



DAIGLE LAW OFFICE

REBUILD YOUR CREDIT AFTER BANKRUPTCY

WITH THESE 5 STRATEGIES

Bankruptcy lets you start fresh without the burden of debt you can never repay. Yet many people who could benefit significantly from bankruptcy hesitate to file because they believe it will take them years and even decades to rebuild their credit.

If you are delaying bankruptcy because you fear you will never get a car loan or mortgage, you will be relieved to hear your fears are unfounded. A common misconception is that individuals who file for bankruptcy cannot get credit and recovering from bankruptcy is impossible. Although it requires some discipline, you can rebuild your credit rating after bankruptcy.

Rebuilding your credit after bankruptcy takes diligence and planning. Your credit score will be affected when you file for bankruptcy, but you can improve your score by taking incremental steps after your bankruptcy is complete. A bankruptcy can stay on your credit report for 7 to 10 years, but as long as you work to rebuild your credit, the direct effect can lessen in as little as 12 to 18 months.

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The path is different for every individual, but here are some strategies that many people have used successfully. As you near completion of your bankruptcy, your lawyer can discuss these with you as well as others that may be appropriate for your situation.

OBTAIN A SECURED CREDIT CARD

One strategy to rebuilding your credit rating after bankruptcy is to obtain a secured credit card. You deposit a given amount of money, such as \$300, into a bank account and that \$300 becomes your credit limit. By charging small amounts each month and repaying your debt/balance on time, you can begin to rebuild your credit. A tip for this strategy is to use the credit for things you need and would purchase (and can afford) anyway (e.g., gas, groceries). That way, you are rebuilding your credit with things you have the money to buy and not spending on luxuries you do not need and cannot afford. Pay off the balance in full each month.



Not all banks offer secured credit cards and not every individual will qualify for a secured credit card. Shop around with different banks as they are not all created equal. Some secured cards charge high fees and others don't report your payment history to the credit bureaus. Make sure you find a card that reports to the three credit bureaus.

BECOME AN AUTHORIZED USER ON AN UNSECURED CREDIT CARD

If you have a domestic partner or family member who has a credit card, he or she may be willing to add you as an authorized user. You should treat being an authorized user as a privilege and you must be prepared to use the credit wisely and only with the card holder's agreement and consent. Ultimately, as an authorized user, you may use the credit line, but the card holder is responsible for paying the bill. In reality, if the bank reports to the credit bureaus, you don't even need to actively use the card. You can benefit just from being an authorized user as long as the account is treated

responsibly and the bank reports the credit activity. Like secured credit cards, not all banks report authorized users to credit bureaus, so make sure to inquire first.

To get the maximum benefit as an authorized user, the card must be used consistently, by either the primary user or the authorized user. If the card or credit line is not being used, there is nothing to report. Choose regular, small expenses and make the payments on time. Establishing a history of timely payments helps credit ratings immensely. Try to pay the balance in full each month, but if you do carry over a balance, makes sure it less than 30 percent of the credit limit.

OBTAIN AN UNSECURED CREDIT CARD

After filing for bankruptcy and receiving your discharge you might be surprised to discover that you are flooded with credit card offers. The banks are not being generous. They know you cannot file for bankruptcy again and they can sue you and garnish your wages if you default. Chapter 7 can be filed only every eight years. If you can qualify for unsecured credit consider using it, much like the secured credit, to rebuild credit.

Keep in mind that having a plan for rebuilding credit step-by-step is better than signing up for every new line of credit that might be offered. And review the offers carefully. Because banks will likely view you as a poor credit risk, expect the terms to include a higher interest rate and even an annual fee.

OBTAIN AN INSTALLMENT LOAN

In addition to secured or unsecured credit accounts, installment loans such as car loans, personal loans, mortgages or student loans will also help rebuild your credit history. Surprisingly, one type of installment loan you may be able to get soon after bankruptcy discharge is an auto loan. Some lenders will lend to individuals within a few months of discharge, but be prepared to pay a higher interest rate. If you maintain a good payment history on the loan and your other accounts, you may be eligible to a refinance at a lower interest rate after a period of time.



MONITOR YOUR CREDIT REPORT



It is a good idea to monitor your credit report every six to nine months. Make sure any newly obtained credit is actually being tracked correctly and consistently. Furthermore, verify that all items that have been discharged in the bankruptcy have been properly noted or deleted. Finally, report and correct any mistakes or discrepancies. You are entitled to one free credit report a year from each of the major credit bureaus.