Rebuilding *after* Bankruptcy

Seven Steps to a Better Future

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Disclaimer: The information in this book is for educational purposes only. It is not legal advice.

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Courage doesn't always roar.
Sometimes courage is the quiet voice at the end of the day saying,
"I will try again tomorrow."
- Mary Anne Radmacher

Bankruptcy was designed to give you a second chance. After bankruptcy, you can move out from under the weight of your debt and start again. With the process of bankruptcy behind you, it's time to make the most of your fresh start.

Whether you recently had your bankruptcy discharged, or it occurred a year or two ago, you probably have lots of questions as you start over financially: "How do I re-establish credit? Do I want to re-establish credit? How long do I need to wait to re-establish credit? How long does it take my credit to improve? How do I come up with the money to re-establish credit? What's the best thing I can do to improve my finances?"

The practical information offered here will answer your questions so you can rebuild your finances and credit. You've gone through bankruptcy, and now, the process of re-establishing your credit may seem overwhelming. Using credit again might seem too difficult, or it might seem like something that will only be possible in the distant future. You might wonder if improving your credit is worth all the effort – especially if you are determined never to use credit again. In fact, you might have sworn off using credit cards ever again. But keep in mind that good credit is a valuable asset. You can develop good credit without taking on a lot of debt.

Re-establishing good credit is worth the effort, because good credit is tool that gives you choices – choices that affect your life. Having good credit can help you when you need to rent or buy a home. Your credit can affect whether you pay higher or lower insurance premiums or can get insurance at all, according to the Insurance Information Institute. Good or bad credit can affect your ability to get a job and might determine whether you'll need to pay deposits for utilities and other services. And, if the time comes that you want a credit card or a loan, good credit can help you get the financial services you want at lower interest rates.

Re-establishing your credit doesn't have to be overwhelming. This book breaks the process of rebuilding your finances and credit into steps, so that you'll know what you need to do and how to do it. By following the steps in this book, you can look forward to a brighter future.

Before you begin rebuilding your finances and credit, keep in mind that it takes time and diligence. It's a process in which you'll focus on taking care of yourself and your family, rebuilding your resources and remaining in control of your debt. And you might be surprised to know that the process of re-establishing credit can take as little two years – the length of time it takes to fulfill a cell phone contract.

Re-establishing your finances and credit requires more than a single action or a single loan. Making deliberate decisions about your money every day is the key to rebuilding your finances and credit – and it's your best defense against ever having to file bankruptcy again.

Step 3: Keep Your Accounts Current

With the fresh start that bankruptcy offers, you have the opportunity to create positive financial habits. One of the best things you can do for yourself and your finances is to pay the bills you have now on time. On-time payments boost your credit score and save you from paying late fees. However, late payments, particularly those over 30 days past due, will continue to damage your credit.

After bankruptcy, you may still be required to repay some of your debts. To rebuild your credit, you need to bring all of your accounts current and make all of your payments on time and in full. If you have past-due accounts, you need to do everything you possibly can to bring your accounts current.

A document known as a reaffirmation agreement will list which debts you have agreed to repay. If you signed a reaffirmation agreement during the bankruptcy process, it will specify debts you agreed to pay back, partially or in full. For example, you may have agreed to repay a debt on your car or home so that you could keep it.

If you aren't certain which debts you are required to repay, review your bankruptcy documents or call your attorney. If you reaffirm a debt but then fail to make payments on it, the creditor can take action against you.

If you sign a reaffirmation agreement but later change your mind about repaying the debt, contact your attorney immediately. You have only a short amount of time to cancel a reaffirmation agreement. If you miss the time frame, the reaffirmation agreement will stand.

Debt collection after bankruptcy

After you go through bankruptcy, if a creditor contacts you to collect on a debt you know was listed in your bankruptcy, you should respond to the creditor. If you are contacted by phone, write down the name of the person you spoke to, the address of the company he works for, the account number the creditor is calling about and the amount that the creditor says you owe. Then, write a letter like the sample below telling your creditor that debt was discharged in bankruptcy. Keep a copy of the letter in your files.

If the debt was discharged in your bankruptcy, the creditor is prohibited by law from sending collections letters and harassing you. If the creditor doesn't stop its collection efforts, you may need to have your attorney contact the creditor.

If you ignore the creditor, it may try to sue you over a debt that was discharged in your bankruptcy. In some instances, if the debt wasn't listed in your bankruptcy but should have been, your attorney may still be able to stop the creditor.

For your financial well-being, it is important to deal promptly with creditors who contact you. A simple letter or a call from your attorney may be all that is needed to resolve the issue.

