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7 Steps to Restoring Your Credit After Bankruptcy

It is unfortunate that many bankruptcy attorneys do not give their clients more direction with regard to restoring themselves after their bankruptcy. There are some simple steps that anyone who files a bankruptcy needs to take in order to restore themselves financially.

Using these steps below, you can restore your credit and prepare yourself to become a homeowner.

1. Get a copy of your credit report. Many times (most times) the credit accounts that are absolved with your bankruptcy are not removed from your credit report immediately. You can contact each credit reporting agency (Equifax, Experian, and TransUnion) directly or Visit www.annualcreditreport.com to get a free copy.

2. Have derogatory credit items that were charged off in your bankruptcy removed from your credit report. You will need to send a copy (not the original) of your bankruptcy discharge papers to all 3 of the credit bureaus asking them to remove these inaccuracies. This process can be done by mail for free, or online for a small charge by the agencies.

3. Pay all of your bills on time. Bankruptcy is a means to financial recovery. It is intended to allow you to “start over” financially. After your bankruptcy, you need to make sure that all of your bills are paid on time. If you are having trouble with an upcoming bill, DO NOT IGNORE IT. This is where most people go wrong. Call your creditors before they call you and let them know what your challenges are. If you can’t get a reasonable rep on the line, ask for a supervisor, but again, do this as early as possible, not the day the bill is due or after it is late. If you are having trouble with your bills, you may need to solicit some help.

4. Have a strong documented rental history. This is critical as it is most likely the largest monthly expense that you have. Underwriters (the people that actually sign off on your loan's approval) will look very hard at how you have paid your rent as they are going to replace it with a mortgage payment of equal or greater size. It is very important to be able to document your rent payment history very specifically. If you rent from an apartment community, then all the bank will have to do is request a Verification of Rent (a.k.a. VOR). If you have a private landlord, then the BEST way to document this is with cancelled checks for the last 12 months rent. Banks can do VOR’s for private landlords, but rarely do because they feel that a landlord may have a relationship with the borrower and say what the bank wants to hear to help them get a loan. If you pay with cash or money orders, please stop doing this immediately and start paying with checks. Simply

put, this is hurting you because by filing a bankruptcy you have already shown some financial instability. Paying your rent with cash or money order shows further financial instability and will not give you the positive rent history that the underwriter is looking for to give them the confidence in approving your loan.

5. Apply for a secured credit card – A secured credit card allows you to make a deposit into an account to secure a credit card and then borrow against it to establish a new positive payment history. As time progresses, the bank may increase your credit line to an amount greater than your deposit, and then eventually return your deposit to you. (They will also often pay you interest on your deposit.) Be very cautious of companies that charge excessive fees or interest rates for their secured cards.

6. Prepare “non traditional” trade references – These are accounts that you pay on such as cell phones, car insurance, and store accounts which can be used to document a positive payment history, but would not be traditionally reported to a credit bureau. Ideally, if you can provide 3 of these accounts with a 12-month payment history, this will help your loan officer in convincing the banks underwriter that you are a good credit risk. The best way to document this is with a letter from the company stating that you have had a positive payment history with them for the past 12 months. Alternatively, you can provide 12 months of cancelled checks showing 12 months of timely payments.

7. Resist the urge (or encouragement) to buy a car. Some may tell you that this is the best way to rebuild your credit. The problem is that your interest rate will be so high, that your payments will make your debt ratios higher than normal, making it harder to qualify for a mortgage. Do you remember the figure of 45-50% of your monthly income that the bank will allow you to use towards your debts? This will quickly be absorbed by a car payment. Only buy a car if a) you NEED (not want) a car, and b) you have the income to cover the car payment, any of your current debts, and your proposed new car payment. We have seen SEVERAL people that have cars rather than homes because they went out and bought a car that they could not sell and their debt ratios were too high to qualify for a mortgage. It would be a shame to have a nice car (that depreciates daily), as opposed to a more humble car along with a mortgage on a home that gives you a tax break, and increases in value over time.

I hope this is helpful and helps get you on your way to financial recovery and on to finding the home of your dreams.

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