

When income decreases... but the bills don't



Money Management
INTERNATIONAL

Improving lives through financial education.

Financial setbacks can be devastating. When an illness, injury, or job loss causes financial hardship, it is time for planning, not panic.

STEP 1 Assess the situation

One key to success with any financial plan is to be realistic. Start by figuring out where you stand today. Gather information about your income and debts.

To help you assess your financial situation, pull a copy of your credit reports. Under the FACT Act, you are entitled to an annual free copy of your credit reports from each of the three major bureaus. To obtain your free copies, visit www.AnnualCreditReport.com or call 877.322.8228.

Once you have gathered your financial information:

- **Determine your income.** Calculate the take-home income you can count on. Include unemployment or other benefits, consistent child support or other payments, wages for part-time work, etc. Do not include what you hope to get from family or any inconsistent sources.
- **Calculate your current fixed expenses.** Total your set monthly financial obligations. This might include payments for housing, vehicles, insurance, and installment credit accounts.
- **Calculate your current variable expenses.** Variable expenses are those that “vary” from month to month. Variable expenses include the cost of food, clothing, utilities, recreation, gas, auto repairs, and charitable contributions.
- **Calculate your current periodic expenses.** Payments made semi-annually or annually are considered periodic expenses. Your periodic expenses might include auto registration, insurance, and school tuition.

Finally, try to realistically determine how long your income will be reduced. Be conservative in your estimate; in this case, it is better to be over-prepared.



STEP 2 Analyze available resources

Now that you have a clear understanding of your current financial obligations, it is time to analyze your resources. Start by identifying your total liquid resources.

'Liquid resources' are funds that are accessible without penalty, such as funds in a savings or money market account.

In addition to your savings, you may have several available resources:

- **Borrow from yourself.** While cashing your IRA is not desirable, you can take a short-term loan with no penalties. The only requirement is that you pay back the entire amount borrowed within 60 days.
- **Take a good look around you.** Most likely, there are many things in and around your home that you could sell for cash. Remember, one man's junk is another man's treasure.
- **Seek temporary employment.** Secure a temporary job to help you through this set-back, even if it is not in your field of expertise.
- **Consider all existing resources.** Research all sources of cash. For example, you may have a life insurance policy with a cash value. Collect on monies lent to family and friends.
- **Seek assistance.** Contact your local city offices about benefits such as unemployment pay, food vouchers, and utility discount programs. You can also seek assistance from your local church or United Way.

Once you have identified potential resources, determine which are most beneficial to tap. This could vary greatly depending on the length of time you expect your income to be reduced.



STEP 3 Set priorities

If the results of your financial review indicate that you cannot realistically meet all of your obligations, you may have to set some priorities. It is important to set priorities because not all of your debts equally impact your family. For example, it is a priority to pay your rent or mortgage. You must also make arrangements with your utility companies, and you must provide food for your family. Please do not be tempted to allow your necessary insurance coverage to lapse.

If you become unemployed, you may have the right to extend your medical coverage through the Consolidated Omnibus Budget Reconciliation Act. The government also offers programs, such as Medicaid, for people with low incomes. Also, check with your local state government about health insurance programs.

The following is an example of how you might prioritize your financial obligations:

- **First priority** debts likely include your rent or mortgage, tax liabilities, insurance premiums, auto loans, and utilities.
- **Second priority** debts may include other secured loans through financial institutions.
- **Third priority** lenders may include retailers, hospitals, doctors, credit card issuers and other unsecured creditors.

Remember, each person will have their own unique list of priorities. Realize that just because a category of debt is listed as a third priority, does not mean it isn't important. It simply means you need to contact and make payments to the higher priority creditors first.



STEP 4 Create a plan

Changed financial circumstances call for a changed financial plan. Considering your assets, income, and your priority obligations, create a plan to help you get through this temporary financial set-back.

In times of financial turmoil, taking out a loan may be very tempting. Please do not fall victim to predatory lending tactics; quick cash loans are short-term solutions with long-term consequences.

Elements of your financial plan should include:

- **Cost-cutting strategies.** Analyze your current expenses carefully. Sit down with your family and discuss ways to cut costs.
- **A debt repayment plan.** Considering your priorities, determine a reasonable monthly amount to pay each of your creditors.
- **A commitment to financial recovery.** Be determined to make smart financial decisions for your future. For example, do not replace income with credit card cash advances that could haunt you for years to come.

Remember that your plan needs to be realistic and flexible to work. Setting your goals too high will only cause you unnecessary frustration. Keep simple but accurate and complete records, and don't forget to predict future needs and problems.



STEP 5

Contact your creditors

Once you have a plan, communicate with each of your creditors, explaining your situation and how you plan to repay your debt. Tell them that you are unable, not unwilling, to repay as agreed. Remember, it is always best to contact your creditors before they have to contact you.

If you do not contact your creditors and do not make scheduled payments, late fees, and over-the-limit charges can quickly add up. Vital services, such as gas, electric, water, and phone can be shutoff. Debt collection efforts could lead to legal action. In addition, negative information on a credit report could affect your ability to obtain new credit, rent an apartment, obtain affordable insurance, and secure some types of employment.

The best way to contact your creditors is in writing. After you have written your letters:

- **Maintain accurate files.** Before mailing your letters, make copies to keep for your files. If you must negotiate over the phone, keep detailed notes including the representative's name, title, and phone number. Follow up any phone conversations in writing.
- **Stay organized.** Keep everything in one place. Write a summary list of your financial plan for quick reference. Revisit the plan regularly to make sure you are on track.
- **Be prepared for calls.** After sending your letters, you can expect some of your creditors to call with additional questions. If they do, be honest and courteous.
- **Keep your end of the bargain.** If you are unable to make agreed upon payments, contact your creditors immediately to renegotiate.

