Rebuilding Your Credit after Bankruptcy

Understanding Your Credit. Your "credit" is largely determined by your credit score, a three-digit number creditors use to evaluate if you will pay your bills or not. These numbers are based on information from your credit report and range from 300-850. If your scores are above 760, you are likely back to getting the best interest rates possible. While there are several different versions, which may vary, the most widely used is typically your "FICO" (Fair Isaac Company) score. We know the information used to make up your score, but FICO does not disclose the specific formula they use. Generally speaking, Payment History makes up 35% of your score, Debt Level 30%, Length of Credit History 15%, Inquiries 10% and Mix of Credit 10%.

<u>Payment History</u>: How you've paid your bills in the past. This portion factors in late payments, collections actions and bankruptcies. More recent delinquencies seem to be factored in more than older ones.

<u>Debt Level</u>: The amount of debt you have in comparison to the credit limits you have been given is your "credit utilization." The closer the amount of debt is to your limit, the lower your score. Many commentators recommend keeping your credit card balances at no more than 30% of your credit limit, below 10% is ideal.

<u>Length of History</u>: The longer your payment history, the more information companies have about your tendency to make payments.

<u>Inquiries</u>: Each time you apply for credit, your credit report registers an inquiry. These inquiries are listed for two years, but theoretically only impact your credit for one.

<u>Mix of Credit</u>: Particularly if you have a short credit history, having different types of accounts may be favorable to your score.

Many people choose to remain as credit-free as possible following a bankruptcy. Others seek to rebuild their credit, to the extent possible, because insurance companies, employers and landlords may use your credit information to make decisions.

Although there are no "one size fits all" solutions to improving your credit in the future, the following are some options to consider. Please be advised that we are not recommending one course of action over another, and claim no expertise in rebuilding credit. These statements are merely being passed along as options for you to evaluate.

See if you still qualify for an unsecured credit card. However, be careful not to fill out too many applications. More than three "hard" inquires, or inquiries where you have requested that credit be granted, in a six month period may further harm your credit. "Soft" inquiries are the ones that credit companies direct to the credit bureaus prior to mailing you the "pre-approved" credit card letters. Soft inquiries do not affect your credit rating.

Obtain a secured credit card. If you do not qualify for an unsecured credit card, consider a secured credit card. A secured credit card operates much like a regular credit card, except that you are given a credit limit equal to an amount you deposit at the issuing bank. Be conscious of fees, check for no application fee and a reasonable annual fee. The card should report to all three major credit bureaus but preferably not state that it is a secured card to the credit bureaus. Check if it converts to an unsecured card after 12-18 months of timely payments. Public Savings Bank Classic Secured Visa, Orchard Bank Classic Master Card and Citi Secured Master Card are all potential secured credit cards.

THIS IS NOT AN ENDORSEMENT. Please review the terms of these and any other cards completely and evaluate them.

Use a credit card lightly and regularly. Commentators propose that light, regular credit card use is a key to building your credit, as is paying your balances on or ahead of time.

Look into credit unions. Many individuals report greater success obtaining credit with a Credit Union as opposed to a traditional bank. Please evaluate a Credit Union carefully, as you would any financial institution.

Check your credit report. Periodically check your credit report to ensure that old debts were correctly reported as included in your bankruptcy and that new debt is being reported properly. You can request one report per year from each of the three reporting bureaus for free at www.AnnualCreditReport.com. Please note that you be charged a fee if you want to obtain your numeric credit score.

Be prepared to pay higher interest rates initially, but don't be disheartened. Some consumers report returning to lower interest rates five years after their bankruptcy. Assuming you have good credit habits following your bankruptcy, you may qualify for an FHA Home Mortgage as quickly as two years after your bankruptcy.

If you have questions regarding bankruptcy or credit please contact Attorney Jeff Nordholm or Attorney Jennifer Hayden of Storm, Balgeman, Miller & Klippel, S.C., at 414-453-8500.