest credit card for emergencies and quit carrying the rest entirely (store cards especially). Ideally, you should try to save up an [emergency fund](#) and lock all your cards away. (An emergency fund is easy to create. Find out more in [Build Yourself An Emergency Fund](#) and [Six Months To A Better Budget](#).)

It is time to start using cash again. You will have to get used to living on what is left of your income after you've paid for the essentials and cash is a good way to start. If you only have \$20 in your wallet for the week and no charge cards, you'll be less tempted to buy a latte when it means eating out of cans for the rest of the week.

### Visit Your Creditors

Now is time to go and visit the lending institutions with whom you have outstanding debts. If you owe more than one bank, start with the bank with which you have the longest/best history. Set a meeting time and bring your damage report, your new [cash-based budget](#) and a humble smile. Explain the steps you've already taken to avoid [defaulting](#) on the debt and ask your banker's advice on credit counseling and ways to renegotiate the debt you have at that institution. If it is going well, see if you might [consolidate](#) some of the debts from other institutions. (A consolidation loan can help cut your credit payments in half. To learn more, see [Debt Consolidation Made Easy](#).)

In general, showing initiative will encourage the bank to work with you, although consolidation of loans from other institutions may be pushing it. When a person's debt is sent to a [collections agency](#), banks rarely get paid in full (never in a bankruptcy) so the bank has more to gain from receiving the [principal](#) back at a lower interest rate. That said, it is on you to show that you've changed your ways.

If you already have accounts that have been handed over to collection agencies, take the same tact in negotiating with them. If you strike a repayment bargain, be sure to get it in writing, both to show other [creditors](#) and to make sure it is honored. There will be a mark on your [credit report](#), but you may be able to get it removed or at least balanced with a positive mark once you've completed the repayment.

### Don't Fall in Again

If all goes well, you should now be able to put aside thoughts of bankruptcy. You cannot, however, put aside proper debt management. Going too close to the edge and surviving the long road back to financial stability is usually a bitter enough pill to turn people off obvious consumer debt, but solid personal finances are the only guarantee against future problems. A person's reputation can only survive one, "hail Mary" debt reorganization with any given financial institution. If you don't keep the promises you made in trying to avoid bankruptcy, there won't be any grace a second time around. Bankruptcy will always be the rope for people too deep in the quicksand, but it's best to learn to read the warning signs and stay away entirely.

If you do end up filing, find out how to come out of it with your life intact in [Life After Bankruptcy](#).

by **Andrew Beattie**, ([Contact Author](#) | [Biography](#))

Andrew Beattie is a freelance writer and self-educated investor. He worked for Investopedia as an editor and staff writer before moving to Japan in 2003. Andrew still lives in Japan with his wife, Rie. Since leaving Investopedia, he has continued to study and write about the financial world's tics and charms. Although his interests have been necessarily broad while learning and writing at the same time, perennial favorites include economic history, index funds, Warren Buffett and personal finance. He may also be the only financial writer who can claim to have read "The Encyclopedia of Business and Finance" cover to cover.

**\*\* This article and more are available at Investopedia.com - Your Source for Investing Education \*\***