For more information on dealing with specific types of creditors, see the section titled '*More information about dealing with creditors.*'



Your rights under the Fair Debt Collection Practices Act

While debt collectors do have the right to demand payment, and eventually take legal action if necessary, the Fair Debt Collection Practices Act (FDCPA) prohibits any kind of harassment.

The FDCPA applies to any personal, family, or household debt and covers debt collectors who regularly collect debt for others, but not the creditors themselves or their lawyers.

If you find yourself on the receiving end of a collection call, you might wish to know:

- **When can a collector contact me?** Unless you give them permission to do otherwise, debt collectors can only contact you between 8:00AM and 9:00PM. They may not communicate with you by postcard.
- **Can collectors contact me at work?** A collector may not contact you at work if they know your employer disapproves.
- **What constitutes harassment under the FDCPA?** Collectors may not use profane language or threaten you with violence. In many instances, it prohibits the publication of a list of consumers who allegedly refuse to pay debts. Collectors may not threaten to take your property unless they are actually able to do it.
- **Can collectors contact my family or friends?** Debt collectors can contact other people but only to ask for information on how to locate you. In most cases, the collector may not divulge the reason for the call to anyone other than you or your attorney.
- **Can I get a collector to stop contacting me ?** Debt collection agencies are required to honor written requests to stop contacting consumers. Please be aware that sending a “cease and desist” letter does not relieve you of your responsibility. You will still owe the money, and the company may pursue collection efforts.

To obtain a copy of the FDCPA, visit the Federal Trade Commission’s Web site at www.FTC.gov or call 877.FTC.HELP.



More information about dealing with creditors

As soon as possible, you should follow the basic procedure of notifying your creditors by mail of your situation and suggesting partial payments or assistance. Of course, the outcome can vary from creditor to creditor.

Utility companies

Be sure to ask for help at the first sign of financial trouble. Once your utilities are disconnected, you may have to pay the past due bill in full or pay a substantial deposit to reinstate service. You might also have to reapply for the utility and pay installation charges.

Each utility company has its own procedure to follow before disconnecting service. The procedure generally includes notification in person, by mail or by phone. Before shutting off service, the company may offer a budget plan to help you repay any past due amount. Remember, utility companies do not want to discontinue your service. They might even have information about available emergency funds to help you pay past bills.

Housing lenders

If you do not make your mortgage payments, your home could be foreclosed. Fortunately, there are many alternatives to foreclosure. For example, if you have the amount of money required to bring your loan current, the mortgage company will reinstate your mortgage. You may also contact your mortgage company and work out a repayment plan.

For help, contact a housing counselor at Money Management International (MMI) by calling [866.515.2227](tel:866.515.2227). If your home loan is backed by the Department of Veteran's Affairs, call your local VA center. You can also check with your local United Way for assistance.

If you are a renter, contact your landlord about your situation immediately. The landlord may accept partial payment for one or two months. You may want to look for less expensive housing, but be realistic and remember to include moving expenses, deposits, and family adjustments as you calculate costs. If it is a private landlord and you or family members are able, you may be able to do some maintenance work in place of part of your rental costs.



Car and other vehicle lenders

If you cannot make your car or other vehicle payments, they can be repossessed. Repossession means that the creditor takes the vehicle and then it is sold at a public or private auction. If the vehicle is sold for less than the amount still owed on it, as is often the case, you may be liable for the remainder that is owed on the vehicle.

Check with the creditor to see if the loan can be rewritten for lower monthly payments. Ask for an extension, with the extension fee attached to the end of the loan. If you do not need the vehicle, if it is a second car or a recreational vehicle, ask the creditor if you could sell the vehicle and pay the creditor off with what you receive. Also, find out about the procedure if you sold the vehicle to someone who would take over payments.

Credit card issuers

Late fees and over-the-limit charges can quickly add up to a debt problem. Many creditors are also raising rates and even closing accounts as penalties for late payments. In addition, nonpayment could lead to your accounts being cancelled, and the debt may be turned over to a collection agency.

Notifying your creditors of your changed financial situation may not stop all collection activity; however, many creditors are likely to assist by waiving interest, granting extensions, or reducing payments. Do not be tempted to replace income with credit card cash advances. Available credit should be used extremely cautiously.

Insurance issuers

Do not allow insurance to lapse. Write your insurers immediately and explain your situation. Ask what payment options are available. Check with your insurance company; there may be a grace period in making payments from 10 to 30 days.

Determine your minimum needs for insurance. Cancel duplicate and non-essential policies. For basic essential policies consider these options:

- **Car Insurance.** By law, you may need to retain your liability coverage. You can research the possibility of reducing your premium costs by increasing the deductible on your collision and comprehensive coverage.
- **Health Insurance.** Check to see if the health insurance provided by your former employer is continued. If coverage is not available or if you can't afford the premium, find out if you qualify for Medicaid. Also, check into policies that would pay for major hospitalization and find out what community services are available for routine medical concerns.
- **Life Insurance.** Consider changing your policy to a less expensive form. Check into the possibility of borrowing money on your policy to pay premiums.



In summary

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We're here to help

The counselors at MMI can help you overcome financial challenges.

MMI is a nonprofit, community service organization dedicated to delivering professional consumer credit education, confidential financial counseling, and debt repayment programs to financially distressed families.

When you visit with a trained counselor at MMI there is no obligation, and the initial appointment is free. To schedule an appointment, visit www.MoneyManagement.org or call 866.515.2227.





www.MoneyManagement.org