Improve Your Credit Score by Filing for Bankruptcy: Here's How

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Deciding to file for bankruptcy is never easy. In addition, most people worry that their credit scores will hit rock bottom and they will never be able to get another loan, even at a high interest rate.

Here's good news: Often, the damage done to your credit score isn't nearly as bad as you might expect. In fact, in time, most people improve their credit scores and get new loans at favorable rates.

One reason your credit score may not decline as much as you fear is because most people who have financial problems already have a poor to mid-range credit score. Their score has already suffered due to late payments, a high debt-to-income ratio, charge offs and collection problems.

This means, after filing for bankruptcy, you could see your credit score improve. This is because when you declare bankruptcy, you erase almost all records of late payments, charge-offs for unpaid debts, and high credit balances.

As a result, depending on which type of bankruptcy you file, the accounts wiped clean by bankruptcy are flagged as "Included in Chapter 7 Bankruptcy" or "Included in Chapter 13 Wage Earner Plan." And since you are a better credit risk after bankruptcy, having erased most of your debt, you may see your credit score improve.

In addition, thanks to your bankruptcy, your credit score could get better over the long term. Here's why: The formulas for calculating your FICO score compare you with other people whose financial situations are similar to yours.

The Fair Isaac company, which calculates FICO scores, breaks consumers into 10 groups. Then it ranks consumers based on the others in their group. One group is people who file bankruptcy. Your credit score, then, is based on how you compare with other people who have filed bankruptcy. Why? Fair Isaac discovered this is a better way to predict credit risk because each person is being compared with someone like himself, and not with people who have great credit scores. And since some bankruptcy filers have good FICO scores, and others have poor FICO scores, your credit score after bankruptcy could be better than you expect. And if you manage your credit well in the following months, you might get a FICO score in the 700s.

Even so, whether you file bankruptcy should depend on a lot more than just your credit score. You must consider whether you can realistically get back on your feet after bankruptcy. After all, if you can pay off your debts without filing bankruptcy, that may be the better choice. Because in a Chapter 7 bankruptcy, the Bankruptcy Court may require you to sell certain assets before you can erase your debts. And -- in light of the new bankruptcy laws -- you may not be allowed to file bankruptcy.

Still, if your debts and obligations are squeezing the life out of you, bankruptcy will give you a fresh start. And with competent legal advice and credit repair efforts, you can expect your credit score to be in the 700s in two to three years.

You're Invited to Call or E-mail.

"If you have questions about bankruptcy, foreclosure, credit card debt, loan modifications,

tax liens or other financial problems, please send your e-mail today to

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