LendingTree Study Analyzes the Real Costs of Bankruptcy

March 24, 2020

Study finds that even though bankruptcy filers pay more for loans, they aren't completely shut out of the market; more than 70% of filers are mortgage-eligible after 5 years

CHARLOTTE, N.C., March 24, 2020 /PRNewswire/ -- LendingTree®, the nation's leading online loan marketplace, released its study on the costs bankruptcy experienced by individuals who have filed for bankruptcy and the effect on an individual's credit. The report found that consumers who recently filed for bankruptcy aren't completely shut out of the market, though interest rates affect their cost for new credit. In fact, more than half of those who filed for bankruptcy one year before visiting LendingTree had credit scores of 640 and higher.

Key findings

- **56% of people who filed for bankruptcy one year before seeking out loan offers on LendingTree have credit scores of 640 or higher.**
    - Out of those, 17% had a score of 680 or higher; 5% had scores of 700 or higher; and 1.5% had a score of at least 740.
- **After two years, when some borrowers are once more eligible for conventional mortgages, 63% had prime scores of at least 640.** About 5% had scores of 700 or higher.
    - After five years, 71% of borrowers had scores of 640 or higher, 41% had scores of 680 or higher and 17% had scores of at least 700.
- However, **the more recently borrowers went through bankruptcy, the higher their offered mortgage APRs were,** even compared with others with similar credit scores.
    - Those with scores of 760+ were a stark exception; they got better APR offers, on average, than those who had no bankruptcies on their records.
- **Mortgage borrowers two years out from bankruptcy can expect to pay almost $26,000 more over the life of their mortgage than people without a bankruptcy on their records.**
    - Even after five years, they can expect to pay more than $9,600.
- **People looking for auto loans less than a year from their bankruptcy will pay almost $2,900 more for a $25,000 5-year car loan** than those with no bankruptcies on record.
    - The extra costs vary over the first five years following bankruptcy, but they are always at least $1,250 higher than for those without a bankruptcy.

There are plenty of reasons why a person might file for bankruptcy, like insurmountable medical bills or extended unemployment. Consumers might fear using bankruptcy as a tool because they worry that they won't be able to secure a mortgage or another type of loan in the future. But bankruptcy doesn't resign borrowers to low credit scores forever.

LendingTree customer data shows that more than half (56%) of all loan applicants who declared bankruptcy had a score of 640 or above just one year after filing. As the chart below shows, the percentage of consumers in all credit bands over 640 increases over time.

Credit score	Percentage of borrowers after 1 year	Percentage of borrowers after 5 years
640+	55.90%	71.00%
680+	17.20%	41.10%
700+	4.60%	17.10%
740+	1.50%	1.50%

Borrowers who recently filed for bankruptcy pay $25,000+ more for a mortgage

Bankruptcy filers could pay tens of thousands of dollars more over the lifetime of a mortgage loan compared with borrowers without a bankruptcy on their credit report. Two years post-bankruptcy, LendingTree customers paid over $25,000 more in interest than those with no bankruptcies on a $250,000 30-year mortgage. Five years post-bankruptcy, that number is cut in half to about $10,000 more in interest.

Bankruptcy filers will pay thousands more over the life of an auto loan

Less than one year out from filing for bankruptcy, new auto loan applicants pay nearly $3,000 more on a five-year $25,000 auto loan due to higher APRs. After five years, that number drops to about $2,000.

The data suggests that although APRs eventually go down for auto loan borrowers as time passes after their bankruptcy, they'll still pay a premium for loans in the form of higher interest rates for years to come.

Auto loan borrowers included in the study needed scores of 600 and above. LendingTree borrowers with scores from 600-639 did qualify for auto loans, but they paid a premium (typically 10%+ APR).

Offered APRs steady decrease as time passes after bankruptcy

Mortgage Credit Score Range	Less than 1 Yr	After 1 Yr	After 2 Yrs	After 3 Yrs	After 4 Yrs	After 5 Yrs	Never/ Not in the Last 7 Yrs
640 - 679	N/A	N/A	4.59%	4.41%	4.41%	4.36%	4.41%
680 - 719	N/A	N/A	4.37%	4.25%	4.20%	4.17%	4.15%
720 - 759	N/A	N/A	4.21%	4.04%	3.99%	4.01%	4.01%
760 or higher	N/A	N/A	3.90%	3.94%	3.96%	3.90%	3.97%

Auto Credit Score Range	Less than 1 Yr	After 1 Yr	After 2 Yrs	After 3 Yrs	After 4 Yrs	After 5 Yrs	Never/ Not in the Last 7 Yrs
600 - 639	15.26%	12.68%	12.13%	11.95%	11.54%	13.72%	11.75%
640 - 679	10.76%	9.90%	9.32%	8.59%	10.09%	9.03%	8.65%
680 - 719	7.64%	7.53%	7.22%	7.24%	6.89%	7.69%	6.55%
720 or higher	4.67%	5.52%	6.03%	5.38%	5.69%	5.04%	5.59%

Potential borrowers will generally see lower offered APRs if they wait longer to apply for a loan post-bankruptcy. For instance, auto loan borrowers with credit scores between 640 and 679 will be rewarded with much lower APRs if they apply for an auto loan five years out from a bankruptcy rather than after one year.

For borrowers with credit scores of 720+, the time that's passed after a bankruptcy doesn't have as much of a clear effect on the offered APRs. Borrowers who can achieve such high credit scores post-bankruptcy might have other financial advantages that make them stand out as applicants, such as a higher down payment or income.

Despite short-term costs, bankruptcy is still an option for some borrowers

Consumers who are in dire need of debt relief shouldn't rule out bankruptcy as an option just because of the negative effect it will have on their credit score. Millions of Americans have used bankruptcy as a tool to take control of their finances. Consumers who are struggling with credit card debt could consider taking out a debt consolidation loan which may offer benefits like an overall lower APR, faster debt repayment and few bills to track. Another option is to seek out credit counseling services, which often come at no cost. If consumers are considering filing for bankruptcy, it's important to speak with a qualified attorney to better understand the options available and the legal process.

Methodology
LendingTree looked at lending offers for a sample of more than a half million users who requested lender rate offers for mortgages and auto loans in Q4 2019. Individual users are presented with multiple offers from lenders, and these were averaged for each user.

About LendingTree
LendingTree (NASDAQ: TREE) is the nation's leading online marketplace that connects consumers with the choices they need to be confident in their financial decisions. LendingTree empowers consumers to shop for financial services the same way they would shop for airline tickets or hotel stays, comparing multiple offers from a nationwide network of over 500 partners in one simple search, and can choose the option that best fits their financial needs. Services include mortgage loans, mortgage refinances, auto loans, personal loans, business loans, student loans, insurance, credit cards and more. Through the My LendingTree platform, consumers receive free credit scores, credit monitoring and recommendations to improve credit health. My LendingTree proactively compares consumers' credit accounts against offers on our network, and notifies consumers when there is an opportunity to save money. In short, LendingTree's purpose is to help simplify financial decisions for life's meaningful moments through choice, education and support. 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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