

Are You A Potential Bankruptcy Waiting To Happen?

By Jenny Marion



According to the US Bankruptcy court, over 1.5 million bankruptcies were filed between March 2009 and March 2010. That is a number that has steadily risen over the last 5 years. The last decade was particularly brutal when it came to bankruptcy, and it is likely you or someone you know filed. Between January 2000 and December 2009, 13,363,085 personal bankruptcy petitions were filed. Bankruptcy has often been considered both a financial option of last resort and a fresh start. Bankruptcy has sticky, long term financial affects that have a direct impact on your financial health and well-being. This article will uncover many of the factors that may put you at risk for bankruptcy and present ways of protecting yourself against bankruptcy's harmful effects.



History of bankruptcy.

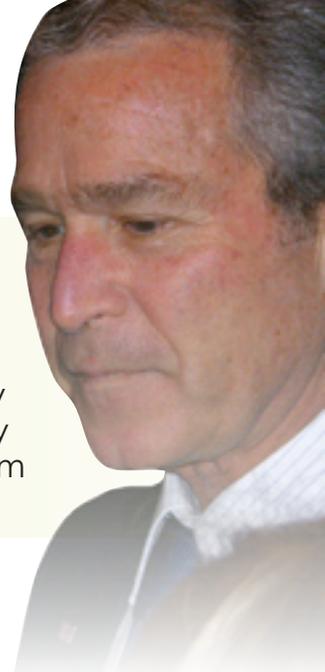
The face and circumstances of bankruptcy has dramatically changed over hundreds of years. During King Henry the VIII's reign in England, people who were bankrupt were considered criminals and could receive punishments ranging from imprisonment to death. Today, it is still possible to be placed in jail or remain there for debt. For example, you can be put in jail, or even kept there, for not paying child-support, alimony, or release fines. However, one of the most famous jailed debtors may have been Robert Morris.

Robert Morris was a signer of the Declaration of Independence and namesake of Robert Morris University in Moon Township, Pennsylvania. Morris was a wealthy businessman who made his money from importing and exporting goods. His personal story is full of financial irony.



Morris' success with investing and managing money served America well during the Revolution. During the American Revolution Morris loaned George Washington millions of dollars from his own savings in order to pay soldiers during the war. Additionally, he was elected as Superintendent of Finance for 4 years in order to help the country get its' finances and credit in order.

However, even though Morris played several critical roles in managing the country's finances one of his own investments in real estate failed. This wiped out his cash and put him in a position where he was unable to pay his debts. He was put in debtor's prison where he stayed for 3 years where he entertained friends and fond visitors such as George Washington.



Robert Morris may have been the inspiration for America's first official bankruptcy law enacted in 1800; one that was also repealed in 1803. 2 more times during the 1800's bankruptcy laws were passed and then repealed. The Great Depression brought new bankruptcy protections to consumers. This was the first time debtors were offered "fresh starts".

In 1979 new "chapters" were added. Chapter 11 for individuals and Chapter 13 for businesses allowed "reorganization" of debts which could bring fewer long term penalties. With more bankruptcy options available, the 80s and 90s saw record numbers of bankruptcies filed. The Bankruptcy Abuse Prevention and Consumer Protection Act became law in 2005. President Bush stated, "The new law will also make it more difficult for serial filers to abuse the most generous bankruptcy protections. Debtors seeking to erase all debts will now have to wait eight years from their last bankruptcy before they can file again."

So what makes you a potential bankruptcy?



Banks have a mostly unknown tool, called the bankruptcy risk score, which provides them more in depth information about your chances of going broke. As of today, banks are not required to share this report and information with consumers. However, that doesn't mean we can't identify some of the factors that make us a potential bankruptcy risk.

According to TotalBankruptcy.com, bankruptcy affects all demographics, however, some groups are more susceptible to bankruptcy than others. For example, more bankruptcies were filed by these groups: women, Caucasian, those with a job, those who had graduated high school and had some college study, and those between the ages of 35-44. Single women with children, in particular, compose an unproportionate number of bankruptcies.

Outside of those personal identifiers other factors played a role in your likelihood of filing for bankruptcy. For example, household instability, divorce, large medical bills, job loss or underemployment, high student loan payments, and high rent/mortgage payments predispose you to difficult financial conditions that can lead to bankruptcy.



What would a bankruptcy mean to you?

Years on credit report

As mentioned before bankruptcy is sticky in the fact that it is a long term addition to your credit record. Your credit report can show your bankruptcy filing for up to 10 years, but many credit reporting agencies will remove it after 7. In fact, if you look at your credit reports, you will often see there is a removal date listed below the record of debt. During the time a bankruptcy resides on your credit report you will be subject to more intense credit discrimination, less favorable credit terms, and higher interest rates.

Not getting a job

In February 2011 a federal appeals court ruled that it is ok for an employer to discriminate against a job seeker who has filed for bankruptcy. Note that it is illegal to fire someone who is already employed and has filed bankruptcy. The court noted that while there is a law stating the government may not discriminate against applicants who have filed for bankruptcy, the law doesn't put the same requirements on private employers. Why would an employer care? Whether their logic is right or wrong, some employers believe your bankruptcy is an indicator of your personal responsibility.

Bankruptcy cost.

In addition to the costs you will occur in the future because of a bankruptcy, you must pay a \$300.00 filing fee. Also, most attorneys will charge between \$1,000.00 to \$2,000.00 to work on your behalf during the filing.

What is not covered in a bankruptcy?

Many people see bankruptcy as a fresh start, but they may not realize that bankruptcy protection does not eliminate all types of debts. The following is not an all-inclusive list, but rather an example, of some debts not discharged through Chapter 7 bankruptcy. Consult a bankruptcy attorney for specifics relevant to your own individual situation.

- Back taxes up to 3 years old
- Alimony owed or child support
- Money owed for property of money obtained under false pretenses
- Student loans
- Judgments against you as a result of you driving while intoxicated
- Claims from a previous bankruptcy where you were denied a discharge
- Consumer debts of more than \$500.00 for luxury goods and services owed to a single creditor within 40 days of being granted relief
- Cash advances up to \$1,000.00 as extensions of open-end consumer credit obtained by the debtor within 20 days of the relief

Suggestions on avoiding bankruptcy.



Unmanageable debt is like being overweight. You don't wake up one morning to discover you gained 20 pounds overnight. There are plenty of signs along the way that trouble is coming. You may be late paying bills, your hours and pay were cut at work, or you had an expensive hospital visit without insurance. There are many warning signs that should warn you corrective action is needed right away.

Adjusting your lifestyle according to your circumstances is one way to work through financially tough times. Cutting expenses, working overtime, or getting a second job would be less stressful and damaging than going through

a bankruptcy. Don't avoid making tough decisions. The longer you delay in dealing with a financial challenge the more you put yourself at risk of far enough behind that you can't get ahead.

Perhaps the best advice is to get help long before you are forced to. Having someone you trust take a look at your financial situation may lead to more ideas on how to handle it. Ideally, you would have a professional look over your situation and make recommendations that are better alternatives to bankruptcy. After all, spending a year or two reorganizing your efforts will keep you in a much stronger financial position than carrying the long term financial drain of bankruptcy. **TQR**

