lendingtree

March 26, 2018

LendingTree Study: The Cost of Bankruptcy

Study findings show if borrowers wait a few years after bankruptcy to apply for new loans, they can receive rates similar to what other borrowers are offered

CHARLOTTE, N.C., March 26, 2018 /PRNewswire/ -- LendingTree®, the nation's leading online loan marketplace, today released the findings of its study on the cost of bankruptcy. The findings show that while a prior bankruptcy can make it more expensive to borrow, it's certainly not impossible to qualify for credit. If borrowers wait to apply for new loans even just a few years after bankruptcy, they may find rates that aren't too far off from what other borrowers are being offered.

There are many reasons people might file for bankruptcy, whether it's in the wake of a single financial catastrophe or after a long history of smaller financial missteps. There's no question bankruptcy will negatively impact a person's credit, but the difficult question to answer is just how crippling a bankruptcy can be on a consumer's future borrowing potential. People who have declared bankruptcy (or who are considering it) may ask themselves whether they'll be able to get a mortgage, finance a car or even get a personal loan down the road.

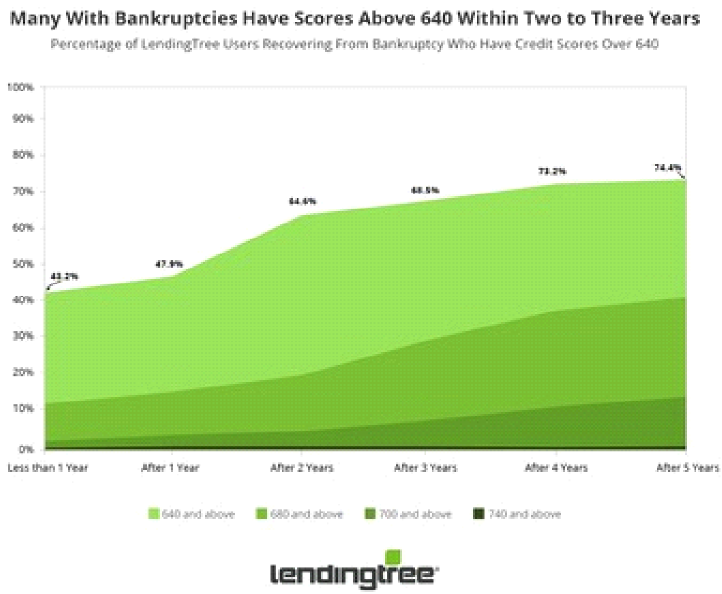
To find out whether those fears are founded, LendingTree's team of data analysts looked at loan terms offered to over a million anonymized LendingTree users in 2017. That group was then split into those who had declared bankruptcy within the last seven years and those who had not, then the types of loan offers both groups received were compared to see who got the better deals.

Key findings:

- Forty-three percent of people with a bankruptcy on their credit file have a credit score of 640 or higher within a year of the bankruptcy. Within two years of bankruptcy, 65 percent have a credit score above 640.
- A typical $15,000 auto loan incurs an extra $2,171 in borrowing costs for those seeking offers less than a year after bankruptcy, but just $799 for those who wait at least two years after bankruptcy.
- Borrowers who have a 3-year-old bankruptcy and apply for a mortgage see an offered APR that is 19 basis points higher than those without a bankruptcy. The higher the APR, the higher borrowing costs will be.
- Mortgage borrowers with scores between 720 and 739 three years after bankruptcy were offered similar APRs to those without bankruptcy, indicating a strong credit score can counteract the effects of a prior bankruptcy.

Bankruptcy doesn't sentence people to low credit scores

LendingTree's research shows that after five years, about 75 percent of those with a bankruptcy on their record restore their credit scores to levels that are generally considered eligible for loans (640 and above). In fact, 43 percent of borrowers have these scores less than a year after bankruptcy, and after two years that percentage jumps to 65 percent. The findings even show a handful of users with scores over 740, even within one year of filing.



That said, there's no denying that people who have declared bankruptcy tend to have lower credit scores than those who haven't. Often, that damage may occur before they even file for bankruptcy, especially if the impetus for filing stems from their inability to meet their debt obligations.

Average scores were 640 within a year of bankruptcy, and increased each year to 672 five years after. This compares with the average of 692 among those who don't have bankruptcies on their records.

Bankruptcy filers pay substantially more for loans as a group

On the whole, those who declared bankruptcy have lower credit scores than those without a bankruptcy, and those borrowers will pay more over the lifetime of a typical loan for that diminished credit profile.

Mortgages

Average terms offered to someone three years after bankruptcy on a typical mortgage cost $8,887 more than the terms offered to someone without a bankruptcy. The terms get more favorable later on, however. Five years after bankruptcy, terms on a typical mortgage would be just $6,032 more costly than terms offered to someone without a bankruptcy.

