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Your Money

How to Recover From Bankruptcy

By Kimberly Palmer

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Dear Alpha Consumer,

I am a 49-year-old professional woman with a serious credit problem. I was the owner of a successful business, until my husband filed for divorce and I sank into a depression. I stopped working altogether. Eventually, I was forced to file for bankruptcy. To this day, my credit record is very bad.

How can I recover?

First of all, you are not alone. The number of people filing for bankruptcy has shot up almost 50 percent in the first half of this year, according to the American Bankruptcy Institute. About 404,000 people filed for bankruptcy between January 1 and June 30.

The increase is most likely tied to recent changes in bankruptcy law, but other contributing factors include the increase in mortgage foreclosures and rising interest rates. Samuel Gerdano, executive director of the institute, says he expects the numbers to continue to rise through the rest of the year.

But just because bankruptcy is increasingly common doesn't make it any less stressful. People who file for bankruptcy report feeling ashamed, overwhelmed, and hopeless. Here are tips on how to recover.

Address what caused the bankruptcy. "It's important to look at the root of the problem," says Mark Scarberry, professor at Pepperdine University's School of Law and a scholar-in-residence at the [American Bankruptcy Institute](#). Perhaps you need to set a new budget or look for new types of employment, so you don't find yourself in the same financial straits five years from now.

Identify your goals. "I ask people, 'What's most important to you?'" says Stephen Snyder, author of *Credit After Bankruptcy*, who writes a free [newsletter](#) on the subject. Otherwise, he says, "recovering" from bankruptcy can mean anything, and the task can be overwhelming. Whether your top goal is becoming a homeowner or buying a new car, single it out. (Snyder knows what he's talking about: He filed for bankruptcy himself in the early 1990s.)

Check your credit score. Inaccurate information often plagues [credit reports](#), which can affect everything from job applications to mortgage rates. Simply removing incorrect information can often significantly improve your score.

Gradually re-establish credit. [Neil Colmenares](#), a bankruptcy attorney in New York, recommends taking out two credit cards and paying them off in full each month. Barring any other debts, he says that after one year, your credit score "should be pretty good." One secret of the banking industry, he adds, is that some lenders prefer to lend to people who have recently filed for bankruptcy, because they are unable to file again for eight years and therefore are liable for their new debts.

Don't give up. "Most people think when they file for bankruptcy that they have a scarlet letter around their neck and can't get credit. Nothing could be further from the truth," Snyder says. He says you just have to know which lenders to approach, which requires research.

Avoid unfair deals. Predatory lenders often target vulnerable groups, including recent bankruptcy filers, says Henry Sommer, president of the [National Association of Consumer Bankruptcy Attorneys](#). He urges consumers to be wary of organizations and companies offering payday loans and rent-to-own deals that carry high interest rates. Snyder adds that consumers are often so eager for credit approval that they jump on contracts with high interest rates. Instead, wait for a better deal.

Seek support. "It eases the pain a bit," Snyder says. "When you go through bankruptcy, you're like a financial leper. You don't want to share [the fact that you filed] with anybody. You think you're the only one." But once you start talking about it, he says, you may find that friends and acquaintances have also filed.

Think positively. Most people's credit improves after filing for bankruptcy, because debts are cleared to give them a fresh start. While the bankruptcy filing will stay on your credit report for 10 years, many creditors are willing to take a chance on lending to

those who have been in bankruptcy. Says Scarberry: "Recognize that this is a gift. Take advantage of it."

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