Consumers See Immediate Credit Score Improvements (but Long-Term Consequences) After Filing for Bankruptcy



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Credit cards and other forms of debt can benefit many Americans, but it's easy for some to spend beyond their means. Those who slip deepest into debt may have no choice but to declare bankruptcy.

That's scary to consider, despite how essential it may be. Are consumers right to be afraid? According to the latest LendingTree study, those who file for bankruptcy can see immediate improvements in credit scores, balances and utilization. However, those bad habits aren't easy to kick in the long term.

Here's what we found.

Key findings

- **After filing for bankruptcy, our sample of LendingTree users with a new bankruptcy on their credit report in July 2024 saw their credit scores improve the next month.** One month after filing, average credit scores rose 69 points from 533 to 602, though some consumers experienced drops of up to 193 points. Generally, consumers with credit scores of less than 620 saw their average credit scores increase, while those with credit scores of 620 or higher saw theirs decrease.
- **In the months after a bankruptcy filing, credit availability and credit card usage fall.** In the two to three months after a bankruptcy filing, average credit utilization ratios among our larger sample of filers stay relatively low, at 12.0%. Average credit card balances and credit limits are lowest at the two-to-three-month mark, at $428 and $2,950, respectively.
- **One to two years after a bankruptcy filing, consumers struggle again with low credit scores and high utilization rates.** The average credit score one to two years after a bankruptcy filing is 571 — 29 points lower than two to three months after. Additionally,

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limit increases by 70.7% to $5,036.

- **With credit card balances at their highest and credit scores at their lowest more than five years out, those who declare bankruptcy are likely to slip back into bad habits.** More than five years after filing for bankruptcy, the average credit score for consumers is 566 — the lowest among the periods analyzed. Credit utilization also reaches its highest point at an average of 49.9%, with the average credit card balance at a staggering $5,908 and the average credit limit at $13,705.
- **Despite the challenges after bankruptcy, consumers can still open new accounts as time passes.** Within the first two to three months after a bankruptcy filing, consumers have an average of 5.1 open accounts, with only 16.8% opening new accounts. One to two years after a filing, 89.9% of consumers have a new account on their credit report, with an average of 7.7 open accounts. After more than five years, nearly every consumer opens a new account (99.8%), with 11.9 open accounts on average.

Credit scores improve immediately after filing for bankruptcy

For those in need, bankruptcy can have some immediate benefits — even if they're short-term. One month after filing, the average credit score among our sample of LendingTree users with a new bankruptcy on their credit report in July 2024 rose 69 points from 533 in June to 602 in August.

Of our sample, 16.0% experienced credit score decreases, with the biggest being 193 points.

Consumers' credit scores before filing play the biggest role in whether bankruptcy will immediately benefit or hurt their credit. Among our sample with a new bankruptcy on their credit report in July 2024, those with deep subprime scores (below 580) saw their scores increase by an average of 88.6 points one month after filing — the highest by credit score band. Following that:

- Those with **subprime credit scores** (580 to 619) had an average increase of 13.3 points.
- Those with **near-prime credit scores** (620 to 659) had an average decrease of 8.9 points.
- Those with **prime credit scores** (660 to 719) had an average decrease of 35.8 points.

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> **Note:** Our analysis of one month before (June 2024) and one month after (August 2024) a bankruptcy filing is based on a sample of users with a new bankruptcy on their credit report in July 2024. We use a larger sample — those with a bankruptcy on their credit report in August 2024, whether new or not — to look at broader trends.

Changes immediately after filing for bankruptcy

Category	1 month before bankruptcy (June 2024)	1 month after bankruptcy (August 2024)	Change (%)
Average credit score	533	602	12.9%
Average credit limit	$12,083	$4,340	-64.1%
Average credit card balance	$7,571	$950	-87.5%
Average utilization rate	53.1%	14.9%	-71.9%
Average open accounts	11.4	5.9	-48.2%
Average total debt	$125,467	$34,251	-72.7%

Source: LendingTree analysis of about 2,200 anonymized credit reports of LendingTree users with a new bankruptcy on their credit report in July 2024.

Why do consumers generally see immediate credit score bumps? It's largely due to average utilization rates and balances plummeting. Among our sample base, average credit card balances dropped 87.5% from a staggering $7,571 to $950. Additionally, utilization rates improved from 53.1% one month before filing for bankruptcy to 14.9% one month after. (Amounts owed — and, by extension, utilization rates — account for 30% of your FICO Score.)

That said, average credit limits decreased significantly from $12,083 to $4,340.

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> bankruptcy, falling from $125,467 the month before to $34,251 the month after — $91,216 less.

Matt Schulz, LendingTree chief consumer finance analyst and author of "Ask Questions, Save Money, Make More: How to Take Control of Your Financial Life" — cautions against setting credit score expectations after filing for bankruptcy.

"There's no one-size-fits-all answer for how something will impact your credit," he says. "That's because all credit reports are different, like snowflakes. However, errors generally have a greater impact on higher scores than lower scores. In other words, the bigger they are, the harder they fall. That could be what's happening here."

