



## Ask SCORE for Business Advice

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### **What Happens After Bankruptcy by Tina Dettman-Bielefeldt**

Last week, Jon Olson, an attorney and SCORE volunteer, reviewed the steps in filing for bankruptcy. While it will provide a fresh start for a business, he cautions that securing credit after a bankruptcy will be difficult. Is it possible for an entrepreneur to start again?

"You might be able to start a new company with a similar name," Olson said. "However, lenders and potential investors will look very critically at the past performance of the people involved. A bankruptcy will be reported on your credit report for ten years."

Within the first year or two after a bankruptcy, Olson said that an entrepreneur could expect a very high interest rate on any credit they do secure. In order to re-establish credit, he advises making payments on time and showing your ability to repay a loan. If that is done, it is possible to get credit on acceptable terms within three to five years.

A common misconception prior to bankruptcy is that personal assets can be protected. While that is true in regard to retirement funds, having an LLC or corporation doesn't automatically entitle a business owner to dissolve the entity and hold personal assets. It depends on how debt was secured. Lenders and landlords almost always require personal guarantees or a lien on assets. For that reason, Olson said that entrepreneurs should think seriously before pledging personal assets as collateral.

If an entrepreneur thinks that the business can be resurrected under a new name, it is possible to continue any agreements that extend into the future after the filing of the bankruptcy. Olson noted that property leases and cell phone contracts are common examples of "executory contracts" that you can choose to maintain in a bankruptcy.

Olson said, "If you choose to maintain a lease, you must be current, but must also agree to abide by the current terms of your lease, including making all required payments. If you reject the lease in the bankruptcy, you must vacate the premises (the timing can be negotiated to a point), but you will no longer be liable for the lease payments, either past or future."

Probably one of the most painful aspects of filing is informing family members that loaned you money. In a Chapter 7 bankruptcy, unsecured debts will be discharged and most loans between family members will be unsecured. Olson said that you cannot, and

should not, make extra payments to family members prior to filing for bankruptcy. However, you can still choose to repay a debt that has been discharged after the fact.

What about the feeling of failure that comes with filing? Olson noted that you aren't alone. Bankruptcy filings in Wisconsin are up over 30% from 2008, which were up almost that much over 2007.

“A thorough review of what got you to this point is important for knowing how to move forward. Bankruptcy is a legal remedy provided by Congress to give a fresh start to honest debtors. Take full advantage of this fresh start and figure out how to move forward and do it better,” he said.

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit [www.greenbayscore.org](http://www.greenbayscore.org) or call Cindy Gokey at 920-496-8930 for information.

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