

TAKING CHARGE in Challenging Times

DECIDING WHICH BILLS TO PAY FIRST

When you do not have enough money to cover your family's basic living expenses and pay all your creditors, you face some difficult financial decisions.

When family income is reduced, your spending habits must change. The sooner you change, the more likely your financial problems can be lessened. Your family should be part of the decision-making process, since their cooperation is essential to carry out the plans.

When your bills exceed the money available to pay them, you will have to develop a revised payment plan in order to repay your debts. After you have a plan, you will have to contact the people to whom you owe money - your creditors - and explain your situation. Creditors will usually work with you to adjust your payments because they want their money.

Your past experiences with creditors are important. If you have consistently paid bills when due, your creditors will be more cooperative than if you were late or did not make regular payments. Creditors are in the business of lending money and/or providing services. They want to keep your business, but they also want to get paid. Ask your local Extension office for a copy of HM 682 "Getting Out of Debt: A Self-Help Guide" for more information.

Gather The Facts

Before you can talk to your creditors, you need to take a hard look at your situation and make some decisions about how much and when you can pay. First, answer the following questions:

How much income can you count on each month?

How much money is needed to cover your family's essential monthly living expenses?

How many creditors do you owe and what is the total amount you owe? Completing Worksheet 5, "Debts Owed," can help you get a clearer picture of what and how much you owe.

How long is your present financial situation likely to last?

What assets (savings or items that could be sold) do you have that could be used to pay off your debt?

What debts are the most important to repay first?

What debts could be satisfied by voluntarily surrendering, or giving back, the item?

Reading "Sizing Up Your Financial Situation," and "Making the Most of What You Have," can help you to answer these questions.

Who Gets Paid First?

You are legally obligated to pay all of your creditors. If you cannot pay all your bills, you must decide how much to pay to which creditors. One way is to divide available money and pay each creditor a share of what you owe. This is probably the fairest way, but it does not always work because every creditor must agree to reduce the amount they receive and extend the payment period.

A second method is to prioritize or list your creditors starting with the ones who will receive the most money. Think about the worst consequences for your family if certain debts were not paid or if less were paid than the amount due. Answering the questions below will help you decide.

What will affect my family's health and security the most? Usually the house, utilities, food, transportation, and medical insurance take priority. Do not be tempted

to let medical insurance slide when money is tight. If anyone in your family becomes ill, uninsured medical costs could be devastating. "Meeting Your Insurance Needs," provides additional information.

What will you lose if the bills are not paid? You can lose your purchases if the creditor holds the title of the property as collateral or security for the loan: a home mortgage or car loan, for example. Sometimes furniture and large appliance loans are secured loans. If you are not sure which loans are secured, check the credit contract. Unsecured debts may have to take lower priority, although you are obligated to pay them too.

What interest rate are you paying? Credit cards charging 1.5% interest per month amounts to an 18% annual interest rate (APR) on the unpaid balances ($1.5 \times 12 = 18$). If you have a loan with a lower interest rate, you may decide to pay off a higher interest credit card balance first, to reduce the amount of finance charges you are paying. Until your financial situation improves, destroying your credit cards and closing your accounts may be a good idea. At least put credit cards away in a safe place so you are not tempted to use them. PowerPay is a computer program that can help you decide which debt repayment plan will save you the most money in interest charges. It is available on-line at <https://powerpay.org>.

How much do you still owe on the loan? Determine how much you have paid on each loan and how much you owe. If you have only one or two payments to make on a loan, it is probably a good idea to finish paying it, getting that debt out of the way. You may be able to return newer items or sell them to pay off the debt. If you choose to voluntarily surrender the item, you will still be required to pay the difference between the market value of the item and the amount remaining on the loan. Getting out from under some of your debts can reduce the pressure you feel.

Is a consolidation loan a good idea? Personal finance companies want you to think so, but generally a consolidation loan charges a higher interest rate. In addition, refinancing to smaller monthly payments will extend the number of payments you must make, adding to the total cost. While a single loan may make payment easier, that is a small benefit considering the additional costs involved.

What about your credit record? Nonpayment of debts is recorded on your credit record and can damage your ability to get credit in the future. That is why contacting all of your creditors immediately if you cannot pay your bills is important. If you can pay something on each debt, it is less likely that your financial problems will be reported on your credit record.

Your Repayment Plan

Once you have calculated how much money your family has for monthly living expenses and for paying off debts, decide how much you can pay to each creditor, based on priorities you determined while answering the previous questions. Work out a repayment plan that shows how much you plan to pay each creditor. Put this plan in writing.