Sample letter

Your name
Your address

Date

Name of creditor
Address of creditor

To Whom it May Concern:

I have been contacted by Mr. or Ms. (Name) of your company. Mr. or Ms. (Name) claims that I owe $(list the amount) on (list the account).

As you are aware, this debt was discharged in bankruptcy on (the date of the discharge of your bankruptcy). Your collection efforts violate federal law, 11 U.S.C. section 524. If you continue your collection efforts, I will pursue legal action.

Sincerely,

(Your Name)

Making sure your accounts are accurate and current, and keeping them current, will improve your credit score and will show up positively on your credit report. After you know that your credit report is accurate, you're building up an emergency savings fund and you've brought your accounts current, you are ready to begin the process of establishing new credit.

Step 4: Borrow Small Amounts and Use Credit Carefully

There is a simple rule of credit: to have it, you have to use it. When you are ready to establish and use new credit after bankruptcy, start slowly and carefully. A good way to establish new credit is to borrow a small amount of money from a traditional lender – and have a plan to repay what you borrow, on time and in full.

When you are re-establishing credit after bankruptcy, or after other credit problems, you may not qualify for a loan or credit card at all. If you do, the rates available to you will typically be very high. You may also be charged additional fees to open or maintain a new account. This is why your first loan in the credit-rebuilding process should be relatively small – such as $500. Borrowing a small amount you know you can repay will help rebuild credit; if you take out a larger, high-interest loan but can't repay it, you will further damage your credit.

The best place to rebuild credit is with a traditional lender – a bank or credit union. Start by calling your financial institution to talk to a loan officer. Tell him or her you want to apply for a loan, and be honest with the loan officer about your bankruptcy. Explain that you want to begin re-establishing credit. Be prepared to explain what caused your past financial problems.

You should also be prepared for the fact that a bank or credit union will consider you a high-risk borrower because your debts were discharged in bankruptcy instead of being repaid. When financial institutions loan money, they expect to be repaid. Because of your financial history, a bank or credit union will consider you a high-risk customer. Therefore, if you are granted a loan, you will be charged a higher rate of interest.

If the loan officer turns down your application, be polite and ask for the loan officer's advice on what else you could do to improve your credit. Then, make it a point to follow that advice. If you continue to apply for loans but get turned down by one lender after another, all those inquiries into your credit will be reflected negatively on your credit report.

It's wise not to seek loans of any size from payday lenders and title loan lenders. These kinds of loans will not help you rebuild credit, you will be charged high rates of interest, and you will have a very short amount of time to repay the loan. In fact, you often must repay the loan in two weeks. The average interest rate on a payday loan is 200% to 400% or more. This means that if you borrow $100 at a 200% interest rate, you will have to pay back $200 – double the amount that you borrowed.

Be cautious about high-interest loans; look for less expensive alternatives. Suppose that, in the process of rebuilding credit, you find that you need a different vehicle. In order to qualify for a vehicle loan, you might find that you have to go through a dealership that offers "buy here, pay here" loans. These kinds of loans come with high interest rates. If you need to buy a vehicle, look for reliable transportation at an affordable price. You'll want to be sure that your monthly vehicle payments fit your budget so that you can pay them on time, in full, every month. You'll also want to be sure you can afford to pay for maintenance and repairs as needed. Before you take out a loan, shop around to find one that fits your needs and budget.

Work with a traditional lender – a bank or credit union – whenever possible. Even though you're considered a high-risk borrower, you'll pay far lower rates by working with a traditional lender than by getting a loan from a payday lender or title loan lender. And, when a bank or credit union sees that you have responsibly handled one loan, it may be more likely to grant you future credit when you need it, such as when you need to buy a car or want to buy a home.

After you have obtained a loan and made on-time payments for about two years, you should try to refinance your loan. Contact your lender to find out if you can refinance; your bank or credit union will not tell you when to refinance, or when you might qualify for better rates. By refinancing, your goal is to qualify for a better rate of interest. You'll save money by paying a lower interest rate, and you'll prove that you are a better credit risk.

Even if your bank or credit union does not give you a loan, it might have other financial services that would benefit you. Your financial institution may be willing to offer you a secured credit card. With a secured card, you are required to deposit funds to be used as collateral for the card. The terms on a secured card will vary. For example, you may be required to deposit $500 to receive a credit limit of $500, or you may be required to deposit $500 and will be offered a credit limit that is higher or lower than your deposit. A secured card will still have fees and interest, but it might be less expensive than some other credit card offers that you may receive.

Secured cards are often the easiest way to be approved for new credit, and using a secured card can help you rebuild your credit. Most banks and credit unions report activity on your secured card to the three national credit-reporting bureaus. When you pay your secured credit card bill on time, that will be reported favorably on your credit report.