It's also important to recognize that mortgage lenders likely won't make loans to anyone with a recent bankruptcy because Fannie Mae will not typically purchase mortgage loans of consumers who have been discharged or dismissed from bankruptcy in the last two to four years.

Read more about getting a mortgage after bankruptcy here.

Auto loans

Among those seeking auto loans, those who are less than a year removed from bankruptcy are offered terms that, on average, will cost them $2,171 over the life of a five-year $15,000 loan.

That drops to just $827 after five years.

Personal loans

Similarly, among those seeking personal loans, borrowers who are less than a year out of bankruptcy can expect to pay, on average, $1,426 on a three-year $10,000 loan. After four years, they actually get better terms on average, saving $9, but it rises back up to $287 in additional costs at five years.

Increased Cost Over Life of Loan			
Time Since Bankruptcy	**Mortgage**	**Automobile**	**Personal**
Less than 1 Year	N/A	$2,171	$1,426

After 1 Year	N/A	$1,100	$1,284
After 2 Years	$8,699	$799	$293
After 3 Years	$8,887	$804	$59
After 4 Years	$6,651	$803	-$9
After 5 Years	$6,032	$827	$287
No Bankruptcy	$0	$0	$0
Loan Amount	*$240,955*	*$15,000*	*$10,000*
Loan Term	*30 Years*	*5 Years*	*3 Years*

Bottom line: Bankruptcy recovery is credit recovery

People recovering from a bankruptcy are in a similar position to anyone who needs to repair their credit standings. The study finds no indication that people in the aftermath of a bankruptcy will have a harder time accessing credit than their peers who did not file for bankruptcy (except for potential mortgage loan embargos caused by the Fannie Mae policy discussed above). Some people may even find themselves in a much better position to recover, thanks to a reset of their debt-to-income ratios.

There are many financial monitoring and advice services available from different companies, including LendingTree. A typical consumer should expect those services to be completely free of charge and make sure they are provided by a reputable company.

Average APRs Offered to LendingTree Users			
Time Since Bankruptcy	**Mortgage**	**Automobile**	**Personal**
Less than 1 Year	N/A	12.72	35.46
After 1 Year	N/A	10.35	34.77
After 2 Years	4.29	9.67	29.81
After 3 Years	4.29	9.68	28.62
After 4 Years	4.25	9.68	28.27
After 5 Years	4.24	9.74	29.78
No Bankruptcy	4.12	7.84	28.32

Total Loan Repayment Amount			
Time Since Bankruptcy	**Mortgage**	**Automobile**	**Personal**
Less than 1 Year	N/A	$20,349	$16,379
After 1 Year	N/A	$19,279	$16,237
After 2 Years	$428,709	$18,978	$15,246
After 3 Years	$428,897	$18,983	$15,012
After 4 Years	$426,660	$18,981	$14,944
After 5 Years	$426,042	$19,006	$15,240
No Bankruptcy	$420,010	$18,178	$14,953
Loan Amount	*$240,955*	*$15,000*	*$10,000*
Loan Term	*30 Years*	*5 Years*	*3 Years*

"People may think that filing a bankruptcy would put you out of the loan market for seven to ten years, but this study shows that it is possible to rebuild your credit to a good credit quality," said Raj Patel, LendingTree's director of credit restoration and debt-related services and products.

Patel added, "The biggest challenge in rebuilding credit is for the consumer to stick to a disciplined approach by getting access to the credit but sticking to a plan for not overusing the credit. The key is to use it responsibly — keeping balances low and making payments on time, which are two of the biggest factors that impact your credit score."

For more information on the study, visit: https://www.lendingtree.com/bankruptcy/the-cost-of-bankruptcy/

Methodology:
LendingTree looked at lending offers for a sample of over one million users who requested lender rate offers for mortgages, auto loans and personal loans in 2017. Individual users are presented with multiple offers from lenders, and these were averaged for each user. The mortgage loan amounts used for comparative calculations is the average mortgage amount reported in LendingTree's Mortgage Offers Report for February 2018.

About LendingTree
LendingTree (NASDAQ: TREE) is the nation's leading online loan marketplace, empowering consumers as they comparison-shop across a full suite of loan and credit-based offerings. LendingTree provides an online marketplace which

connects consumers with multiple lenders that compete for their business, as well as an array of online tools and information to help consumers find the best loan. Since inception, LendingTree has facilitated more than 65 million loan requests. LendingTree provides free monthly credit scores through My LendingTree and access to its network of over 500 lenders offering home loans, personal loans, credit cards, student loans, business loans, home equity loans/lines of credit, auto loans and more. LendingTree, LLC is a subsidiary of LendingTree, Inc. For more information go to www.lendingtree.com, dial 800-555-TREE, like our Facebook page and/or follow us on Twitter @LendingTree.

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