
FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer & Business Education

Advertisements Promising Debt Relief May Be Offering Bankruptcy

Washington, D.C. -- Debt got you down? You're not alone. Consumer debt is at an all-time high. What's more, record numbers of consumers—nearly 1.6 million in 2003—are filing for bankruptcy. Whether your debt dilemma is the result of an illness, unemployment, or simply overspending, it can seem overwhelming. In your effort to get solvent, be on the alert for advertisements that offer seemingly quick fixes. While the ads pitch the promise of debt relief, they rarely say relief may be spelled b-a-n-k-r-u-p-t-c-y. And although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort. The reason: its long-term negative impact on your credit-worthiness. A bankruptcy stays on your credit report for 10 years, and can hinder your ability to get credit, a job, insurance, or even a place to live.

The Federal Trade Commission (FTC) cautions consumers to read between the lines when faced with ads in newspapers, magazines or even telephone directories that say:

“Consolidate your bills into one monthly payment without borrowing.”

“STOP credit harassment, foreclosures, repossessions, tax levies and garnishments,”

“Keep Your Property.”

“Wipe out your debts! Consolidate your bills! How? By using the protection and assistance provided by federal law. For once, let the law work for you!”

You'll find out later that such phrases often involve bankruptcy proceedings, which can hurt your credit and cost you attorneys' fees.

If you're having trouble paying your bills, consider these possibilities before considering filing for bankruptcy:

- **Talk with your creditors.** They may be willing to work out a modified payment plan.
- **Contact a credit counseling service.** These organizations work with you and your creditors to develop debt repayment plans. Such plans require you to deposit money each month with the counseling service. The service then pays your creditors. Some nonprofit organizations charge little or nothing for their services.
- **Carefully consider a second mortgage or home equity line of credit.** While these loans may allow you to consolidate your debt, they also require your home as collateral.

If none of these options is possible, bankruptcy may be the likely alternative. There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. The current filing fees are \$185 for Chapter 13 and \$200 for Chapter 7. Attorney fees are additional and can vary widely. The consequences of bankruptcy are significant and require careful consideration.

Chapter 13 allows you, if you have a regular income and limited debt, to keep property, such as a mortgaged house or car, that you otherwise might lose. In Chapter 13, the court approves a repayment plan that allows you to pay off a default during a period of three to five years, rather than surrender any property.

Chapter 7, known as straight bankruptcy, involves liquidating all assets that are not exempt. Exempt property may include cars, work-related tools and basic household furnishings. Some property may be sold by a court-appointed official—a trustee—or turned over to creditors. You can receive a discharge of your debts under Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

For More Information

Visit the Federal Trade Commission website, or contact the AFSA's Education Foundation at 1-888-400-2233 for more credit/money management information.

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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