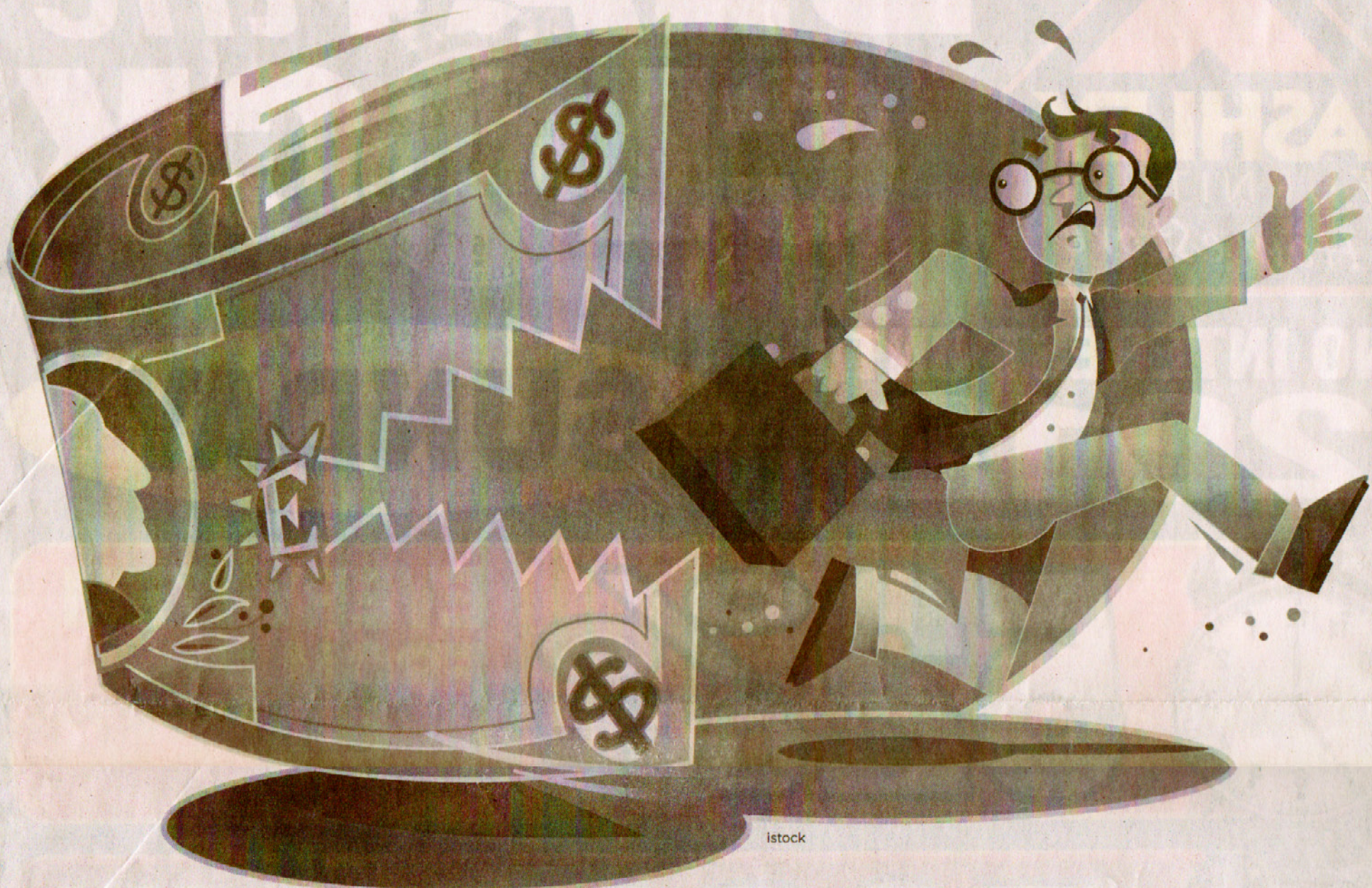


The Economy and You

The Economy & You is moving to the Business section starting Jan. 2. You'll find it there every Sunday and Wednesday. Also, look for the Economy & You label on relevant content all week long.

COMMENTARY | GAIL MARKSJARVIS



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The bankruptcy reprieve

Before creditors eat you alive, there are steps you can take; just don't wait too long

The cruellest recession since the Depression has pushed people who never would have dreamed of bankruptcy to ask themselves whether they dare file now.

Fear holds many back, as they worry that their financial options would be ruined for life. But that's hardly the case, said Tara Twomey, an attorney with the National Consumer Law Center. Although bankruptcy does carry a stigma and can remain on a person's credit report for up to 10 years, "people drowning in debt can get a fresh start and go forward keeping their important assets," she said.

And while the recession and housing crisis have left lenders unusually cautious, bankruptcy attorneys say that some people who are serious about putting their lives in order often can get a home loan two to three years after coming out of bankruptcy. Even credit cards are offered, although they carry interest rates that

should be shunned.

Experts agree that bankruptcy doesn't ruin your life. But they emphasize that those considering it should look into other options, including working out new payment arrangements with lenders.

They caution, though, that those in dire financial condition shouldn't wait too long to

file.

With 15 million people out of work and about one in four homeowners under water on their mortgages, many people have learned that charging today on the belief that they can pay tomorrow is a dangerous trap. After a lull in bankruptcies after Congress tightened rules in 2005, personal bankruptcies are increasing. About 1.5 million Americans filed for bankruptcy in the 12-month period ending Sept. 30, a 14-percent increase from the same period a year earlier.

And studies show "people are in worse shape than ever" when they file, said Robert Lawless, who teaches bankruptcy law at the University of Illinois. Too many people wait until it's too late "and suffer more than they need to," he said.

Once a lender threatens to take your car or home, talking

to a reliable bankruptcy attorney is wise, Lawless said.

He emphasizes "reliable." Some ambulance-chasing bankruptcy attorneys take advantage of people worried about debt that's not truly unmanageable, and they push people into bankruptcies they don't need. Debt counseling and debt repair firms can be disreputable, too, taking money from clients and not making payments to creditors. The result: People end up out of cash and in more serious financial trouble than if they'd been chipping away at their debts on their own.

A solution is to find out from a debt counselor if you can handle debts by putting yourself on a strict budget. But don't go to firms that advertise or promise to get rid of your debts. Select one that gets United Way or local government funding, an indication

that it has been scrutinized.

Some bankruptcy attorneys say that people who don't file for bankruptcy and unsuccessfully try to juggle an array of bills increase the risk that their lenders will take back a car or home.

Bankruptcy features multiple rules, and they apply differently to Chapter 7, which tends to be for the deeply desperate, and Chapter 13, which gives people a three- to five-year payment plan. Remember that bankruptcy is complicated and individualized.

The advantage of bankruptcy is that foreclosures, evictions, repossessions, garnishment of wages or Social Security payments, utility shut-offs and collection phone calls stop. If a person waits too long to file, a legal judgment might eliminate options for saving an asset.

"Do not wait until the car is

on the verge of repossession or two days before the home is foreclosed," said bankruptcy attorney Max Gardner.

Once you file for bankruptcy, only the debts you have had up until then are relieved. Say you're unemployed and relying on credit cards for food and gas. If you file for bankruptcy, the card companies might cancel your cards. But while you're in bankruptcy, you might get credit card offers, because the banks might consider you a safer risk now that you have little or no debt and you can't file for another seven or eight years. Remember that you won't get any relief for debts taken on after bankruptcy.

Bottom line: Timing is crucial.

"If you are sick and need surgery," Twomey said, "don't file before the surgery."

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