

How to Buy a Car After Bankruptcy

So you've got a bankruptcy filing on your record - but you still need a car. Not to worry! With a little careful planning and research, and some extra patience thrown in for good measure, soon you will be in possession of the car you need. In fact, owning a car and making timely payments on the loan is a great way to rebuild your credit.

First of all, it matters *why* you filed for bankruptcy. Financial carelessness and irresponsibility are a world apart from, say, losing your job in a recession or incurring large unexpected medical bills. If your tracking record of paying previous car loans or mortgage payments is excellent, then you are much better positioned to receive a car loan even though you've filed for bankruptcy.

It also makes a difference for which type of bankruptcy you have filed. With Chapter 7 bankruptcy, your credit is frozen during the filing period. You cannot assume any new debt without permission from the court. However, after the final discharge of your debt, which can occur in as little as six months, then you are free to take out a car loan or assume other forms of debt. Concerning Chapter 13 bankruptcy, the circumstances are different, because filing for this type of bankruptcy is a lengthy process that can take up to five years to complete. It is understandable, expected even, that you would need to purchase a vehicle during this time. To do so, you will need to obtain permission from your court-appointed trustee, but as long as you can demonstrate that the vehicle purchase is necessary and within reason, your request is likely to be granted.

Question: do you really need a car *today*? If you can delay purchasing your vehicle for thirty days or, even better, six months, then you will be in a much more advantageous position to obtain an affordable car loan. Take that time to utilize a professional credit correction service to improve your credit score (we recommend hiring a professional rather than trying to do it yourself). The payoff for this will be reduced interest payments for the life of your car loan, which adds up to significant savings.

To BHPH or not to BHPH? Many prospective car buyers with poor credit assume that purchasing from a BHPH ("Buy Here Pay Here") car dealership is the only viable option. While this is certainly a path worth considering, it is also a perilous choice. Unless you are an expert negotiator, be prepared to be bullied by aggressive sales professionals who know that your financing options are somewhat limited. BHPH dealerships are notorious for requiring hefty down payments (up to 30 percent) and charging unfairly high interest rates. What's more, some BHPH dealerships won't even quote you the price for a vehicle until they have reviewed your credit score - so you might be getting an all-around bad deal.

Not to worry - there are a host of viable alternatives to BHPH-style financing. Consider these possibilities:

- *Local bank or credit union:* If you are a member of a local credit union or bank, and in good standing with the institution, then this is great place to start. Since all of your accounts are held there, then they may be more willing to lend to you.

- *Bad credit auto lenders:* Some auto lending companies cater specifically to customers with bad credit. They compensate for the additional “risk” by charging higher interest rates - but with a little research and proper diligence, it may still be possible to find an attractive deal.
- *Swap leasing:* Entering into a swap lease, where you assume responsibility for someone else’s lease and take over the payments, is an ideal scenario if you can arrange it. You benefit from the more favorable terms of their existing loan, and they free themselves of a vehicle (and debt) that they no longer need. Just make sure to review the terms of the “swap” very carefully to ensure that you understand all aspects of the deal.

Whichever type of financing you choose, it is still important to secure the best possible terms for your loan. Here are some proven strategies for getting the best deal you can muster:

- *Maximize your down payment:* The larger the down payment, the better the terms you are likely to receive on the loan. Especially if you are uncertain about your long-term ability to make monthly payments, making a significant down payment up front is a highly prudent choice.
- *Find a co-signer for your loan:* If you can find a willing friend or family member with excellent credit to co-sign your loan, then go for it. Just make sure that you truly capable of repaying the loan - it would be a shame to ruin a valuable personal relationship over missed car payments.
- *Shop around:* Not all car dealerships are created equal. Your friends or family may have personal relationships with or be able to recommend certain dealers, and different dealerships offer different financing alternatives. Some auto dealerships even specialize in helping clients with less-than-perfect credit. But stay away from those nasty, aggressive BHPH dealerships with predatory financing. You can do better!

It’s also important to remember what *not* to do. Don’t:

- *Take out a loan with hidden fees & add-ons* - Make sure any loan agreement you sign is straightforward and clear.
- *Agree to any loan that is “contingent,” “adjustable,” or “conditional”* - only assume a loan that has fixed payments over its entire lifespan.
- *Buy more car than you can afford* - The timespan of your loan should not exceed five years. If it does, because that is the only way you can afford the monthly payments, then this is a big tipoff that you are overspending. Consider scaling down.

“Just because you can, doesn’t mean you should.” Lastly, remember that is certainly *possible* to purchase a car after filing bankruptcy, but that doesn’t mean it’s *advisable*. Your credit score will only improve with time, and with it, your ability to secure more favorable financing terms. If you can wait six months, definitely do so. You will be much better off in the long run.