

## Bankruptcy Or Foreclosure: Which One Is The Best Way Out If You Cannot Afford Your Mortgage?

There are no easy decisions when facing foreclosure. If you are trying to decide between bankruptcy and foreclosure there are several considerations that you should keep in mind. Both bankruptcy and foreclosure will significantly lower your credit score by 200 to 300 points. A foreclosure will stay on your credit report for 7 years, Chapter 7 bankruptcy will remain for 10 years, and Chapter 13 for 7 years if you follow the agreed upon repayment plan, 10 years if you do not. You cannot file a Chapter 7 bankruptcy for your home loan. Chapter 7 is reserved strictly for unsecured debt such as credit cards, personal loans, and store cards. You may use a Chapter 7 bankruptcy to free up money so that you may repay back payments on your home or establish a repayment plan with your mortgage company. If you allow your home to be foreclosed on, the lender may still come after you for a "deficiency balance". This balance is what is owed to lender after your home is auctioned at the courthouse. But, following the auction, a Chapter 7 bankruptcy can be filed to clear you of this obligation. However, you will have both a foreclosure and bankruptcy on your credit history, which will make life very ugly for the first four years after filing.

Chapter 13 bankruptcy will stop foreclosure dead in its tracks. Under Chapter 13, you reorganized your debt and consent to a reasonable repayment plan mandated by the courts. You cannot file Chapter 13 unless your income is great enough to pay all priority and secured debts, and 25% of your unsecured debt over a 5 year period. Additionally, your mortgage may rise because you will have to continue to pay the lender in addition to any amount that you missed during the proceedings or leading up to the proceedings. If you fall behind on your mortgage payments after securing a Chapter 13, then the mortgage company will ask the court to lift the stay and proceed with a foreclosure and you may find your home on the auction block in a matter of weeks. A homeowner can file an individual bankruptcy in only their name and it will not affect their spouse's credit so long as their spouse did not sign the mortgage.

Should you decide to proceed with a foreclosure, keep in mind that it will leave you with a deficiency balance that you must repay unless you have a non-recourse loan. Furthermore, the forgiven debt is considered taxable income by the IRS. If you have a FHA or VA loan, a foreclosure will prevent you from obtaining another government backed loan, even if it is just a refinance.

Before you make any decision you should seek the advice of an experience bankruptcy attorney and consult with a fee-based financial advisor. There are other options to foreclosure and bankruptcy such as a deed-in-lieu of foreclosure, short sale, lender workout, fractional sale of your home, entering into a subject-to with an investor, and renting.

To learn more about bankruptcy and foreclosure, watch my free video, "13 Ways To Avoid Foreclosure" at: [www.foreclosure-help-book.com](http://www.foreclosure-help-book.com). This website has all the resources you'll need to stop foreclosure on your own, without paying an agency thousands of dollars or getting scammed by con artists. The only way you can save your home is if you take action now, so don't become another statistic by sticking your head in the sand. Get on the path to save your home.

### About the Author

Dean Williams is the author of "The Foreclosure Solutions Manual" a step-by-step guide that outlines over 20 ways you can stop or avoid foreclosure and save your home. To find out more information please visit: <http://www.foreclosure-help-book.com>

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