

# Q&A: Will Bankruptcy Ruin My Credit?

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Here we have the most popular question posed by potential clients. No, there is no scientific data to back that up, however, it's as true as the sky is blue.

Without fail, almost every person I speak with asks, "Will bankruptcy ruin my credit?" If they don't ask this exact question, it is some derivative form of it. This seems to be the most troubling aspect of filing bankruptcy for most people.

As a society, we have gotten hung up on these credit scores assigned to us by the big three bureaus: [Experian](#), [Equifax](#) and [Transunion](#). I am certainly not trying to imply that healthy credit is not important. I am simply saying that if you are speaking with a bankruptcy attorney, your financial history is most likely already damaged.



The more relevant (and interesting) question is "Will bankruptcy improve my credit?"

## The Most Common Misconception

You listen to Suze Orman, you watch the news and you read the paper. You are constantly bombarded with the danger and destruction associated with bankruptcy. You have probably heard that you will never be able to establish credit again, get a mortgage or a car loan. Worse, you are led to believe that [bankruptcy is morally wrong](#).

Associated with the most common question is the most common misconception that bankruptcy ruins your credit. In most situations, if you have even considered bankruptcy as an option, your credit has already suffered irreparable damage. Delinquent accounts, slow payments, collections and judgments all ruin your credit history. Sometimes, bankruptcy is just what the doctor ordered to repair that credit and get you back to where you were.

From the debtor's perspective, bankruptcy should be viewed as a positive step to resolving financial issues. With a clean credit report and no negative incidences, you can [start fresh and begin to rebuild](#). Your credit has been cleansed and prepared for the future.

## Chapter 7 vs. Chapter 13

The type of bankruptcy you file could directly impact your credit. A [Chapter 7](#) will remain on your credit report for up to ten years while a [Chapter 13](#) will remain on your report for up to seven years. These time frames are not specific to bankruptcy. In fact, most negative reporting remains on your credit report for up to seven years. This means that late payments, delinquent accounts, etc. could all be listed on your credit report long after the debts have been dealt with.

A [Chapter 7](#) case typically takes four to six months to complete. At that point, you can work to rebuild your credit and the effects of the bankruptcy typically begin to dissipate after approximately eighteen months.

A [Chapter 13](#) case typically lasts three to five years. It is important to note that the seven year listing duration starts when the case is filed. This means that the bankruptcy may only be listed on your credit report for two years post bankruptcy. Not bad!

In my personal experience, from discussions with past clients, re-establishing credit is not an issue.

A client, whose case was recently discharged, contacted me just last week. She was absolutely shocked at the number of card offers she was getting in the mail. She said, "Never again. I just rip them up and throw them right in the garbage." I said, "Not so fast..."

## **Credit Construction**

You have your **fresh start** so you are beginning from scratch and it is time to construct your credit. My first suggestion is to get a secured, low-limit credit card from one of the large banks. Use this card infrequently and pay it on time. This works for two reasons: (1) It allows you to start establishing a positive credit history; and (2) it prevents you from falling into the same old credit traps.

It is important to maintain a monthly balance on all credit cards less than 30% of your maximum allowed. The banks want to see that you are spending within your means and by doing so, you improve your credit rating. Make a personal commitment to use your new secured credit card for fuel only and be sure to pay your balance in full each month.

If you file for bankruptcy and own or lease a car, reaffirming your car loan is a great avenue to rebuild credit but this comes with more risk. **Reaffirmation** should be discussed in detail with an experienced attorney.

## **Warnings**

Be wary of credit repair and credit protection companies. Some of these outfits are better than others and not all are scams. It is my opinion, however, that they do not provide any service that you cannot take care of on your own with some diligence.

So, to reiterate, the question to ask is not, "Will bankruptcy ruin my credit." Take a look at where you are in your life and evaluate your financial situation. Are you falling behind on your monthly bills? Are you living paycheck to paycheck with no disposable income at the end of the month? Are you facing foreclosure, wage garnishment, bank liens, etc?

The proper question is, "Will bankruptcy not only improve my credit, but improve my life?"

*Image courtesy of Sargassi.*