

Bankruptcy effect on debt,

Bankruptcy Debt – What Happens To My Credit?

Many people who seek my consultation on bankruptcy debt options inquire into the ramifications the bankruptcy will have on their credit score or credit reports. Moreover, they are particularly interested in their ability to acquire credit upon the conclusion of a bankruptcy filing. How long will I have to wait? What types of credit will be available?

Bankruptcy Debt – Will My Credit Rating Improve?

Is it true that my credit rating will improve after a bankruptcy? In many cases the answer is yes. Once you file a bankruptcy, the bankruptcy debt, or negatively reporting debt can no longer report a late payment, a missed payment or a payment of less than contractually due. The debt must immediately be reported as included in bankruptcy. As a result, there are no longer multiple negative monthly reports to the credit bureaus. The monthly negative reports to the credit bureaus are a significant contributor to the sinking credit score. Putting an end to the monthly negative reports is the first step in improving the credit score.

Bankruptcy Debt – Rebuilding the Credit Score

The next step is to rebuild the credit score. This is most easily done by making on time payments on debt that is to be retained during and after the bankruptcy. Mortgage payments, vehicle payments, and student loans are common debts reported to bureaus that bankruptcy filers retain throughout and after a bankruptcy. An improving credit score can be driven by on time payments on a vehicle or home loan. Maintaining the current payments and keeping the accounts in good standing over a continued period of time is the key.

Bankruptcy Debt – Your Credit Worthiness

Some creditors may be willing to give you credit after a bankruptcy, despite your credit score. A number of factors may weigh on the decision to extend you credit. Ultimately, credit worthiness is based on your ability to repay the debt. Without regular income, credit should be hard to obtain, bankruptcy or not.

Bankruptcy Debt – Who Will Creditors Lend To?

Additionally, creditors generally prefer to lend money to people without a ton of other debt. Bankruptcy filers normally have this covered, because the bankruptcy debt filing extinguished a lion's share of their money owed!

Bankruptcy Debt – Understanding Bankruptcy Law

Lastly, creditors are normally familiar with basic concepts of bankruptcy law. Most creditors realize that once a person files for relief under a particular chapter of bankruptcy, that the law imposes limitations on when or if a bankruptcy can be filed again. For example, the time between successfully discharged Chapter 7 cases is 8 years, and other limitations apply to successfully discharged Chapter 13 cases. So, if you have recently completed a successfully discharged bankruptcy case, the creditor can be confident that you can not file another bankruptcy any time soon. In the simplest terms, the credit they extend would be lesser risk because there is not an immediate possibility of another bankruptcy filing!

Bankruptcy Debt – Start Recovering Slowly

My advice to most people after a bankruptcy is to start small, and work your way toward larger extensions of credit from there. Typically, credit card offers are presented in the first 4-6 months after a bankruptcy is completed. Vehicle loans can normally be obtained 6-8 months after a bankruptcy. Mortgages for first time home buyers can usually be expected around 2-3 years after a bankruptcy case.