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REBUILDING YOUR CREDIT AFTER BANKRUPTCY

Credit is necessary and affects our daily lives. Not only do you need credit to obtain a loan to buy a home or car, but your credit score is an important factor in renting an apartment, the cost of insurance premiums and whether you and your family are eligible for certain student loans.

Foreclosures, medical bills, divorce, job loss through layoffs and business failures are the primary reasons why Americans seek relief under the bankruptcy laws. With these symptoms of financial distress on the rise, bankruptcy filings are experiencing an upsurge as well.

Rebuilding your credit after bankruptcy is not impossible. Many things can affect your credit score. Credit scores will reflect not only a bankruptcy filing but foreclosures, lawsuits and past due bills. Rehabilitating your credit after the filing of a Chapter 7 or after the conclusion of a Chapter 13 petition can be done with a few careful steps to reestablish creditworthiness.

Start with a credit card. You may have a credit card where there was no balance due at the time you filed your bankruptcy petition, as a result no debt was discharged. Many department stores will continue to honor their credit card when there was no balance due at the time of filing and therefore not scheduled as a debt to be discharged.

Apply for a credit card with a low spending limit. Then promptly pay the balance due each month.

Investigate a “secured” credit card. With a secured credit card you are permitted to purchase items on credit to the same extent that you have deposited a sum of money with the credit card company. Banks that offer secured credit cards usually require you to open a savings account which allows the bank to draw money from the account if you do not pay what you owe. Be careful with these credit cards because the interest rates can be steep. Be especially careful of credit cards issued from South Dakota because there is no limit to the amount of interest they can charge. Go online to www.Bankrate.com or www.CreditCards.com to search for credit cards with better terms.

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Your credit risk actually improves after you file a Chapter 7. Although your credit score will be low after filing a bankruptcy petition, the credit card issuer knows that you cannot file another Chapter 7 for eight years and you have no other debts putting pressure on you to pay them as opposed to your new credit card. Besides, the creditors know that you have an incentive to pay the new credit card debt so you can rehabilitate your credit. There are deals out there for getting credit cards if you search enough.

Open a new checking or savings account. If your job offers direct deposit of your paycheck, use the bank your employer has negotiated with; they will usually accommodate you in opening an account.

Apply for a small loan. Apply for a \$1,000.00 loan from a bank or credit union. Although you may be asked to put up collateral, a small loan that is regularly paid back can help rebuild your credit. **Obtain a car loan.** Although interest rates will be high, the car loan is the next best thing to a mortgage for building credit. If you attempt to get a car loan with little or no money down, it is very likely that you will be turned down. The closer you come to cash and trade-in value totaling 20% of the purchase price, the easier it will be for the dealer to get you a loan. Work with your dealer to attempt to get a loan from a lender that is affiliated with the automobile company where you are buying the car. Those lenders are not only trying to make a profit on car loans, but also trying to sell cars. So the lender may be willing to work with you on the loan. The goal with the first car loan is to help build your credit, so search for a used car to keep your costs down.

Work towards obtaining a mortgage. The earliest that you will be able to obtain a mortgage and buy a home after a bankruptcy filing is two years from the date of filing. You will need to put money down when you buy your next home. Once again, the closer you get to putting down 20% of the purchase price, the more likely it is that you will get your mortgage. Obtaining a mortgage loan guaranteed by the Federal House Administration will provide easier terms than a traditional mortgage. A bank trying to sell a foreclosed home will also work with you and may even provide the financing necessary to purchase the home. Work with a mortgage broker to assist in finding a loan.

Pay your new credit card bills or bank loans as soon as you receive the monthly statements. Don't try to time your payments so that they arrive at the creditors' billing address the day the bill is due. Invariably you will miss the payment date at least once and that will drop your hard earned credit score. Consider an automatic payment directly from your checking account. However, you must be sure that the funds are in the checking account or you wind up with a double hit, the creditor not being paid and the bank charging you for an overdraft fee.

Make sure that your credit accounts are reported. After you have established credit, contact the creditor and find out if they are reporting your good credit to the credit reporting companies. If they are not, encourage them to send in a report and start looking for other credit opportunities.

Avoid “credit repair” offers. These are companies that tell you that for a fee they will clear up your credit. What they do is complain to the credit bureaus about negative entries on your credit report. The credit reporting company then temporarily removes the negative items while they attempt to confirm the accuracy of the objections. If the credit repair company fails to prove that a mistake was made, then the negative entries will be listed again. If you truly have found an error in the credit report you can simply contact the reporting company and provide them with proof that the alleged late payment was really made on time or that you did pay off the bill that shows up as delinquent. And you have not had to pay a fee.

Keep track of your credit. You can order a free credit report from any of the three major credit reporting services. Go online to www.annualcreditreport.com to learn what is being reported to merchants about your credit. By law you are entitled to one free credit report annually from each of the reporting services.

In conclusion, repairing your credit after bankruptcy takes organization and careful attention; however, given its long lasting benefits, it is worth the effort.