Bankruptcy: a blessing or a curse?

I'm often confronted with a total lack of understanding about what bankruptcy is and how it affects those who go into bankruptcy. When I have initial consultations with individuals, it's clear that many believe bankruptcy is the worst possible outcome they can face. However, this simply isn't true.

Let me start at the beginning. The personal insolvency laws in Australia are not punitive in nature; they're designed to alleviate debt in circumstances where people cannot pay their debts for a multitude of reasons. It could be due to a business collapse, credit card debt, loss of employment, ill health or simply bad lack – but regardless of the cause, individuals often don't realise how the bankruptcy process can actually make their life better in so many ways.

I've had a lot of feedback over the years from clients who have stated that going into bankruptcy was the best thing for them – that it was like having a huge weight lifted from their shoulders.

Let's look at a couple of examples of individuals whose personal insolvency matters I've acted as trustee for:

John:

John*, a small business owner in his early 40s whose business had failed. A father-of-three, John was working three different jobs to try and make ends meet and pay off the business debts that he had personally guaranteed. The man's mental health was tenuous at best and the stress was evident in his face and demeanour. Based on his income level at the time, we calculated that he was never going to pay off the debt, and it was deemed that declaring bankruptcy would be the best solution, both from a financial aspect and for John's mental health. Fast forward the three years that the bankruptcy period takes, and John asked to meet with me just to express his thanks for our assistance. His health was much better, and he had a lot less stress in his life, which gave him the opportunity and the clear headedness to actively engage in his children's lives once again.

Anna:

Anna*, a single mother who was drowning under credit card debt following a marriage breakdown. Anna was barely able meet the minimum repayments, and after meeting with her and assessing her circumstances, bankruptcy was also found to be the best solution. Bankruptcy dealt with her debts in the proper course, and she was discharged effectively debt free. Anna's feedback was that she wished she had known about us sooner, as she had so many sleepless nights worrying about what was going to happen.

These are just two examples, but I and my fellow trustees have may more stories where

people's lives have been put back on track because they've taken the step to go into bankruptcy. The relief on people's faces when their debts have been completely or substantially cleared is palpable.

I'm a huge believer that financial worries are simply numbers on a page – they're not worth the mental and physical stress that accompanies them.

I don't want to sugarcoat the process; bankruptcy does have certain obligations and reporting timeframes and it's a legal status that stays on your record. However, even this pales in comparison to the benefits that the process can offer.

Bankruptcy isn't a dirty word. The stigma around it really needs to be broken and the myths dispelled, so more people can get on with their lives without the weight of debt around their necks. The first step can be the hardest – but it doesn't have to be.

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**not their real names*