

Managing in Tough Times

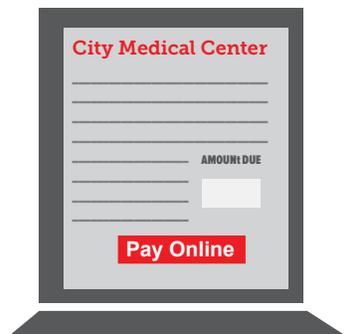
DECIDING WHICH BILLS TO PAY FIRST

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.

During a crisis or anytime 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 because 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 providing services. They want to keep your business, but they also want to get paid.



GATHER THE FACTS

Before you can talk to your creditors, you need to take a hard look at your situation and decide 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?
- 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?
- Are any of your creditors offering deferments or waiving later fees during a crisis?

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 creditor. 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 they were paid less 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.



- 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, such as a home mortgage or car loan. Unsecured debts may have to take lower priority.
- What interest rate are you paying? You may decide to pay off higher interest credit card balances first to reduce the amount of finance charges you are paying. Until your financial situation improves, destroying your credit cards may be a good idea. PowerPay is a free computer program that can help you decide which debt repayment plan will save you the most money in interest charges. It is available online 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 and 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.
- Is a consolidation loan a good idea? Generally, consolidation loans charge a high 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 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 the priorities you determined by answering the previous questions. Work out a repayment plan that shows how much you plan to pay each creditor.

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.

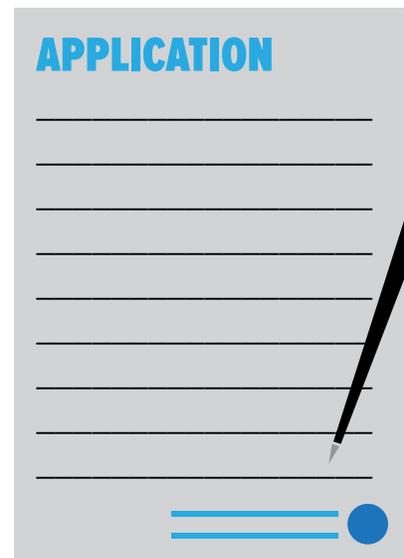
CONTACTING YOUR CREDITORS

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.

Do not forget creditors, like your dentist, physician, clinic and hospital. Contact creditors by phone, email or letter. If you phone, write down the name and title of the person to whom you talked. Follow the conversation with a letter or email summarizing the agreement between you and the creditor. Keep copies of your correspondence as well as any reply.

A sample "Letter to Creditors" 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.



SAMPLE LETTER TO CREDITOR

Your Name
Your Address
City, State, ZIP
Your Phone

Date

Creditor Name
Creditor Address
City/State/Zip

Re: Account #:
Name on Account
Balance
Regular Monthly Payment

To Whom it May Concern:

To date I have remained current with the monthly payment on the account listed above. My financial situation has recently changed, and I am unable to continue to pay this amount. Briefly describe financial hardship. For example, I have been laid off (illness, disaster, etc.), and my current income covers only my basic living expenses.

My intent is to honor my obligation with you. I propose paying \$XXX per month for the time being. I will contact you when my financial situation improves, and I am able to increase this amount.

Thank you for your patience and assistance with this matter. Please contact me in writing at the address above by insert date two weeks from date of letter with your response.

Sincerely,

Your Name



Some alternatives to consider when negotiating with your creditors include:

- 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 will likely still responsible for any remaining balance.
- If a creditor agrees to let you sell an item for less than you owe, you will be required to pay income tax on the difference. If the debt is forgiven, you will receive an IRS Form 1099 identifying the forgiven amount that will be considered taxable.

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, such as credit counseling. To find an accredited credit counselor, visit the National Foundation for Credit Counseling website at <http://www.nfcc.org>. Expect to pay a fee for this service.

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 notice 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. Also, they cannot discuss your financial situation with others.

If you do receive harassing contacts from creditors, you may write a letter requesting that they stop collection contacts. This letter is called a cease letter and should outline the objectionable behavior of the collector's employees. A sample cease letter is provided on the next page. Keep a copy of this letter for later reference.



SAMPLE CEASE LETTER

Date

Name and address of collection agency

Attention: (name of person in charge of account)

Re: Account #

Dear _____,

This is to confirm our conversation on (list date) regarding the account listed above. In accordance with the Fair Debt Collection Practices Act, Section 805(c), this letter is your notification to “Cease and Desist” any further communication concerning the above-mentioned debt.

(If there are specific harassment complaints, list them here.)

Your failure to comply with this request will result in charges against your company and any employee attempting to collect this debt.

I appreciate your immediate cooperation.

Sincerely,

Your Signature

Your Printed Name

Your Address

Send this letter via certified mail with a return receipt.

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. 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.
- 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 or 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 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 that 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 "overextended" 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."

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.

REFERENCES

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