

1. Origins of Bankruptcy

Release from debt is as old as the bible. In Deuteronomy 15:1-2 the bible states that debts should be released after seven years. Bankruptcy is also a part of our English law heritage. It goes back as far as the Middle Ages. The U.S. Constitution provided for bankruptcy to debtors. The purpose of bankruptcy is to release the debts of those who have suffered catastrophic financial misfortune. The underlying idea is that the debtor is more important than the debt owed. There are simply instances where a person can no longer pay their debts. Bankruptcy gives that person a fresh start and peace of mind.

2. Why Do People File For Bankruptcy?

a. Loss of income. The loss of a job or income can be devastating to an individual or a family. With high unemployment, more and more Arkansans are unable to find work. Even being out of work for a short period of time can be difficult when mortgage and car payments still have to be made.

b. A revolving cycle of credit card debt. High interest and penalties can quickly get out of hand, making it impossible to get out of the cycle of minimum payments. These minimum payments mostly cover the interest and fees and the cycle of debt continues.

c. Medical bills and collection agencies. It is easy to run up a large medical bill in unforeseen circumstances. More and more, hospitals and doctors are turning these bills over to aggressive collection agencies.

3. When Should I Consider Bankruptcy?

- a. You are behind on your home or your car.
- b. You are being sued for a debt.
- c. You have had a repossession or foreclosure.
- d. You are only able to make the minimum payments on credit cards.
- e. You have to live on your credit cards to survive.
- f. You spend your paycheck before you get it.
- g. You are being harassed by bill collectors.

4. What Are Alternatives to Bankruptcy?

a. Negotiate the debt. We do this for debtors when the circumstances are right. The first rule is that creditors don't want to negotiate unless you have a substantial amount of cash to give them. The second rule is that you need everything in writing. Even then, some creditors simply won't negotiate on the debt even with the threat of bankruptcy. Also, it is not much help to negotiate on one debt if you are unable to work something out with all creditors.

b. Consolidation loan. These have been popular the last few years. The idea is that you consolidate all of your credit card debt, medical bills, etc. into one loan. This new loan is secured by your home. Essentially, this type of loan turns unsecured debts (credit card bills, medical bills) into a secured loan (a second mortgage on your home). If you cannot pay the consolidation loan, your home can be foreclosed upon.

c. Credit Counseling Agency. Some of these provide budgeting. Others provide a service. The agencies that provide services do this: they take a monthly payment from you, part of which is their fee, and

part of which goes into an account. When the agency has accumulated enough money, they try to negotiate one of your debts for an amount smaller than what you owe. If this is then paid, they try to accumulate more money to work on another debt. This works if the creditors are willing to negotiate, although nothing prevents a creditor from declining to negotiate or from suing you.

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