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A person wearing a blue long-sleeved shirt and khaki pants is shown from the waist down, holding a stack of money. The background is a solid yellow color. The text '4 Rebounding Tips After Bankruptcy' is overlaid in white, bold, sans-serif font. The text '4 Rebounding Tips After Bankruptcy' is also repeated in a smaller, italicized, serif font in a light yellow color, partially obscured by the person's hand and the money.

# 4 Rebounding Tips After Bankruptcy

*4 Rebounding Tips  
After  
Bankruptcy*

***Get Back On Track***

*Get Back On Track*

## 4 Rebounding Tips After Bankruptcy

So you have filed for bankruptcy. What's the next step?

At first blush, you are full of ideas on how you are getting a fresh start. You have freed yourself from almost all of your debts and you are, for all intents and purposes (financially, at least), a new person.

But note that by filing for bankruptcy, you had to pay a dear price. In exchange for a discharge of your debts and stopping your creditors from pursuing any collection actions against you, your credit rating took the brunt of the blow. Considering how your credit rating was probably not all that great to begin with, this recent hit is not going to be an easy one to recover from.

Let's start with the bad news:

- The bankruptcy will stay on your credit report for up to 10 years.
- To lenders, you would seem a bad risk because you have legally written off at least some of your past debts.
- As a consequence, you may not be able to get a loan or a credit card for some time after the bankruptcy.
- And if you do get lucky and get approved for credit, the interest rates and fees attached will be rather punishing.

The silver lining? Think positive. It is good that you are restricted from getting new credit. Credits were what you got bankrupt in the first place. They will have no difficulty getting you in that place...again.

Now, for the rebounding tips to help you climb back up from the pits of bankruptcy:

### **TIP #1: Lead a Frugal Lifestyle**

Common sense dictates that you lead a simpler lifestyle – properly slimmed-down, no frills attached. In other words, be frugal.

If you filed under Chapter 13, it means that you have signed up for a repayment plan to pay off some of your debts. The purpose of Chapter 13 is to allow debt reorganization so that you can continue holding on to your properties and other assets in exchange for obliging yourself to pay your debts for a certain number of years. The bottom line, therefore, is that you are still in debt, albeit, you may only pay a portion of the total debt to your creditors.

The usual period given by bankruptcy courts with which you can pay off your debts is within three to five years. During this time, the court allows you only a set amount to live on while the court-appointed trustee divides the rest among your creditors each month.

What does this mean to you?

As we earlier said, it means a no-frills lifestyle. No luxuries whatsoever, except those exempted under the law. And sometimes, just sometimes, it may also mean changing your basic expenses, such as how much you pay for shelter and groceries every month. You may even have to move to a cheaper apartment or a more low-end neighborhood just so you can get by with the amount the court allows you.

Suffice to say that getting new credit will be a difficult feat, if not downright impossible. So you can forget about getting a new credit card or a car loan. Or at least, getting it the easy way. Besides, you can't take on a new debt without the court's permission anyway, and getting *that* means adding an awful lot of complexity in your life.

So how do you go about with barely anything to tide you over through the hard times ahead? It's simple really – make a budget. Better yet, keep a close watch on your expenses for three months and make a budget based on any observations you have made on your spending habits.

This is exactly what Greg McBride, CFA, senior financial analyst for Bankrate.com advises.

“Track your expenses for three months to get an idea of how much you're spending and where that money is going. Then create a realistic budget that fits within your monthly income,” he says. “The first step to saving is to set boundaries on your spending.”

And after making a budget, stick to it. That's the most important part.

## **TIP #2: Work on Rebuilding Your Credit**

Ah yes, the 800-pound gorilla that you would have to take on – rebuilding your credit. Fortunately for you, filing for bankruptcy does not have quite the same social and financial stigma it once did ten, maybe twenty years ago.

“The purpose of filing is a safety valve,” says Roger M. Whelan, resident scholar of the American Bankruptcy Institute, a nonprofit professional organization.

“Thank God, the day in which it was like wearing a blazing star on your forehead is over.”

But rebuilding your credit is the double-edged sword of post-bankruptcy life. You have gotten to where you are now because you mismanaged your credit. However, this does not mean that you would have to steer clear from credit from now on. At first, you may have to, because you are given little choice on the matter. But sooner or later, you find that you have to get credit to rebuild your financial life.

So what are the rules? There are no rules; that’s the best part about it. It does not matter how you do it or how fast. The factors can vary widely from the kind of resources you have and the type of bankruptcy you filed for.