Now you are ready to contact each of your creditors to explain your family situation. You will need to tell them how much you are able to pay and when you will be able to pay it. Some businesses, such as utility companies, have special counselors for customers who cannot pay their bills. These counselors can help you set up a budget plan to even out your payments during the year. They can also tell you if you qualify for fuel assistance or any other available programs.

Contacting Your Creditors

Once you have gathered the information you need, contact each creditor, explain your family's situation, and work out a solution. Be prepared to explain the following:

- the reason you cannot pay
- your current income and prospects for future income
- other obligations
- your plans to bring this debt up-to-date and keep it current, including the amount you will be able to pay each month

Visit local creditors in person. Visit the loan officer at your bank or credit union, the credit manager of local stores, and the budget counselor at the utility company. Do not forget creditors like your dentist, physician, clinic, and hospital. Contact out-of-town creditors by phone or letter. If you phone, write down the name and title of the person to whom you

talked. Follow the conversation with a letter summarizing the agreement between you and the creditor. Keep copies of your correspondence as well as any reply.

A sample letter is provided to use as a guide when writing to creditors. You may also use it as an outline of what to say when talking to a creditor. As you negotiate with each of your creditors, do not agree to any plan simply to get off the hook. Be sure you will be able to follow through on the agreement. Establish a payment rate that is acceptable to both you and the creditor.

Here is a list of some alternatives to consider when negotiating with your creditors:

- Reducing the interest rate
- Reducing the monthly payment
- Refinancing the loan
- Deferring a payment for a short time if you expect your income will increase soon
- Reducing or dropping late charges
- Paying only interest on the loan until you can resume making monthly payments
- Voluntarily surrendering or giving back an item purchased on credit
- Selling the item and using the cash to satisfy, or partially satisfy, the debt (you are still responsible for any remaining balance)

Not all creditors will be willing to accept alternatives. However, they will be more likely to work with your family if you contact them before they contact you. They all want their money and would rather get some money on a regular basis than have to begin collection procedures.

If you fail to follow the plan that you and your creditors agreed upon, you will hurt your chances of getting future credit. Tell your creditors about any changes that may affect your payment agreement. If you owe a large amount of money and your creditors will not accept reduced payments, you may have to consider more extreme alternatives. A source of

assistance with credit and money management problems is American Consumer Credit Counseling. Call (800) 769-3571 to find the location of the nearest office to you, or visit the National Foundation for Credit Counseling web site at: <http://www.nfcc.org>. Click on "Take the First Step" to search for location by city or state.

A counselor will review your application. The counselor is qualified to prepare a budget plan that will be given to you and your creditors for approval. The budget plan will outline exactly how each debt will be repaid. The plan usually is all that is required unless there is an emergency or a change in your financial situation. You can return to the counseling service at any time for further advice.

The counseling service is free. However, when the service prepares a debt repayment plan for you, a nominal fee may be charged to help with administrative costs. Local businesses pay the counseling service a fee for collecting the debts clients owe them. For example, if the counselor collects \$20 to pay a debt owed to a bank, the bank pays the counseling service a sum (such as \$3) for collecting the debt.

If You Do Not Pay Your Bills

If you miss a payment, you will be faced with increasing pressure to pay. First you will receive a letter reminding you that you missed a payment and asking you to pay promptly. After that, you may receive a more direct letter demanding payment or you may get a phone call.

If the bills are still not paid, they will probably be turned over to an independent collection agency. While the agency will try to get you to pay, the law protects you from certain actions. They cannot use abusive language or threaten you with violence. They cannot call you at unusual hours or threaten criminal prosecution. And they cannot discuss your financial situation with others.

Here is what to do if you receive a call from a creditor or a collection agency:

- Ask the name of the caller. Get the name of the creditor and the name, address, and telephone number of the collection agency. Get the exact amount of the account that is claimed to be due. Write down the date and time of each call.

- Do not get angry. Remain calm. Arguments do not settle anything. When you become angry, you may forget to obtain important information. Remember, creditors accused of being angry or abusive may say it was the customer who was angry and abusive.
- Dispute debts in writing. If you believe you do not owe the amount claimed or disagree in other ways, make your reasons known promptly in writing to both the creditor and the collection agency. Request a written statement of your account. Always keep copies of your correspondence for future reference.

