

SECURED CREDIT CARDS AFTER BANKRUPTCY

While Secured Credit Cards are Great Tools for Rebuilding Your Credit Following a Bankruptcy, There are a Few Considerations You'll Need to Keep in Mind



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If you're ever going to improve your actual credit history, which is how long you've kept good credit, you might want to bypass a prepaid debit card completely and opt for the secured credit card.

Many people, in an effort of rebuilding their credit following a bankruptcy, will seek out a secured credit card. While these are great tools for accomplishing that, there are a few considerations you'll need to keep in mind. The last thing we want clients to do is find themselves in a contract they're struggling to maintain.

One of the biggest confusions surrounding secured credit cards is many people are unaware that a secured credit card and a prepaid debt card are two entirely different animals.

SECURED CREDIT CARDS

These are accounts that work and act exactly like a traditional credit card. There are credit limits, interest rates, due dates, late penalties and monthly payments that must be maintained. The big difference is you're using a portion of your own money to "secure" the account. This



money is held with the creditor, usually a bank, as collateral. The bank is taking a risk by extending the credit, even if part of your credit limit is your own money. It has an obligation to report to the three credit bureaus your payment behaviors. This is how you rebuild your credit.

As with every other type of credit card debt, things like how close you run your balance to your credit limit, making only the minimum payments and on time payments all play a role in how your scores are calculated. If you pay



your balance in full each month, that's deemed exceptional. If you pay the majority of your balance every month, that too looks good. If,

however, you pay the minimum \$20 each month, you're occasionally a day or two late and you use 80 percent of your available credit, that's not going to bode so well. It's all calculated into these algorithms used by the three credit bureaus. In fact, Holly Petraeus with the Consumer Financial Protection Bureau explained it this way, "Credit scoring models look at how close you are to being "maxed out" on credit cards. If you use too much of your total credit lines, say by carrying big balances, you can hurt your credit score. Experts advise keeping your use of credit at no more than 30% of your total credit limit – some even say you should keep it at less than 10%."

PREPAID DEBT CARDS

Many people assume a prepaid card is the same as a secured credit card. Often, they don't realize they're not improving their credit on any level. A prepaid debit card is your own money, loaded onto the card, and used at will.



You're not using anyone else's money, so there's no one to report your spending and payment habits to the bureaus. It never even shows as an open account. In other words, you're just transforming your cash into a safer (usually) currency. You load the card, spend the balance and load it again.

CHOOSING A SECURED CREDIT CARD

Not all secured credit cards are created equally. Be sure to explore the terms and conditions – it's in that fine print that you find the most relevant information. For instance, some secured cards have no annual or monthly fees while others are outrageously high. Your goal is to find the most affordable secured card that's issued by a well-known, respected and time proven financial institution. Your own bank or credit union may have secured credit card offers for its customers. That's always a great place to start.

Also, your purchases are better protected with a secured credit card versus a prepaid card. While in recent years, many prepaid debit cards have improved

their own fee structures and perks, buying a big ticket item should really be completed with a traditional or secured credit card so that you have the full protection of the banking industry.

If you have to make hotel reservations, flight reservations or anything else that requires a credit card, a prepaid debit card most likely won't be accepted. Often, your secured credit card isn't differentiated for these purposes, so you should have no problems with these types of routine reservations.

Ultimately, with a great payment history and a bit of time, you'll recover with a great credit score and opportunities for better offers, lower finance charges and more options. In fact, some banks will drop the "secured" part of the account with an established repayment history, whereas a prepaid debit card will always remain a prepaid debit card. If you're ever going to improve your actual credit history, which is how long you've kept good credit, you might want to bypass a prepaid debit card completely and opt for the secured credit card. Remember, too, that your deposit required to open the account should be earning interest that you'll receive after the account transition or if it's ever closed. Ask the customer representative about this as these policies often differ.

With just a bit of due diligence, you'll be able to rebuild your credit far easier than you may realize. As always, Erin and her staff are available to answer any questions you may have.



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About the Author Erin B. Shank

With extensive training and years of experience helping families throughout Central Texas, Erin B. Shank is here to help you conquer your financial obstacles. Whether you need guidance and advice regarding bankruptcy, tax debt or other financial problems, Erin and her friendly and qualified team can help you find solutions that will enable you to manage or eliminate your debt.

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