What happens immediately after filing for bankruptcy?

This study looked at both Chapter 7 and Chapter 13 bankruptcies. While Chapter 7 (liquidation bankruptcy) requires you to sell certain assets and use those funds to pay debt, Chapter 13 (repayment bankruptcy) instead uses your earnings to pay off debt. Chapter 7 typically takes four to six months, while Chapter 13 typically involves a three-to-five-year repayment plan.

A lot goes on between filing for bankruptcy and having your debts discharged. The milestones and deadlines consumers are expected to meet majorly influence credit score changes during the bankruptcy process. We'll break it down as we go.

While a Chapter 7 bankruptcy appears on your credit report for 10 years, Chapter 13 appears on your credit report for seven years. That's because Chapter 7 is more likely to discharge more debt.

> It's worth noting that you can't file for any type of bankruptcy unless you've completed a credit counseling course in the past 180 days.

Shortly after filing, those who filed for Chapter 7 are granted a trustee and expected to provide tax returns. At around the one-month mark, they're required to file a Statement of Intention

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are allowed to ask those who've filed for bankruptcy questions under oath.

Those who file for Chapter 13 are also granted a trustee and are expected to provide tax returns in the next two weeks to a month or so. At the two-week mark, those who've filed have to provide their repayment plan. By the end of the first month, they must begin making plan payments to the trustee.

2 to 3 months later, credit availability and card usage fall

In the two to three months after a bankruptcy filing, our larger analysis shows average credit scores remain stable at 600, while average credit utilization ratios hover at 12.0% — the lowest of all periods analyzed.

Credit report analysis by time since bankruptcy: Part 1

Time since last bankruptcy	Average credit score	Average on-time payment percentage	Average utilization rate	Average credit limit	Average credit card balance	Average total debt
Less than 2 months	601	98.5%	19.1%	$5,522	$1,551	$46,373
2 to 3 months after	600	98.5%	12.0%	$2,950	$428	$22,487

Source: LendingTree analysis of over 225,000 anonymized credit reports of LendingTree users with a bankruptcy on their credit report in August 2024. Note: See lower in our study for the full chart.

Average credit card balances ($428) and credit limits ($2,950) are also at their lowest. Total debts are cut in half, falling to $22,487.

What's happening in the bankruptcy process to account for these changes? At this point, those who filed for Chapter 7 have to surrender the property they've outlined in their Statement of Intention. Typically, this occurs 50 to 70 days after filing.

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to a month after), their repayment plan is either approved or denied between 50 and 75 days after filing for bankruptcy.

> According to Schulz, those stipulations are what cause credit score bumps. “Balances may have been discharged, but those card accounts may have been closed simultaneously,” he says. “Plus, that soon after the bankruptcy filing, you probably don’t have many options for getting new credit. Over time, that will change and you’ll start to have some options available, though they likely won’t be amazing. However, in the first few months, the pickings will likely be slim.”

1 to 2 years later, consumers start to struggle again

While some consumers are still in the thick of bankruptcy proceedings with the court and others are long past done, they begin to struggle again between one and two years after filing.

Low credit scores are particular pain points. One to two years after a bankruptcy filing, consumers have an average credit score of 571. That’s 29 points lower than two to three months after bankruptcy.

Meanwhile, the average credit card balance reaches $2,038. That’s 376.2% higher than it was at around two to three months after filing. Still, the average credit limit increases by 70.7% to $5,036. That puts the average utilization ratio at 46.7%.

Credit report analysis by time since bankruptcy: Part 2

Time since last bankruptcy	Average credit score	Average on-time payment percentage	Average utilization rate	Average credit limit	Average credit card balance	Average total debt
4 to 6 months after	599	98.5%	21.8%	$3,273	$630	$30,886
7 to 12 months after	588	98.4%	37.5%	$4,070	$1,194	$36,978

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bankruptcy	score	percentage	rate	limit	balance	total debt
1 to 2 years after	571	98.2%	46.7%	$5,036	$2,038	$40,372

Source: LendingTree analysis of over 225,000 anonymized credit reports of LendingTree users with a bankruptcy on their credit report in August 2024. Note: See lower in our study for the full chart.

At this point, those who've filed for Chapter 7 finished a while ago. At the 80-to-100-day period, these filers can establish Reaffirmation Agreements with their creditors, which allows them to keep certain properties (such as a car) in exchange for agreeing to continue making payments. Also within this time frame, these filers are required to take a financial management course.

They're discharged and forgiven of their debts as early as 60 days after the first meeting with creditors and as long as 100 days after filing, meaning many may have picked up their bad habits again well into the two-year mark.

Those who've filed for Chapter 13 receive repayment plan confirmation at around the 66-to-95-day mark. (If denied, they can file for another form of bankruptcy.) At this point, they're still making payments.

> Schulz says declaring bankruptcy isn't a Band-Aid for other financial issues consumers face, which may account for these backsliding habits.
>
> "Many people's struggles aren't just about their bad habits and financial mismanagement," he says. "For many people, it's about their circumstances. Perhaps they're not making enough money or they've been struggling to find work. Perhaps they've suffered a medical emergency. Perhaps they're treading water financially while taking care of young kids and elderly parents at the same time. Maybe they're overloaded with student loan

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5-plus years later, many return to bad habits

Old habits die hard. More than five years after filing for bankruptcy, average consumer credit scores hit a low of 566.

