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The Truth About Bankruptcy

Myth: I'll just file bankruptcy and start over; it seems so easy.

Truth: Bankruptcy is a gut-wrenching, life-changing event that causes lifelong damage.

Bankruptcy. That word sends chills up the spine. If you're facing the prospect of bankruptcy or you're in the middle of it right now, you know it's a living nightmare. It can devastate your job, destroy your marriage and steal your peace of mind.

Kathy called my radio show, ready to file bankruptcy. Her [debts](#) were overwhelming, and her cheating husband had left with his girlfriend. The house was in his name, as was all the debt except \$11,000. Kathy was 20 years old, and her brilliant uncle - a lawyer from California - told her to file bankruptcy. Kathy was beat up, beat down, and deserted without help, but she was not bankrupt. When her soon-to-be ex-husband ends up with all the debt in his name, he may be bankrupt, but Kathy won't be.

Why Avoid Bankruptcy?

Bankruptcy is not something I recommend any more than I would recommend divorce. Are there times when good people see no way out and file bankruptcy? Yes, but I will still talk you out of bankruptcy if given the opportunity. Few people who have been through bankruptcy would report that it is a painless wiping-clean of the slate, after which you merrily trot off into your future to start fresh.

Don't let anyone fool you. I have been through bankruptcy and have worked with bankruptcy for decades, and it is not a place you want to visit. Bankruptcy is listed in the top five life-altering negative events that we can go through, along with divorce, severe illness, disability, and loss of a loved one. I would never say that bankruptcy is as bad as losing a loved one, but it is life-altering and leaves deep wounds both to the psyche and the credit report.

Types of Bankruptcy

[Chapter 7 Bankruptcy](#), which is total bankruptcy, stays on your credit report for 10 years. [Chapter 13 Bankruptcy](#), more like a payment plan, stays on your credit report for seven years. Bankruptcy, however, is for life. Loan applications and many job applications ask if you have ever filed for bankruptcy. Ever. If you lie to get a loan because your bankruptcy is very old, technically you have committed criminal fraud.

Most bankruptcy cases can be avoided with proper help, such as Dave's certified counselors and the Total Money Makeover. Your [Total Money Makeover](#) may involve extensive amputation of stuff, which will be painful, but bankruptcy is much more painful. If you take the thoughtful step backward to get on solid ground instead of looking at the false allure of the [quick fix](#) that bankruptcy seems to offer, you will win more quickly and easily. I know from personal experience the pain of bankruptcy, foreclosure, and lawsuits. Been there, done that, got the t-shirt, and it is not worth it.

The New Bankruptcy Law

On April 20, 2005, President Bush signed into law the *Bankruptcy Abuse Prevention and Consumer Protection Act of 2005*. The law was enacted on **October 17, 2005**. There were many changes to the old law. Among the two changes most talked about are the requirements for pre-petition credit counseling and post-petition financial education. Credit counseling (sometimes called the "ticket-in" or "part 1") will be required prior to filing the bankruptcy petition. For Chapter 7 and Chapter 13 bankruptcies, financial education (sometimes called "debtor education," the "ticket-out" or "part 2") will be required prior to discharge of the bankruptcy. [Dave Ramsey's Debtor Education](#) is designed to fulfill the requirement for financial education.

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