

WHAT IF I JUST IGNORE MY DEBTS?

Here is what you might face if you are unable to pay your bills but resist filing for bankruptcy.

*I have more than \$200,000 in credit card debts; I don't think I will make it. What will happen if I don't file for bankruptcy and just stop paying? I don't have any assets, and my business went bad. What do you think? – **In debt and desperate***

I am sure a lot of readers are wondering what they would do in your situation: unable to pay the bills and not wanting to file for bankruptcy.

Though many people would disagree, filing for bankruptcy after trying to start your own business is perfectly reasonable. Many notable Americans have faced the same troubles. Walt Disney and P.T. Barnum both entertainment pioneers, filed for bankruptcy. Milton Hershey, the owner of the Hershey's chocolate empire, filed for bankruptcy four times! Before you decide to walk away or ignore the debt, you should consider whether you want to try again.

Even though you describe your self as having no assets and a defunct business, I am going to assume that you have some assets and that your business continues in some way. I hope you will not take offense; my experience is that when people say that they have nothing, they usually have something. My purpose is to give you an answer that will be helpful in describing what is likely to happen whether you have assets or not.

First, each creditor will contact you by phone, letters, e-mail – any way they can – at home and at work. If you dodge their calls they will call your friends, relatives and neighbors. They will make demands and threaten you with lawsuits. If that does not work, they will hire a collection attorney to sue you or sell your debt to a collection agency that will probably sue you immediately.

The creditors (or collection agencies) may possibly get a judgment against you. If you own real estate other than your home, a lien could be filed against it. If your bank accounts can be located, a levy can be filed against any money in the account, and that money can be given to the judgment creditor. If your business continues to function in any way, a receiver will be sent into your business office. This person will look at all mail that comes to your office and open it, looking for checks. Any checks made out to you or your business may be taken by the receiver.

Involuntary Bankruptcy

Failing that, a group of judgment creditors may try to force you into an involuntary bankruptcy. Usually, this is only done when the creditor knows you have valuable assets and wants to have them sold. For example, if you have an asset

with a large amount of equity and you personally guaranteed the credit card debt that the creditor or collection agency is attempting to enforce, it will want to have that property liquidated. The net proceeds – after the bankruptcy trustee takes a percentage – would be distributed to your creditors. This process would also enable the creditor to gain the tax benefit of writing off the debt you owed.

In other words, if you have any assets, any at all, they are at risk. If at any point in this process you have no assets, then your risk decreases. Basically, creditors cannot do anything to you if there is nothing for them to take. However, your credit will remain “bad” as long as the debts are unpaid.

Here is what you can do: You can make them wait. Most creditors will sue and get judgments that they cannot enforce at that moment because you have nothing to give them. However, these judgments last 10 years and can be renewed indefinitely. Now, judgments can fade away over time—that is to say, collection agencies and creditors have higher-priority things than trying to collect from someone who does not have anything. But, if you do accumulate some assets or rehabilitate your business, you may find some very happy creditors knocking on your door with enforceable judgments.