Credit utilization also reaches its *highest* point. An eye-watering balance of $5,908 on average and a credit limit of $13,705 puts utilization ratios at 49.9%. Looking further at total debts, the average is $103,984 — the only time we see this figure in the triple digits.

That's a significant increase from the average total debt of $65,148 at the two-to-five-year mark.

Credit report analysis by time since bankruptcy: Part 3

Time since last bankruptcy	Average credit score	Average on-time payment percentage	Average utilization rate	Average credit limit	Average credit card balance	Average total debt
2 to 5 years after	567	97.9%	49.8%	$9,014	$4,077	$65,148
More than 5 years	566	97.9%	49.9%	$13,705	$5,908	$103,984

Source: LendingTree analysis of over 225,000 anonymized credit reports of LendingTree users with a bankruptcy on their credit report in August 2024. Note: See lower in our study for the full chart.

As mentioned before, those who've filed Chapter 7 have been done. Those who filed Chapter 13 finished their repayment plan between three and five years after filing. Within six months after their final plan payment, they're discharged.

That leaves all consumers wide open to bad credit habits again. While these numbers are grim, it's worth noting that only 8% of those who file bankruptcy have filed at least once before,

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after the date of the first filing before filing again.

Full recap

Credit report analysis by time since bankruptcy

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2 to 3 months after	600	98.5%	12.0%	$2,950	$428	$22,487
4 to 6 months after	599	98.5%	21.8%	$3,273	$630	$30,886
7 to 12 months after	588	98.4%	37.5%	$4,070	$1,194	$36,978
1 to 2 years after	571	98.2%	46.7%	$5,036	$2,038	$40,372
2 to 5 years after	567	97.9%	49.8%	$9,014	$4,077	$65,148
More than 5 years	566	97.9%	49.9%	$13,705	$5,908	$103,984

Source: LendingTree analysis of over 225,000 anonymized credit reports of LendingTree users with a bankruptcy on their credit report in August 2024.

Those who declare bankruptcy have no problems opening new accounts

Although bankruptcy has its challenges, those who've filed have no problems opening new lines of debt. Within the first two to three months after bankruptcy, consumers have an average of

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Percentage of those who filed for bankruptcy who have opened new accounts

Time since last bankruptcy	Average number of open accounts	% of consumers who opened account postbankruptcy
Less than 2 months	6.5	0.7%
2 to 3 months after	5.1	16.8%
4 to 6 months after	5.5	46.1%
7 to 12 months after	6.4	71.3%
1 to 2 years after	7.7	89.9%
2 to 5 years after	9.9	98.6%
More than 5 years	11.9	99.8%

Source: LendingTree analysis of over 225,000 anonymized credit reports of LendingTree users with a bankruptcy on their credit report in August 2024. Note: Accounts include all types, such as individual, joint and authorized.

However, one to two years after a filing, 89.9% of consumers have a new account on their credit report, with an average of 7.7 open accounts.

Over five years later, 99.8% have opened a new account. These consumers have an average of 11.9 open accounts.

Surviving bankruptcy: Top expert tips

Bankruptcy is a huge step in a credit repair journey, but the difficulties don't end after filing or after being discharged. To help maintain healthy habits throughout bankruptcy and beyond, Schulz recommends the following advice:

- **It's important to understand that not all bankruptcies are alike.** "Depending on your circumstances, you might opt for a Chapter 7 or a Chapter 13 bankruptcy," he says. "Those two options differ significantly when it comes to how your debt is treated, how long the

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- **Credit is a marathon, not a sprint.** “Filing for bankruptcy doesn’t change the fact that credit is about doing the right thing over and over again for years,” he says. “That can be easier said than done, especially with how expensive life is in 2024 and beyond, but it should always be the goal,” he says. “And if it all feels like it is too much, focus on one thing — paying your bills on time every single time. Nothing matters more than that. If you make sure that you can do that, even if you’re only making minimum payments, you’ve taken a good first step toward better credit in the future.”
- **A secured credit card can be a good way to start rebuilding your credit.** “These minimize the risk for everyone involved, allowing folks to get their feet back under them,” he says. “Becoming an authorized user is another potential option if you have a trusted loved one willing to offer that up to you. In that case, however, it’s incredibly important to set boundaries and expectations up front, which can lead to a difficult conversation. A credit-builder loan could be another option.”



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Methodology

LendingTree researchers analyzed over 225,000 anonymized credit reports of LendingTree users in August 2024 with a bankruptcy on their credit reports. Consumers were divided into categories based on the time since their last bankruptcy, ranging from less than two months to more than five years. Researchers then calculated the following:

- Average credit score
- Average on-time payment percentage
- Average utilization rate
- Average credit limit
- Average credit card balance
- Average total debt
- Average open accounts

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month before the bankruptcy) and August 2024 (one month after).

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