Creditors' Options

Creditors can take several kinds of legal action against you. These actions are often written into the sales contract you signed. If you fail to make payments, you will receive letters from a creditor's attorney or collection agency warning you of the intended action.

What a creditor can do if you fail to pay your bills:

- *Acceleration* - The entire debt is due at once if you miss a payment. The courts can force you to pay by seizing your property and selling it.
- *Repossession* - The creditor can seize the item you bought or the property you used as collateral. If the sale of the property brings less than the amount you owe, you must pay the difference.
- *Foreclosure* - If you fail to make a mortgage payment or fail to pay the taxes or insurance on your house or other property, you have defaulted on your contract and the lender may start proceedings to take possession of your home/business and sell it to recover the remaining balance of the loan. It usually takes about three months for the first court date to be set and action to begin. You are responsible for the legal fees of foreclosure and the difference between the selling price of the property and the amount owed on the loan.

All of these actions are very serious and could jeopardize your ability to get credit in the future. You can reduce your chances of being harassed by creditors or collection agencies by communicating with your creditors and working out solutions for debt repayment early.

Making It Work

Remember no matter how bad your situation may be, do not ignore your bills and creditors. Prompt action is very important; let your creditors know you are having trouble before you miss payments and the situation becomes worse.

Once you have worked out a repayment plan, follow through with it and make the payments you promised to make. If you fall behind on your new commitments, creditors will be less understanding. If you fail to make the payments, creditors may hire a collection agency to make you pay.

Pretending you have no money problems will not make the problems go away. You and your family must face the situation honestly. Openly discuss spending decisions with all family members. This will help everyone realize that changes and sacrifices must be made for your family's plan to be successful.

Bankruptcy

If you find yourself "over-extended" and you have tried financial counseling, budgeting, and reduced payments and still cannot make headway on debts, bankruptcy may become an option worth investigating. Bankruptcy is good at wiping out credit card debt, but you may have trouble eliminating some other kinds of debts, including child support, alimony, most tax debts, student loans, and secured debts. In addition, filing for bankruptcy brings long-term consequences for your financial situation and credit rating. It also affects your creditors.

Bankruptcy is a federal court process designed to help consumers and businesses eliminate their debts or repay them under the protection of the bankruptcy court. Bankruptcies can generally be described as "liquidations" or "reorganizations."

In 2006, a new bankruptcy law went into effect which changed the requirements for people considering bankruptcy. All debtors now have to get credit counseling before they can file a bankruptcy case, and additional counseling on budgeting and debt management must be completed before their debts can be wiped out. Some filers with higher incomes are not allowed to use Chapter 7, but instead have to repay at least some of their debt under Chapter 13.

If you are considering bankruptcy, contact a lawyer experienced in bankruptcy proceedings. The lawyer can help you prepare necessary documents and file with the court. Discuss attorney and court fees at the first appointment because costs vary.

Sample Letter to Creditors

Use this example as a guide when writing or talking to creditors. Fill in the specifics of your family's situation in place of the information in parentheses.

Date
Your Address
Your City, State, Zip

Company Name
Street Address
City, State, Zip
Attention: Delinquent Account Representative
Subject: Your Name and Your Account Number

The purpose of this letter is to inform you that our family is having some budgeting and debt problems. I am having trouble making my minimum monthly payment as a result of (a family crisis, a recent job loss, or seasonal unemployment, etc.). I hope we will be able to agree upon an acceptable restructured debt payment plan.

I have taken a careful look at our financial situation. We have set up a realistic minimum budget for our living expenses and have developed a restructured debt payment plan. I am hoping you will accept a reduced payment. Amounts will be increased as soon as possible until the debt is totally repaid. We owe (12 creditors over \$7,500). Our asset value is less than (\$3,000). Our only assets are (a car with a Blue Book value of \$1,000, some home furnishings worth \$1,500 and our family's clothing). Our monthly income is (\$708). We have (\$242) left over after basic living expenses for a restructured debt payment plan. I would like you to accept a partial payment of (\$50) per month to repay our obligation. You may expect the first payment on (date).

I hope you find this plan acceptable. I look forward to your letter of acknowledgment.

Thank you.

Sincerely,

DEBTS OWED

Creditor	Address	Phone #	Account #	Collateral (property used to secure debt)	APR Annual % Rate	Balance Owed	Number of Payments	Monthly Payment	Payment Due Date	Amount Last Paid	Date Last Paid	Legal Action Taken	Collection Agency
Total Monthly Debt Repayment													