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## **IS BANKRUPTCY THE RIGHT CHOICE?**

**BRENTWOOD, Tenn.** – During the current economic recession, many have lost their jobs, seen their credit lines cut or experienced other serious financial misfortunes. When the bills pile up and times become desperate, many people begin to question whether declaring bankruptcy is a viable option for them. The Tennessee Society of CPAs advises that there are many issues to consider before taking this step.

### **FIRST THINGS FIRST**

Declaring bankruptcy can take away some of the pressures of crushing debt loads, but there are other less extreme options that you should consider before making the leap. If you are unable to pay your bills and perhaps have even fallen behind on your payments, contact your creditors immediately. Explain your situation to them and emphasize that you want to make a good faith effort to keep up with your bills, but that has become temporarily impossible. Ask if the creditor would be willing to postpone or lower your payments for the time being, or offer any other type of relief. If they agree, these accommodations may be all you need to get your debt situation back on track.

### **GET CREDIT COUNSELING**

If you do decide to declare bankruptcy, federal law requires that you participate in credit counseling sessions as part of the process. It's a good idea to consider talking to a credit counselor even before you reach the bankruptcy stage, however, since they may help prevent it. These advisers can work with you to put together a budget and a debt payment plan, which may enable you to avoid bankruptcy. Be aware, though, that there are many bogus credit counseling

agencies that charge high fees and make unrealistic promises. It's important to know, for example, these agencies cannot "erase" past credit problems from your record, so avoid any organizations that make such claims.

## **UNDERSTAND THE OPTIONS**

There are two types of personal bankruptcy under federal law. In Chapter 7 bankruptcy, your assets are sold and the proceeds are used to pay your creditors. Any remaining debts are discharged. Under Chapter 13 bankruptcy, debtors with a steady income create a plan to use all of their disposable income to pay off creditors over a period of up to five years.

## **ASSESS YOUR SITUATION**

Bankruptcy should be a final step, one taken when your other choices have been exhausted. It's also not the best method to solve a temporary problem, such as a momentary cash crunch. If you have just lost your job but believe you have good prospects for getting a new one, bankruptcy is probably not advisable. On the other hand, if you have been out of work for an extended period, have fallen behind on mortgage or other payments and have no realistic way of paying outstanding debts, then bankruptcy may be the right choice.

## **START FRESH**

The bad news is that a bankruptcy will show up on your credit report for up to 10 years, lowering your credit score and limiting your credit options. The good news is that you can begin to improve your credit score right away despite a bankruptcy by following good spending and credit habits and generally managing your money wisely.

### ***About Money Management***

*Money Management* is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

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