**Debt consolidation? Debt settlement? Bankruptcy?**

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When you’re in debt, it’s important to weigh your options carefully. While a debt management scheme may seem like a good solution, there are advantages and disadvantages to each type, so it’s crucial to understand the differences.

Debt consolidation involves taking out a new loan to pay off existing debts. Hopefully, the new loan will carry lower interest rates and lower monthly payments than the individual debts do, although there is no guarantee that it will. The important thing to remember about debt consolidation is that the amount of the debt stays the same. Debt consolidation will not reduce the amount of the debt, it will only reduce the number of creditors. There’s also no guarantee that the monthly payments will be any easier to make than the individual payments were. It’s the same debt, just a different repayment plan. The new loan, of course, affects credit like any other loan would.

Debt settlement plans are very often administered by debt relief agencies who take a fee for their services. They offer credit counseling and debtor education. They settle debt by offering lump sum payments in exchange for reduced balances. There are obvious and less obvious problems with this arrangement. In my experience, if debtors had large sums of money to deal with their debt, they would have made regular monthly payments instead of falling behind in the first place. The less obvious problem is that creditors must be negotiated with one at a time. Some may agree to accept less, others may not. The even less obvious problem is that debt forgiveness, *other than in bankruptcy*, carries potential tax consequences. The amount by which your debt is reduced is considered income, and may cost a debtor in taxes later.

Bankruptcy offers protection from creditors while debt is being handled, which the other two options do not. A bankruptcy immediately stops interest and late payments from accruing on outstanding debts, as well as stopping foreclosures and wage garnishments. While trying to obtain a new loan or negotiate a settlement, a debtor could continue to fall behind, letting the debt get worse. Debt settlement and bankruptcy both appear on and stays on credit for 7 to 10 years, but in Chapter 7 bankruptcies, the debt has been wiped out without any repayment of the debt.

If you are considering any debt solution, consult reputable professionals first!