Using a secured card worked well for DJ, who wanted to re-establish credit after going through bankruptcy. DJ called several lenders and explained his financial situation. A credit union offered him a secured credit card with a $500 limit, cautioning him that his account would be closed if he were to miss a payment. He charged small purchases, and made payments as agreed. After a year of making payments on time, DJ asked the credit union to increase his limit to $1,000. The credit union agreed. At the same time, DJ asked if his interest rate could be lowered, but the credit union said he wasn't eligible yet for a lower rate.

After two years of making his payments on time, DJ asked the credit union to raise his credit limit again. The credit union offered to raise his credit limit to $5,000; DJ requested that it only be raised to $1,500. At that point, the credit union offered DJ a better rate of interest, which DJ happily accepted. Now several years past bankruptcy, DJ still prefers a low credit limit on his card. This helps him stay in control of his debt.

Opening a retail credit card account is another option that might work for you. If you open such an account, charge small amounts and pay off the balances quickly. This will help you rebuild your credit. Whenever you use a credit card, never charge more than you can repay in one year; six months is even better. In fact, it's smart to monitor your credit card balance often, so you know exactly what you owe; small purchases can add up quickly. Only charge amounts you know you will be able to repay, regardless of whatever else is happening in your life. This is a good habit to develop when it comes to using credit. As you consistently make payments on time, your credit will improve.

Throughout the process of establishing new credit, get a copy of your free credit report every few months; be sure your credit repayment history and other information are up-to-date and accurate. Checking your credit report regularly – every few months or at least once a year, every year – is a smart financial habit to have for the rest of your life. Because you can get one free copy of your credit report every year from each of the three credit-reporting agencies, it's a good idea to pull one credit report every four months. For example, you may want to get your credit report from Experian in January, your report from Equifax in April, and your report from TransUnion in September. That way, you are able to monitor your credit, free of charge, throughout the year.

As your credit improves, you will receive more offers for credit. Always carefully review all the terms of credit you are offered, and only use or borrow amounts of credit you know you can repay.

Credit repair clinics can't offer quick fixes

The process of rebuilding credit requires time and effort. It's smart to stay away from any service that claims it can quickly repair or erase your credit problems. For example, you may hear advertisements from credit-repair clinics that claim they can erase your bad credit. The truth is that credit-repair clinics cannot fix your credit, or remove negative information from your credit report if the information is accurate. A credit-repair clinic also cannot get a bankruptcy taken off your credit report.

Credit-repair clinics cannot do anything for you that you cannot do yourself. Although credit-repair clinics can dispute inaccurate information and have it removed from your credit report, they will charge you hundreds of dollars for this. As you learned earlier in this chapter, you can dispute inaccuracies on your credit report and have them removed or corrected, free of charge, by following the dispute process on the national credit-reporting agencies' websites.

You might see advertisements that promise to eliminate bad credit by helping you to obtain a new Social Security number. You absolutely do not want to do this. Every loan application you sign is a contract – a contract in which you state that the information you are providing is true and accurate. If you knowingly provide a fraudulent Social Security number, you are committing a crime. If a lender finds out that you have committed fraud, the lender will pursue legal action. (Your credit report will show your old Social Security number, so it can be traced.)

Your credit report, loans and credit cards are all financial tools that can help you rebuild your finances. Another financial tool is your budget. In fact, your budget may be the most valuable financial tool you have for improving your finances. It will help you stay on track as you rebuild your credit and build a better financial future for yourself. In the next step, you'll learn how to create a budget that works for you.

Moving Forward

Financial problems affect individuals and families at all income levels. People who earn small incomes manage to live well, yet sometimes sports stars, actors and actresses, and other famous people earn big incomes but find themselves in bankruptcy court. Life events happen to all of us. Sometimes we can work our way out of them, and other times we need help. Some financial problems are due to circumstances beyond our control, and other times our financial troubles are caused by the way we manage or don't manage what we have.

Being hopeful about the future and learning how to rebuild your finances are two of the best things you can do for yourself. Money in itself won't solve your problems. If more money was the cure all for life's problems, why do so many people with good incomes struggle to make ends meet? More money didn't make them happy or prevent financial difficulties.

Start this new chapter of your life with some fresh perspective. Be grateful for what you have now. Feel free to ignore the advertisers who tell you to buy, buy, buy your way to happiness. Don't worry about keeping up with your friends and neighbors – because, after all, you probably don't know how much debt they're in! Make the most of the fresh start you've been in bankruptcy.

It's time to begin anew. By following the seven steps in this book, you can develop wise financial skills or revive the good skills you already know. Focus on what's important to you and your family, right now, and believe that better days are ahead. Here's to a fresh start on the next chapter of your life.

"*The greatest glory in living lies not in never falling, but in rising every time we fall."*

- Nelson Mandela