

# RE-ESTABLISHING CREDIT AFTER FILING A BANKRUPTCY

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OK ... You had to file a bankruptcy case and now you think your credit is shot for good! Well, that simply is not true. In many cases, filing your bankruptcy case was the best thing that you could do for your credit. Without the bankruptcy case, your bad credit would likely just go on and on with no chance of ever getting better or starting over.

No doubt, immediately after filing a bankruptcy case, getting new credit will be difficult. However, it will typically become easier than it was before your case was filed. Initially, your credit score will go down. However, depending upon the amount of debt that you discharged, how low your prior credit score was, and your work history, your score will increase somewhat (or even greatly) over the next year. If your score was extremely low prior to filing, it will likely increase almost immediately. However, if your score was high at the time you filed, it will initially go down, but then will start moving up again. Now, what you need to do is to take control of your financial life and help your score start moving up again to new levels.

Remember that a credit report / score is intended to suggest to a lender what risk that lender is taking to deal with you. It is both an attempt to determine your financial Character (are you a deadbeat or a well intentioned borrower) and your predicted ability to repay the credit you have applied for. Initially, a bankruptcy filing suggests that you are a risk on both fronts. However, creditors realize that there are deadbeats and those who have simply gone through hard times (often through no fault of their own). What you do after your filing will help the creditor determine which category you fall into. Initially, you'll be perceived as a risk and if approved for credit, you'll have to agree to a higher interest rate, and where appropriate, you'll likely have to make more of a downpayment on car and house loans. But there are things you can do to ensure that this does not last and that once again you are categorized as someone who has good financial character and a good ability to repay your credit.

One thing you need to remember is that immediately after you get your Discharge, you'll have a lot less debt, will have a better "debt to income" ratio, and are precluded from filing another Chapter 7 bankruptcy case in the near future. This immediately makes you a better credit risk than someone who still has a lot of debt and appears ready to file a bankruptcy at any moment. However, just as a "policy," most lenders will still consider you a high risk until you prove yourself again.

## HERE ARE SOME THINGS YOU CAN DO:

1. **Learn to Budget.** This way, you'll know what you can afford to borrow, what kind of car, house, rent, cell phone and other payments you can afford. **THERE IS NOTHING MORE DAMAGING** to your credit than to have recently filed a bankruptcy and already have new bad credit showing on your record.

2. **Don't Borrow Too Quickly.** Start slowly and using small amounts if possible. In reality, it's best not to borrow at all unless it is for necessities that you simply can't pay cash for (cars / houses / school). Still, the only way to raise your credit scores is to build up a new borrowing record. Wait until you slowly get your credit record above 650 before borrowing for non-necessities or large purchases. At about that level, you'll start getting reasonable interest rates and terms again.
3. **Get Annual Copies of Your Credit Report.** Never pay for a credit report if you can help it. I would also suggest refraining from paying for any credit monitoring services. You can get a FREE credit report once a year from [www.annualcreditreport.com](http://www.annualcreditreport.com). There is a link to this website on the Page: **Before Filing: Resources**. This is a free site run by the actual credit agencies. Once you get your free report, put a note on a calendar to get another free credit report 1 full year + a week after that. Check to ensure that all of the pre-bankruptcy bad credit shows "included in bankruptcy" or "discharged by bankruptcy." If an item still shows as bad credit, be sure to follow the directions on the credit report and contest that item by also sending a copy of your Discharge Order to the credit reporting company. Finally, be sure that they have all of your address and work information correct.
4. **Pay Yourself – Build Up an Emergency Reserve.** If you can, it is always good to start saving. Most experts agree that you should have a savings emergency reserve account equal to three (3) to six (6) months of your normal living expenses.
5. **Be Wary of Scams and Bottom Feeders.** Shortly after you receive your Discharge, you'll likely start getting mail from credit card companies and auto dealers. Be careful. These are usually poor deals or include unusually high fees and charges.
6. **Get a Small Secured Credit Card and/or a Car Loan to Start Out.** A secured credit card is one where you put money into a savings account at a bank or credit card provider that is locked off from your use. The bank then issues a credit card with a credit limit equal to the amount of the money you put aside. Normally, after 6 to 12 months of good payments and no overlimit charges, the bank will increase the credit limit or change the card to a normal credit card. But see Paragraph 5, above. There are a number of these accounts that charge huge annual fees, late fees and other assorted fees. Some don't pay any interest on the savings account that you have put aside. A good choice for cards such as these is often a Credit Union. Another good source of information about reputable lenders and secured credit cards is the website at [www.bankrate.com](http://www.bankrate.com). In addition, if you need a vehicle, a cheaper short term auto loan (which will initially be at a high interest rate) is a good way to get your credit jump started again. (See Paragraph 7, below).

7. **Your Continuing Car and House Loans May Not Help!** When you have a car loan or a house mortgage that you continue to pay on after a bankruptcy is filed, the lender may not continue to report your payments (or non-payments) to the Credit Reporting companies. Unless you “Reaffirm” your car or house loan (which is a BAD idea in most cases – See the articles on “**Reaffirmation Agreements**” on this web-site - Page: **After Filing: Resources**), the creditor won’t continue to report. However, this shouldn’t stop you from using your continuing good payment record with them. Even though the lender may not continue reporting to the Credit Reporting companies, you can always write to them and request a report (“accounting”) that shows all of the payments you have made since the bankruptcy was filed. This report can then be delivered to the place that you have applied to for credit and they will consider the fact that you’ve continue making all of the required payments. See also the Article on this website entitled “**My Mortgage Company Isn’t Reporting My Payments on My Credit Report! What Can I Do??**” (Page: **After Filing: Resources**).
8. **Getting a New House, Mortgage or Refinance.** If you are looking to purchase a home or refinance a mortgage, understand that there are certain “policies” that the government lenders, conventional lenders and mortgage insurance providers follow. Generally, these lenders will not consider you until 2 or 3 years after your Chapter 7 bankruptcy case is closed. In a Chapter 13 case, they normally require at least 2 years of on-time payments on your Chapter 13 Plan. The time period may be shortened to one (1) year if you can prove that your bankruptcy was caused by unfortunate circumstances that were beyond your control. Even then, once they are willing to consider you, you will typically get offered an interest rate 2 to 3 percent over the rate given to the best borrowers. If you have surrendered your former residence in the bankruptcy, the time period runs from the date the home was actually sold at a foreclosure sale ... not the date that your bankruptcy was discharged. (See the Article on this Website entitled “**Policy Time Periods Before Mortgage Companies Will Consider a New Request For a Mortgage**” (Page: **After Filing: Resources**).
9. **Final Considerations.** Remember that a Bankruptcy Case is a “Public Record” for purposes of your Credit Report. Public records will remain on that section of your Credit Report for 10 year. But don’t let this concern you. Most creditors disregard this information unless you have new recent lawsuits showing in this section after your bankruptcy case was filed. Finally, the individual account information on the credit report (the part showing “included in bankruptcy” or “discharged in bankruptcy”) will remain on your credit for 7 years from the date of your Discharge.