BANKRUPTCY OR DEBT CONSOLIDATION: WHICH IS BETTER?

'Bankruptcy or debt consolidation; which one is better for me?'

If you are deliberating on this, then your credit score is taking a downturn and debts are cramping your budget.

Bad debts are the sour end of any loan transaction, and the two parties involved avoid it as often as possible, but what happens when the borrower is unable to fulfill their repayment obligations? In the case of secured loans, the creditor may repossess the collateral for the loans and liquidate it to offset the money that was borrowed. Things are not so simple for unsecured loans. At worst, the interest rates will keep piling up, but how will a debtor who is unable to pay the original amount owed be able to offset the staggering interests?

As a result of these variables, there are many alternatives for the borrower and the lender to curtail severe losses on both ends. For context, this article weighs on bankruptcy vs debt consolidation as solutions to loan repayment complications. As a borrower, which option is better for you?

You're about to find out, but first, you must understand what each alternative means and how they affect your creditworthiness.

Bankruptcy

When a debtor deems themselves unable to pay off a debt, they file a petition to the court of law. Once ratified, their assets (cars, land, or stocks) are evaluated against the amount owned and used to pay part of the loan so that they no longer have repayment obligations to the creditor. In a situation where the borrower does not own any asset tenable, they may end up repaying nothing.

This legal proceeding usually is filed by the borrower, but on rare occasions, the lender takes the initiative. Federal bankruptcy courts typically handle these proceedings for individuals and businesses and you may consider it a form of forgiveness of debt. Most of the time, assets put up for liquidation are not enough to repay the loan amount, but better than bad debt, especially for an unsecured loan.

You are probably thinking that bankruptcy is the way out of that debt fix, but it is essential to consider its biggest disadvantage: the indelible stain on your credit history. Once discharged from bankruptcy, you will find it hard, almost impossible to qualify for any f0orm of credit for several years. No credit cards, no mortgage, car loan, or any form of new debt, save for micro personal loans and with unreasonable interest because of your credit score.

Debt Consolidation

Multiple debts can be both financially and mentally draining to service and keep up with. The individual interest rates on each debt may take a larger chunk off your income, leaving you cash-strapped the instant your paycheck comes in.

Debt consolidation loans are taken in lump sums to pay off multiple smaller debts, leaving only one debt to service. You are merging your multiple debts and their interest rates into one for easier repayment. Debt consolidation loans are used to pay off other types of loans such as student loans, credit card loans, and other liabilities. They also come with lower interest rates and flexible repayment terms. Note that contrary to what debt settlement does, debt consolidation only works to reduce the number of creditors, not necessarily the debt amount.

Debt consolidations may end up becoming long and draining to repay, but if you keep up and make timely payments, you will be doing your credit score some good in the long run.

Final Verdict

Weighing in on the disadvantages of bankruptcy and debt consolidation, the latter is hands down the better alternative. It is painstaking and may take on some more of your money, but it is ultimately rewarding to you and your credit history.

However, if you have neither the means nor the willingness to keep servicing debts, it’ll be fruitless to take on a debt consolidation loan and fail to keep up with repayment. Declaring bankruptcy is a better option for instant relief.