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It's Your Money

There are several ways to recover from bankruptcy.

By Walter Dawson

How do you recover from bankruptcy if you have already filed?

If you are already in Chapter 13 (Wage Earner Plan), it's usually best to stay in the plan until completed. There are serious ramifications to dropping out of the plan, and it should only be done after evaluating all the legal ramifications. It is possible to increase payment into the plan and therefore speed up the discharge from the plan.

In the event you have filed Chapter 7 and your debts have been discharged, you should establish a new personal financial plan that does not include the need for credit. Credit will be difficult to get from most reputable financial institutions and will generally be at higher rates. So it's best to avoid asking for credit.

The best approach is to fill the bank up with cash and operate on a cash basis for at least two years. For most people, it is best to start re-establishing a good credit file after two years. By intentionally financing small purchases or opening small revolving accounts, you can enter good paying references into your personal credit report, which helps demonstrate the ability to manage new credit.

However, any new bad information, such as one late payment, can thwart your efforts to re-establish. Credit rating programs and creditors look for patterns that indicate you can now successfully manage your finances.

Bankruptcy is the most serious form of credit failure. The best strategy, once a person has bankrupted, is to avoid credit in the future. Build up your cash in a bank account and pay by check for everything.

By all means, try to avoid having to refile another bankruptcy down the road. The predominant cause of bankruptcy is a combination of poor decisions, failure to establish an emergency fund, and not insuring against unforeseen events.

The typical bankruptcy evolves over a period of time and is then triggered by an event such as loss of a job, illness or divorce. The common scenario is the accumulation of too much debt combined with a triggering event.

The best defense against bankruptcy is to have enough money in the bank to provide for 90 days of operating budget. This typically covers the loss of a job, illness, etc. The proper insurances such as auto, homeowners, medical and dental—also help buffer unforeseen accidents and illnesses.

Divorce presents a particular dilemma. Typically both parties will need a good credit report to re-establish themselves as freestanding individuals, yet many marriages end with finances in disarray and bankruptcy. Every effort should be made by both parties to exit the divorce with good credit intact.

The information in this article should not be a substitute for the advice of a professional.

Walter, Dawson, Manager, Publications for First Tennessee, is a member of the MemphisDEBT Collaborative, a group of 150 local nonprofits, governmental agencies, businesses and concerned citizens who are helping Memphians keep the money they earn. For free advice about your finances, you can call the collaborative at 507-6638. Or check out their Web site at www.memphisdebt.org.