Debt Settlement vs. Bankruptcy

Both resolve debt for less than the full balance, but they work in entirely different ways, with different costs, timelines, and consequences. Here is how they actually compare, side by side.

Factor	Debt Settlement	Bankruptcy (Chapter 7)
How it works	Private negotiation with each creditor for a reduced lump-sum payoff	A federal court process that discharges qualifying debt entirely
Public record	No court filing, not part of the public record	A matter of public court record
Typical timeline	24 to 48 months	Several months from filing to discharge
Credit report impact	Missed payments and settled accounts, generally 7 years	Bankruptcy filing itself, generally 10 years for Chapter 7
Cost	Performance fee, typically 15 to 25 percent of enrolled or settled debt	Court filing fees and attorney costs
What it covers	Unsecured debt only, and only what you choose to enroll	Most unsecured debt, with some exceptions
Asset risk	None, no secured assets involved in the process	Some non-exempt assets can be at risk depending on your state

THE HONEST TAKEAWAY

Settlement tends to fit people who have meaningful unsecured debt and want to avoid a court filing. Bankruptcy tends to fit people whose total debt, relative to income, is severe enough that a full discharge is the faster, more complete path. Neither is universally better. The right one depends on your specific numbers.