

[Credit Cards](#) > [Articles](#) > [Credit / Account Management](#) > 4 ways to re-establish credit after bankruptcy

## 4 ways to re-establish credit after bankruptcy

By Jeremy Simon

Most responsible consumers who go through bankruptcy hope to borrow money again at reasonable rates. It can be done. Here's how.

After a bankruptcy, experts recommend these four strategies:

- ▶ [Get a high-rate card](#)
- ▶ [Get a secured credit card](#)
- ▶ [Play a CD](#)
- ▶ [Go credit-free](#)

### Get a high-rate card

For consumers who want to rebuild damaged credit, showing you can be trusted with borrowed money is the main way to rebuild your credit. But consumers should not expect to get the same type of credit offers after a bankruptcy discharge that they did before, and should be aware that it is up to each issuer to decide how long after a filing they will approve someone for a credit card. The initial credit card offers directed at consumers will most likely include high interest rates and fees and very limited lines of credit.

Shortly after bankruptcy, it makes sense to apply for bad credit cards, rather than to get turned down for offers that are out of your reach. Be sure to carefully read all available material on a credit card before applying.

"Read the fine print very carefully and look at what the fees are. If the rate sounds reasonable, when can they raise the rate?" says Sandy Shore, a senior counselor with Novadebt in Freehold, N.J. She suggests that consumers have their credit offers evaluated by a good credit counseling agency.

Once consumers apply for and are then approved for credit, "Borrow the money and pay it back on time or ahead of time, and start re-establishing your credit report," says Eloy Ortega, president and CEO of Promerica Bank, the first Latino bank to start in Los Angeles in 30 years.

### Get a secured credit card

Secured credit cards are a good choice for consumers who feel they will be turned down for a regular credit card. Secured cards require applicants to open a savings account that secures the credit limit on that plastic. This protects the issuer in case the cardholders cannot pay their balances.

However, consumers should be aware that payment history on a secured credit card isn't always reported to the credit bureaus, and when it is reported, it can actually alert future creditors to a troubled credit past if designated as a secured card: "It's not helping the person if it's not reported. They need to make sure the card is going to be reported to the credit bureau and that it isn't going to be reported as a secured card," Shore says. Ideally, the secured credit card issuer will report responsible credit card behavior without specifying that the payments were made on a secured card.

### Play a CD

Novadebt's Sandy Shore recommends consumers use a certificate of deposit as a way to rebuild their credit while earning some money. She recommends that consumers take out a small personal loan, which they use to open a CD.

Consumers should choose a reasonable length of time to lock up money in the CD, such as a year, and make all loan payments on time or ahead of time. Shore suggests guaranteeing on-time payments by setting up an automatic payment system. By the time your CD has matured, she says, the borrower will have not only have shown a good credit history over the length of the certificate, they will also have earned some money. This allows consumers to re-establish their credit without the temptation of a credit card.

### Go credit-free

Although most consumers want to have a credit history, some may be willing to try a more extreme approach -- to abandon the world of credit altogether post-bankruptcy. With the credit slate wiped clean in the wake of a discharge, "Bankruptcy is an opportunity to live without credit," says bankruptcy attorney and author Stephen Elias. He urges consumers to consider re-evaluating their need for credit, viewing bankruptcy as means to freedom. Of course, without credit cards, consumers will have to give up the conveniences they offer -- renting a car or buying a plane ticket, among other things, becomes difficult without them.

Regardless of the method consumers take, experts agree that consumers who have gone through bankruptcy should view credit with new

eyes, and use the second chance to responsibly use credit so that they don't end up in trouble again.

See related story: [Expect credit card offers even after bankruptcy.](#)

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- ▶ [Take easy precautions to avoid credit cards pitfalls](#) – By taking some simple steps, credit card users can avoid some of the dangers associated with plastic.
- ▶ [Simple rules can help prevent credit card debt](#) – The CEO of the nonprofit Consumer Credit Counseling Service has some simple rules to help credit card users stay out of debt.