

After a bankruptcy: The path to take to restore credit

Q: I just marked my first anniversary of completing a personal bankruptcy. At about the same time, I received about \$20,000 in back disability benefits, most of which are now in a CD. My only income is disability, which I use to live on. My understanding is that I will have no possibility of credit for seven years from the date of the bankruptcy. Is it possible to start building my credit before the seven years? If, so how might I do that? The bank where I have the CD has mailed me a credit card application. Would taking one out and having it on the books help?

T.F., SANTA BARBARA, CALIF.

A: It's important to show that a bankruptcy is an event not to be repeated, says Tim Rawlinson, a vice president at Fox Chase Bank in Hatboro, Pa., and the swiftest way to reverse the effects that a bankruptcy has on a person's credit profile is to reestablish credit.

You should quickly take steps to rebuild your credit history again, but make them small ones at first, he says. Begin with a debt that's easily repaid, such as a secured loan

against that CD. Or obtain a credit card, use it once, and then repay the balance immediately, especially since the interest rate will probably be very high. Keep other accounts, such as utility bills, current, since these can be used as evidence of good credit.

Generally speaking, you'll receive favorable consideration if a bankruptcy has been discharged for two years and new credit has been established with no history of late payments, Mr. Rawlinson says.

Q: I have a Roth IRA and my wife has a traditional IRA. Our intention when we opened these was to use them for our children's college education, understanding that using the funds would be tax-free as long as we met the conditions for withdrawal (Roth after five years, traditional at 59-1/2 years old). I maxed out my contributions to my 403(b) retirement plan (\$20,000 per year for the over-50 crowd). I want to continue to save for retirement. The IRAs are the first best choice, but we do not want to commingle funds for college with funds for retirement.

May we open another Roth IRA?

C.W., VIA E-MAIL

A: Yes, you can open and maintain a Roth IRA account with multiple institutions, says Helga Cuthbert, a certified financial planner in Decatur, Ga. If you want to open a second Roth at the same institution as the first Roth IRA, you should check with the institution to be sure they would honor this request. Keep in mind that your modified adjusted gross income (AGI) cannot exceed certain limits. For married individuals filing joint returns, to make the maximum contribution (\$5,000 if you're 50 or older by the end of the year), your modified AGI cannot exceed \$150,000. The amount that you can contribute gradually declines and is eliminated when your modified AGI reaches \$165,000.

- Steve Dinnen

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