

## HOW TO IMPROVE YOUR CREDIT SCORE AFTER A BANKRUPTCY

by Mark E. Brenner

There is no doubt that filing for relief under the Bankruptcy Code affects your credit score. What most of my clients ask me is how much and for how long? To understand the answer to those questions it is necessary to understand what the credit score represents.

The mathematical model for the score was developed by the company Fair Isaac and *the score*, ranging from 200 to 800, reflects the consumer's *ability to borrow money: the higher the score the more likely a creditor will lend you money*. Chances are you filed bankruptcy because you were overwhelmed with credit card debt or other credit problems and it is likely that your credit score was low when you filed for relief. The bankruptcy will not hurt you score much more. On the contrary, it should improve it because you no longer have any debt if you received a bankruptcy discharge and you can't re-file for 8 years.

### Check Your Score

Whether or not the bankruptcy will improve your score by itself, there are certain things that you can do to speed up the process. For example, monitor your credit report on a regular basis. You may notice the discharge of your bankruptcy about a month after it becomes official. Debts filed in bankruptcy should also be on the credit report. After 60 days, if you don't see the bankruptcy case number on your report, file a claim with the credit agency. Also, make sure all other details on the credit report are accurate to avoid any additional, negative findings. Be sure that inquiries come off your report after 2 years. Other debts and collections will remain for 7 years while bankruptcies will remain on the report for 10 years.

### Reaffirm Your Car Debt.

If you own a car and are still making payments, make sure you sign a reaffirmation agreement with the car lender. A reaffirmation means that you intend to keep the vehicle and continue making payments. If you fail to make payments, your car can be repossessed and sold (with you liable for any deficiency). Signing this agreement is an act of good faith and will give you more leeway with your lender. A reaffirmation agreement must be signed before the discharge is entered. Do not reaffirm the debt if you intend to surrender the vehicle. You will be financially liable for the balance and will not have a car to show for it.

### Establish New Credit Lines.

**The Secured Card.** You need to re-establish credit as soon as possible. Most traditional banks and credit card companies will probably not approve you. However, some banks will allow you to deposit money into a savings account and issue a credit card attached to that account.

**Passport Loan.** This option is available when you deposit money into a savings account, borrow that money and pay the interest each month.

**Secured Card.** While obtaining an unsecured credit card is nearly impossible after declaring bankruptcy your next best option is to apply for a secured credit card. Good secured cards will report your payments to the three major credit bureaus. While there can be an annual

fee for these cards, the long term benefits of building your credit are well worth it. Secured cards require the set-up of a savings account that's attached to your card. The amount you deposit into the savings account determines the credit limit you have. Apart from the savings account, the card acts like any other credit card. Should you fall behind on payments, the creditor will simply draw from the savings account and reduce your overall limit to the new balance. There are hundreds of available secured cards but only a couple of quality ones.

As of the date this article was posted, the Public Savings Bank Secured card offers a 0% introductory rate on purchases for the first six months and only charges a one-time \$79 set-up fee. With no annual or monthly fees to speak of, it's a long-term, inexpensive option you can use to get your credit up to snuff.

The Orchard Bank Secured card sports a very low 7.9% APR and has an annual fee of \$35, which is waived for the first year. The deposit you make actually earns interest, making it an excellent option for people needing to rebuild their credit. After a few years of making payments on time, Orchard allows you to upgrade your secured card to an unsecured card and returns your deposit.

**High Interest Card.** For consumers who want to rebuild damaged credit, showing you can be trusted with borrowed money is the main way to achieve that goal. But consumers should not expect to get the same type of credit offers after a bankruptcy discharge that they did before, and should be aware that it is up to each issuer to decide how long after a filing they will approve someone for a credit card. The initial credit card offers directed at consumers will most likely include high interest rates and fees and very limited lines of credit. However, you should read the fine print very carefully and look at what the fees are, and above all, understand what you are getting back into.

Whatever type of line you establish, keep them to a maximum of three or four. You don't want to get into the same situation that led you into bankruptcy to begin with.

### Apply For an Installment Loan

Obtaining an installment loan to rebuild your credit can be difficult because of your bankruptcy past. However, if you're successful, the funds you acquire should be used for nothing other than an interest bearing account, preferably a CD so that you can continue to pay the loan on time. The interest you receive from the CD will defer the loss on the interest you are paying for the installment loan and depending on the term of the loan, you should sign up for a CD of similar length. When the monthly payments are due, try to pay back more than the minimum, as this will help with your credit score as well as lower the interest you pay back over the entire course of the loan.

The list above shows a few strategies on how to establish your credit after you have declared bankruptcy. Each idea individually will not raise your credit score much in the short term but remaining financially sound over the next 5-10 years without falling behind on your payments will steadily improve and eventually restore your credit report and score.