Rebuilding after bankruptcy

By Jason Alderman

No one takes the decision to declare bankruptcy lightly. Besides being an expensive, time-consuming and awkward process, bankruptcy can have serious and long-lasting impacts on your credit score, which in turn may affect your ability to borrow money, rent an apartment or even get a job.

Whether you are emerging from bankruptcy, paying off accumulated debt or just starting out financially and looking to avoid future mishaps, there are several steps you can take to build – or rebuild – stronger credit:

Monitor your credit. Negative information such as late payments, tax liens and foreclosures can remain on your credit reports for many years – up to 10 years for bankruptcy. On the other hand, once you reestablish sound credit habits, such as paying bills on time and lowering balances owed, your credit score should start rising within months.

To ensure your improved credit behavior is being reported properly, periodically review your credit reports from the three major credit bureaus: Equifax (www.equifax.com), Experian (www.experian.com) and TransUnion (www.transunion.com). You can order one free report a year from each bureau through www.annualcreditreport.com.

Reestablish creditworthiness. One way to demonstrate your ability to repay debt properly (thereby later qualifying for more favorable lending terms) is to open a secured credit card linked to a savings account you maintain. Typically, you can only charge up to the amount on deposit, which prevents you from charging more than you can afford.

Look for a secured card:

- That will convert to an unsecured (regular) credit card with more favorable terms after you've made several on-time payments
- That bas zero or low annual and application fees and a low interest rate
- Whose lender will consider reporting your payment history to all three credit bureaus

Be mindful of monthly usage fees and other charges that can deplete your balance. Try your credit union or go to websites such as www.bankrate.com, www.cardratings.com or www.indexcreditcards.com to compare rates and terms.

Secured loans from a credit union or bank work in a similar manner: You take out a loan backed by a savings account. Your loan's interest rate will be higher than the savings account earns, but successfully paying it off should boost your credit score.

Pay on time. The single most important thing you can do to improve your credit is to always pay at least the minimum due on all bills on time. Consider signing up for automatic payments from your checking, savings or credit card account if this is a recurring problem.

Curtail amounts owed. Another major credit-scoring factor is credit utilization, which measures how much of each account's credit limit you tap, as well as how much you've borrowed as a percentage of your total available credit. Aim for 30 percent utilization or less, even if you pay off balances each month.

Educate yourself. Oftentimes, creditors will refer customers experiencing debt problems to financial education courses like Money Choices, an online program sponsored by Visa Inc. (www.moneychoices.com), where they can learn step-by-step how credit works, budgeting, credit repair tips, debt collectors, financial hardship planning, and much more. Money Choices is free, self-paced and can be accessed by anyone.

Jason Alderman directs Visa's financial education programs. To sign up for a free monthly personal finance e-Newsletter, go to www.practicalmoneyskills.com/newsletter.