8 Steps to Raising Your Credit Score After a Bankruptcy

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If you manage your credit well after filing for bankruptcy, a FICO score in the 700s is possible. Here are steps you can take to improve your credit score after a bankruptcy.

STEP #1: Save money while you rebuild your credit.

Having liquid assets also shows lenders you know how to manage money. Within just twelve months, by following this method, you will be working your way up on the FICO scale as well as be able to qualify for additional loans in larger amounts. Many online lenders specialize in servicing borrowers whose histories include bankruptcies, which translates to lower interest rates than you will find at your local bank.

STEP #2: Keep your expenses and debt low.

Lenders look at what your debt is relative to your income, to determine how risky you are. For example, with debt payments of $1,000 per month -- and income of $2,000 per month, your debt to income ratio would be 1,000/2000 or 50%. The lower your debt relative to your income, the better credit risk you are.

STEP #3: Get new credit in the form of ... -- Two secured credit cards -- and keep your balances low.
Begin to slowly rebuild your credit by establishing two secured credit cards. A secured credit card will have a credit line equal to the deposit that you make to the credit card issuer. This means if you want a large credit line, you'll have to make a large deposit. It's a good idea to start with two secured credit cards, each with a $500 limit. You should run a balance of thirty percent on each card, or $150. Pay off everything over this amount in on-time monthly payments. This shows lenders you know how to manage credit. In most cases, after 12-18 months of timely payments, you will be ready for a regular, unsecured card.

-- A small personal loan of less than $5,000. Take out a small personal loan of less than $5,000. Plan to pay off this loan within two years. You may be asked to secure this personal loan with collateral, such as your home or car. Making on-time payments is essential to adding valuable points to your credit score.

-- A revolving credit card account. Use it for regular purchases and pay it off monthly. This will build a good credit report and high score. Within a year or two, you will have the credibility to qualify for the loan you need.

-- Different types of loans. For example, you may have a revolving credit card you pay off monthly. You may also have an installment loan for the purchase of your car. Further, you may have a student loan on which you're still paying. The variety of your loan history tells creditors you are responsible in a variety of situations, and they will be more likely to lend you their money.

WARNING: Do not open new credit if you know you will need to make a large purchase in coming months, such as buying a home with a mortgage. Once you have been approved for the mortgage, do not apply for other credit until after you close on your house. Any new credit you have opened in the meantime can change the conditions of your loan!

STEP #4: Double check your credit reports.
After you receive the bankruptcy discharge, make sure you have everything removed from your credit reports that was listed in the bankruptcy. If you filed Chapter 7 bankruptcy, you should find your bankruptcy accounts listed on your credit report with $zero balances. If the creditor does not update the entry, send a letter to both the creditor and the credit reporting company. If your account is still not corrected, contact your bankruptcy attorney.

STEP #5: For debts not included in the bankruptcy...
-- Pay off high-interest loan balances with money from a low interest account. This will almost immediately improve your score.

-- Pay the lowest balance credit accounts first. Make minimum payments on all of your credit accounts except the lowest balance account. Pay all extra money to that account until it is paid off. When that account is paid, take the monthly payments from that account and apply them to the next lowest balance. Continue until you have paid down your credit accounts and your credit score will improve.

STEP #6: Add your name to a friend's or relative's credit card account. Ask a trusted friend or relative to allow you as an authorized user on one of their credit cards. Your bankruptcy won't affect your friend's credit, but you'll get the benefit of the account history for that card in your credit report.

STEP #7: Make your payments on time. After the bankruptcy, you must pay all your bills on time. When you start shopping for a mortgage, lenders will look for a two-year history of on-time payments. The longer you pay your bills on time, the more your score will improve.

STEP #8: Start shopping for larger loans.
A few months after your bankruptcy, start shopping for a car loan. Banks won't likely approve your loan, but the finance manager at the dealership probably knows where to secure a loan for you. And after two years of a good credit history, you are likely to be approved for a home mortgage.

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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