For instance, if you filed under a Chapter 13 bankruptcy, the bankruptcy will stay in your credit for five to seven years. Whereas, if you filed under Chapter 7, the bankruptcy could stay longer in your credit report – say, up to ten years. During that period, it is going to be very, very difficult for you to get credit, let alone work on rebuilding yours from bad to good. And yet, rebuild you must, if you want to get back in the financial game.

Now, if you have a high dollar income, then obviously you are going to have a slightly better edge over the rest. But just slightly. If you managed to hang onto your house, paying your mortgage on time will improve your credit report.

But remember that “many apartments don’t report to credit bureaus, so those payments will keep a roof over your head but won’t help you rebuild your credit,” warns John Ulzheimer, business development manager for MyFico.com, a division of Fair Isaac Corp., the company that developed credit scoring.

Ironically enough, while Chapter 7 filers usually have a hard time getting approved for new credit, they are also usually the ones that have a better chance at rebuilding their credit.

Henry Sommer, an attorney and author of “Consumer Bankruptcy: The Complete Guide to Chapter 7 and Chapter 13 Personal Bankruptcy” says that “while you’re in a Chapter 13 (reorganization), your options are somewhat limited in terms of credit.” That’s because you cannot really apply for new credit without getting the court’s permission first.

On the other hand, under a Chapter 7, you are given more freedom in that area since all your debts are discharged. The sooner your debts are discharged, the sooner you can get to working on repairing your credit.

### **TIP #3: Adopt a Positive Attitude and Show What You have Learned**

Experts on bankruptcy insist that attitude and persistence can make a difference on your life after filing for a Chapter 7 or Chapter 13.

“The consumer who’s going to recover faster is the consumer who jumps back in,” says Ulzheimer.

“Financial capacity is one thing,” says Tahira K. Hira, a professor at Iowa State University who specializes in consumer economics and family finance. “Mental or attitudinal capacity is the other thing.”

So being positive can make a whole world of difference. “...If you build a savings account, carry no debts and have an emergency fund, you’re saying, ‘Look, I can control my behavior,’” Hira adds. “It depends on how good a salesperson you are and how good your behavior has been.”

And, of course, by behavior, she means your financial behavior or how you carry yourself around expenses and financial obligations.

“Pay your bills on time” is the name of the game. It is also incidentally the easiest way to show to your lenders that you have learned from your past financial mistake and are making every effort never to fall into that trap again. In short, you’ve got to be a model citizen in terms of financial management.

Can you handle it? Of course, you can! And the only rule to follow is this: Shop for lenders.

“There will be a price attached,” warns Hira, “which is higher interest.”

This gives you all the more reason to be discriminating when choosing lenders. Don’t just jump at the first credit opportunity thrown your way only to find that the interests are punishing. Don’t get hard-balled into paying for high interest rates when you can get virtually the same loan for lower interest. Compare lenders. You are the consumer and you still have the advantage of choice.

#### **TIP#4: Get a Credit Card.**

“The best way (to establish good credit) is to get a credit card,” says Mark Oleson, director of the University of Missouri Office for Financial Success. “It’s ironic because the best way to help yourself is also the best way to damage yourself.”

You generally have two options. You get either a secured card or an unsecured one. Here’s how the two are different:

#### ***Secured Card***

Because they lose nothing by this, credit card companies are *very* open to secured cards. However, personal finance experts are divided on whether or not these cards are helpful to consumers looking to re-establish credit.

Basically, a secured card works by depositing money with the bank in exchange for a charge card. The limit of this charge card will depend on the amount that you have deposited (it's usually for the same amount). Thus, when you close the account, you get your deposit back.

The good thing about secured cards, though, is that some of them do not report to the credit bureaus that the card is in fact a secured one. For all the credit bureau knows, you have a credit card and you've been using it for some time. It will show on your credit report as a regular credit line without anything explaining it as a secured card.

However, that is not always the case. So a common sense advice would be that if all you get is a secured card, be sure to get the best rates and the least fees. Before you sign, be sure to read all the fine print. And finally, use the secured card sparingly. Give it only six months to a year. And afterwards, try to negotiate with the company for an unsecured card.

### ***Unsecured Card***

Even after you have declared bankruptcy, you may still be able to get a card. It all depends on lender discretion. Some lenders and banks may even consider you a good risk because you do not have any debts on you. What's more, with bankruptcy, there is a certain time period where you cannot file for another bankruptcy. Lenders may take it into good account that you may not be able to file for bankruptcy for a several years.

However, note that there is a very likely chance that you are going to pay for this privilege. Again, the standing advice is: shop around and always, *always* read the fine print before signing anything.

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