

## **CREDIT CARD DEBT: IS BANKRUPTCY THE ANSWER?**

By Corey Licht

Credit card debt is one of the main reasons people file for bankruptcy. With many struggling during the economic downturn, more and more people are relying on credit cards to get by. Fortunately, credit card debt is one type of debt that is usually discharged in bankruptcy, meaning it's erased once your bankruptcy is complete.

However, there are downsides to filing for bankruptcy to get rid of your credit card debt. Below, we've included a few things to keep in mind if you're considering filing for bankruptcy to wipe out your credit card debt.

### **Is bankruptcy right for you?**

Chapter 7 is the most common form of bankruptcy for individuals. In a Chapter 7 bankruptcy, the debtor's property and assets are seized and sold off. The creditors are then paid with the money made from the sale. Once the process is complete, the debtor is usually granted a debt discharge, meaning most of his debts, including credit card debts, are erased.

However, there are certain downsides to filing. If you're concerned with keeping your property, bankruptcy might not be the solution for you. While certain kinds of property, like your home and your car, are exempt in Arizona, the exemptions are capped, meaning you'll only be able to claim a small amount of the item's value.

In addition, filing for bankruptcy can have a disastrous effect on your credit score. You may find it hard to receive a loan, take out a mortgage, or get a credit card after filing for bankruptcy.

## **Bankruptcy alternatives**

Bankruptcy isn't always the way to go. If you have a manageable amount of credit card debt, you're probably better off working out a budget, religiously sticking to it, and paying off your credit card debt the old-fashioned way. That way you can save your credit score and keep your property.

On the other hand, if there's no feasible way for you to keep up with your credit card payments, you can approach your creditors about negotiating a repayment plan. You'll probably have to show them that it's impossible for you to make your payments.

If so, it's in their best interests to work with you. They may be willing to lower your interest rates or monthly payments. You may also want to consolidate your debts by getting a debt consolidation loan or by transferring your debts to a low-interest credit card to simplify things.

## **Credit rehab**

A bankruptcy can remain on your credit report for up to 10 years. To rebuild your credit score post-bankruptcy, remember to pay your bills on time, stick to your credit limits, and keep your credit lines open.

Before making a decision, it's in your best interest to discuss your situation with a bankruptcy attorney.

## **DEALING WITH CREDITORS INFORMALLY**

Debtors who have faced obstacles to paying off their debts have no doubt received more than their fair share of demanding letters and phone calls, and sometimes the pressure of such a situation can make the thought of filing bankruptcy and getting rid of their debts quite appealing. That course of action can have long-term effects on credit rating and the ability to make large purchases in the future, so debtors may wish to consider other less drastic alternatives, including those described below: dealing with creditors informally, and workouts.

Of course, the first and best step toward dealing favorably with creditors is to pay all bills as they become due, but when life throws a curve ball, that is not always possible. If a debtor's financial problems are only temporary, he or she can simply ask creditors to accept lower payments, or request that payments be scheduled over a longer period of time. Creditors may be receptive to these ideas if the debtor has been a prompt payer in the past, or if they wish to avoid resorting to a court proceeding in order to collect on the debt, which can be a time-consuming and expensive process.

Consumer credit counselors can also help creditors work out a repayment plan. But some so-called "credit counselors" prey on overwhelmed consumers and promise "a clean slate" (often for a flat, up-front fee). They may promise to contact creditors and convince them to accept lower payments, or to charge lower fees and interest rates. In many cases, unfortunately, the only ones who end up in better financial shape as a result of these "efforts" (or the lack thereof) are the counseling organizations themselves, while the consumers are left with even fewer resources as a result of high fees and more delinquent debts.

### **Workouts**

The term "workout" is used to describe a more formal, mutually-negotiated modification of debt that does not involve a bankruptcy filing. Simply stated, a

workout is an agreement worked out between the debtor and his or her creditors for payment of the debts between. The agreement is negotiated without all the bells and whistles (and perhaps the stigma) of the bankruptcy process.

Workouts are sometimes called compositions or extensions. A composition is a contract between a debtor and two or more creditors in which the creditors agree to take a partial payment in full satisfaction of their claims. An extension is a contract between the debtor and two or more creditors in which the creditors agree to extend the time for payment of their claims. An agreement may be both a composition and an extension, or an agreement to accept less money over a longer period of time. The same laws govern both compositions and extensions.

By entering into a voluntary agreement with creditors, the debtor avoids the stigma that attaches to bankruptcy but achieves the same results -- discharge from all or a portion of his or her debts. In fact, the workout discharge is even broader than a bankruptcy discharge. Also, a workout discharge does not affect the debtor's rights to file a future bankruptcy, whereas certain types of bankruptcy discharges do. But the main advantage of a workout is that it is voluntary. In a workout, unlike bankruptcy, the majority of creditors cannot cram down concessions on dissenting creditors. All of the participating creditors must agree to the workout's terms.

## **WARREN SAPP EXITS BANKRUPTCY LIKE A CHAMP**

By Corey Licht

In May, Warren Sapp joined the countless ex-NFL players who have filed for bankruptcy.

Sapp, however, tackled his debt like a champ and has emerged from bankruptcy. On Monday, a Florida bankruptcy judge gave Sapp his debt discharge, meaning most of the former defensive tackle's debts are now erased, The Inquistr reports.

According to his bankruptcy filing, Sapp had \$6.7 million in debts but held just \$6.5 million in assets. Sapp also reported a monthly income of \$115,881. Sapp's assets included about 240 pairs of Air Jordan sneakers, a boxing glove signed by Muhammad Ali, and a \$1,200 lion skin rug. Awesome.

The only things missing were Sapp's championship rings. In his filing, Sapp said he'd lost both his 2002 Super Bowl ring from his time with the Bucs, and his 1991 national championship ring from his time at University of Miami. Even if Sapp didn't really "lose" the rings, who could blame him?

Chapter 7 bankruptcy protection shielded Sapp from his creditors while he worked out his financial issues. In a Chapter 7 bankruptcy, the debtor's property is liquidated and the proceeds paid to his creditors. Once the process is complete, the debtor is granted a debt discharge, extinguishing most debts.

On Monday, Warren Sapp got his debt discharge when a bankruptcy judge ruled that Sapp had gotten his finances together. However, not all debts go away in bankruptcy. Student loan debts, certain tax debts, child support, and alimony can't be discharged in most cases. That means Sapp is still on the hook for hundreds of thousands of dollars in tax debt, child support, and alimony.

For the time being, Sapp will have to make ends meet on his modest NFL Network salary of \$45,000 a month.