SURVIVING TOUGH TIMES

DECIDING WHICH BILLS TO PAY FIRST

When between jobs, your paychecks may stop coming but the bills keep rolling in. Without enough money for your basic living expenses and all your creditors, you face some difficult financial decisions.

Spending habits must change when your income drops. The sooner you change, the better. Involve your family in the decision-making process. Their cooperation is essential in carrying out your plans.

Sizing Up Your Situation

When bills exceed the money you have to pay them with, contact the people to whom you owe money - your creditors. Explain your situation. Creditors will usually work with you to adjust your payments because they want their money.

Before you talk to your creditors, take a hard look at your situation and make some decisions about how much you can pay and when. You need to know:

• How much income you can count on each month.
• How much money you need for essential monthly living expenses.
• How many creditors you owe and the total amount owed.
• How long your present financial situation is likely to last.
• What assets (savings, items that could be sold) you have that could be used to pay off debt.

• What debts are the most important to repay first.
• What debts could be satisfied by voluntarily surrendering, or giving back, the financed item.

Who Gets Paid First?

You are legally obligated to pay all of your creditors. When you can’t pay all your bills, you must decide how much you can pay. You may wish to divide available money so that every creditor receives a share of what you owe. While this is probably the fairest way, it doesn’t always work. Each creditor must agree to reduce the amount they receive and extend the payment period.

A second option is to decide which creditors should receive the most money. Debts that would result in the worst consequences for your family if they weren’t paid or were paid less than the amount due come first. Ask yourself the questions on the following page to help you prioritize your bills and expenses.

SETTING PRIORITIES

What will affect my family’s health and security the most?

Usually the house, utilities, food, transportation and medical insurance take priority. Avoid the temptation to let medical insurance slide when money is tight. Should anyone in your family become ill, uninsured
medical costs could be devastating. Pay high-priority bills or contact the creditors at once to work out smaller payments.

What will happen if the bills aren’t paid?
You can lose your purchases if the creditor holds the title of the property as security for the loan: a home mortgage or car loan, for example.

Sometimes furniture and large appliance loans are secured loans. To find out which loans are secured, check the credit contract. Unsecured debts may have to take lower priority, although you are obligated to pay them, too.

How much do you still owe on the loan?
Determine how much you still owe on each loan. If you have only one or two payments left on a loan, it’s probably a good idea to finish paying it to get that debt out of the way. Consider returning newer items or selling them to pay off the debt. If you choose to voluntarily surrender items, you’ll have to pay the difference between the market value of the item and the amount remaining on the loan. But getting out from under some of your debts can reduce the pressure you feel.

What is the interest rate?
If you have more than one loan, you may decide to pay off a higher interest rate debt first to reduce the amount of finance charges you pay. 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.

Is a consolidation loan a good idea?
Personal finance companies want you to think so. Generally a consolidation loan charges a much higher interest rate than you’re already paying. 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’s a small benefit considering the additional costs involved.

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

What is a Credit Report?
Think of a credit report like a report card that shows your performance regarding your borrowing history. The credit report helps creditors make intelligent decisions about how you will perform if they lend you money. A good credit report will help you borrow money more cheaply, rent an apartment, open a checking account, and even get a job. Therefore, it is important to protect your credit report by taking whatever steps you can.

This would be a good time to get copies of your credit report and correct any errors that could adversely affect you. By Georgia law, you have the right to request two free copies a year. Use the information below to obtain your free copies. When you get a copy of your credit report, you will also receive a form to fill out and mail back in order to correct mistakes. Only errors can be corrected. There is no way to remove accurate information, so beware of “credit repair” operations.

By federal law, you may write a 100-word statement explaining your financial situation and have this included in your credit report. Don’t send the statement until you have your new job so you can include dates of your unemployment. Be sure to send the letter to all three credit reporting agencies via certified mail.
Your Repayment Plan
Once you know how much money you have for monthly living expenses and paying off debts, decide how much you can pay to each creditor. Keep the priorities you determined while answering the questions above in mind. Work out a repayment plan that shows how much you plan to pay each creditor. Put this plan in writing. Now you can contact each of your creditors to explain your situation. 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 can’t pay their bills. These counselors can help you set up a budget plan to even out your payments during the year. Confirm your payment plan in writing and make payments as agreed. They can also tell you if you qualify for fuel assistance or other available programs.

Making It Work
Remember, no matter how bad your situation may be, you can’t ignore your bills and creditors. Prompt action is important. Let your creditors know you are having trouble before you miss payments and the situation becomes worse. Once you work out a payment plan, follow through with it.

Make the payments you promised to make. If you fall behind on your new commitments, creditors may be less understanding. If you fail to make the payments, creditors may hire a collection agency or take other legal actions to get their money.

Pretending you have no money problems won’t make the problems go away. 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 plan to be successful.
# WORKSHEET - DEBTS OWED

<table>
<thead>
<tr>
<th>Creditor’s name, address and phone number</th>
<th>Account Number</th>
<th>Interest Rate</th>
<th>Is debt secured? Is so, by what?</th>
<th>Total Balance Owed</th>
<th>Payment Due Date</th>
<th>Number of Payments Left</th>
<th>Original Monthly Payment</th>
<th>Date of Last Payment</th>
<th>Amount of Last Payment</th>
<th>Has legal action been taken?</th>
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SURVIVING TOUGH TIMES

Surviving Tough Times is a 19 part series for individuals and families experiencing underemployment and unemployment. Originally developed by Linda Boelter, University of Wisconsin Cooperative Extension Service.

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