Utah Retirement Systems

Debt Management Services or Bankruptcy

If you are in dire financial straits and cannot see a way out of dealing with overwhelming debt, there may be a couple options to consider.

Debt Management Services

If you are having trouble making payments on your debts, a credit counselor may be able to help you with advice or by organizing a debt consolidation or "debt management plan" for all your debts. Typically, under a debt management plan you make a single payment to the credit counseling organization each month or pay period and the credit counseling organization makes monthly payments to each of your creditors.

Under debt management plans, credit counselors usually do not negotiate any reduction in the amounts you owe–instead, they can lower your overall monthly payment. They do so by negotiating extensions of the periods over which you can repay a loan and by asking creditors to lower the interest rates and waive certain fees.

Be aware that working through a credit counseling agency can potentially have a negative impact on your credit score and your ability to borrow in the future.

For more information, see: https://www.consumerfinance.gov/ask-cfpb/what-is-credit-counseling-en-1451/

Bankruptcy

The United States bankruptcy system provides a legal process for consumers who cannot repay their debts. Bankruptcy law has two primary purposes; to "relieve the honest debtor from the weight of oppressive indebtedness" and to protect the rights and interests of creditors in an orderly and equitable distribution of the debtor's assets.

U.S. law allows two primary ways for individuals to file for bankruptcy. Under a Chapter 7 bankruptcy, a debtor's non-exempt assets are liquidated in order to repay unsecured creditors. The consumer's remaining debts are generally discharged, meaning that creditors can no longer attempt to collect the debts from the consumer. A debtor may be able to exempt certain property. For example, a homestead exemption protects at least some equity in the debtor's primary residence.

Under a Chapter 13 bankruptcy, debtors enter into a generally three- or five-year repayment plan to repay a portion of their debt. If the debtor successfully completes the repayment plan, the remaining non-

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mortgage debt is generally discharged. Individuals can keep their assets in full in a Chapter 13 bankruptcy case, whereas in a Chapter 7 case, individuals can only keep assets up to a certain exemption amount.

Before making any bankruptcy-related decision, you may want to consult with a qualified attorney who specializes in bankruptcy filings. Filing for bankruptcy can have negative impacts on your credit score and your ability to borrow in the future.