



Financial First Aid

Many circumstances in life can derail even the best money management plan. If you have found yourself in a situation where you can't keep up with your bills, you'll need to take an inventory of your resources and prioritize your financial obligations.

With limited funds available it may not be possible to pay all your bills in full every month, but by prioritizing your expenses and taking a proactive approach to your finances, you may be able to minimize the consequences until you get back on your feet.

The information that follows will help you:

- construct a budget
- prioritize your bills
- formulate a strategy for communicating with creditors
- understand the options available for dealing with your financial obligations

As tempting as it may be, don't ignore bills and past due notices. If you don't contact your creditors about your financial difficulties and don't make scheduled payments, several things can happen:

- Late charges, over-limit fees and interest can continue to increase your debt.
- Your account may become delinquent and affect your credit report.
- Utilities, such as gas, electricity, water and telephone service, can be shut off.
- Your account may be turned over to a collection agency. Once the account is referred to collection, the original creditor loses almost all control over what would be an acceptable payment plan. Any good relationship from personal contact with the original creditor is lost. Collection agencies are usually more aggressive and less willing to compromise. That's why they are hired. In addition, they frequently bring lawsuits to collect debts and can even jeopardize your future employment.

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STEP 1: TAKE INVENTORY OF YOUR INCOME & RESOURCES

Record all sources of income, including realistic expectations of income that you will be receiving soon.

Monthly Resources	Unemployment benefits	
	Income from spouse, job, working children	
	Worker's compensation	
	Rental income	
	Other	
Possible Resources	Cash on hand	
	Savings	
	Money market accounts, CDs	
	Cash value of whole life insurance	
	Present value of bonds	
	Retirement plans (subtract IRS fees & penalties—about 50%)	
	Lump sum vacation pay	
	Collectable insurance claim not yet filed	
	Total:	

Ways to Increase Income

- If you live near a college or other type of adult school and you have a spare room, you could rent it out on a month-to-month basis. Some schools even have housing coordinators who handle the arrangements.
- Have a garage sale.
- Can older children or an unemployed spouse find work?
- If you are getting a tax refund each year, consider increasing the number of exemptions you are claiming on your W-4 form at work. This will give you more take-home pay. (Consult with a tax advisor to make sure this will not result in an end-of-year tax debt.)
- Make sure you apply for all benefits you may be eligible for, such as unemployment insurance, AFDC, social security, etc.

Liquidating Assets

In certain situations, tapping into an IRA, a 401(k) or a life insurance policy makes sense — the penalties for early withdrawal from a retirement account may be reasonable when compared with the possibility of losing your home through foreclosure. The important thing is that you not make these decisions lightly. Be sure to speak to professionals who can help you look objectively at your options.

Early withdrawal from a retirement plan can result in hefty penalties and taxes, in some cases eating up to 50% of your balance! Borrowing from a life insurance policy may be an option, but remember that any portion that is not repaid is money that will not be going to the beneficiary.

Some 401(k) plans allow participants to borrow up to a certain percentage of the account balance. Borrowing from your plan may help you avoid penalties and tax consequences, but some companies have a policy that if you are terminated while you have an outstanding 401(k) loan, the balance is due in full. Speak to your benefits specialist to learn more about your company's plan.

STEP 2: REVIEW YOUR EXPENSES

Essential Expenses — Complete the worksheet below to see how much you're spending and where you can make some adjustments. Even basic living expenses can be reduced. You could try conserving energy to reduce the utility bills or you could spend less on gasoline by carpooling. Also, while savings would normally be considered essential, in an emergency situation where you are just trying to keep your head above water, savings goals might have to be put on hold temporarily.

		PER WEEK	PER MONTH
HOUSING	Rent/mortgage		
	2nd mortgage		
	Property taxes		
	Homeowner's/renter's insurance		
	Condo fees/HOA dues		
	Gas/electric		
	Water/sewer/garbage		
	Telephone		
	FOOD	Groceries/household items	
At work/school			
INSURANCE <small>(exclude payroll deducted amounts)</small>	Health/dental/vision		
	Life		
	Disability		
MEDICAL CARE <small>(exclude payroll deducted amounts)</small>	Doctor/chiropractor		
	Optometrist/lenses		
	Dentist/orthodontist		
	Prescriptions/medications		
	Counseling/therapy		
TRANSPORTATION	Car payment #1		
	Car payment #2		
	Auto insurance		
	Gasoline/oil		
	Maintenance/repairs		
	DMV/smog		
	Tolls/parking		
	Public transportation/taxis		
CHILDCARE <small>(exclude payroll deducted amounts)</small>	Daycare/sitting		
	Alimony/child support		
MISCELLANEOUS	Banking fees		
	Laundry		
	Pet care		
	Union dues		
	Storage		
	Other		
INCOME TAXES	Prior year		
	Estimated tax payments (self-employed)		
TOTAL EXPENSES			

Discretionary Expenses — During this period there will most likely be some necessary sacrifices to make, especially in regard to non-essential expenses. More than ever, you'll need to pare down your discretionary spending. Look at your budget critically to find places to make cuts.

		Per Month
Personal	Beauty/barber	
	Clothing/jewelry	
	Cosmetics	
	Manicure	
	Other	
Entertainment	Cable/satellite	
	Movie/video	
	Dining out	
	Sports/hobbies/clubs	
	Vacation/travel	
	Books/magazines	
Miscellaneous	CDs/tapes	
	Gifts (holidays & birthdays)	
	Home maintenance	
	Pager/cell phone	
	Postage	
	Cigarettes/alcohol	
	Contributions to church or charity	
	On-line service/computer expenses	
	Other	
	Total:	

Ways to Cut Expenses

- Reduce grocery expenses by participating in SHARE, a worldwide food and volunteer service network. Call toll free 1-888-SHARESAVE (742-7372).
- Can you pack school/work lunches? Give up eating out?
- Talk with your minister about temporarily eliminating your contribution until your financial situation improves. Maybe you could do some volunteer work instead.
- Could you substitute expensive leisure activities with less costly, or free, alternatives?
- Cancel your cellular phone.
- Exercise for free — walk, run, bike or check out exercise videos from the library.
- Is there a friend who is able to provide low-cost daycare? Or could you form a daycare “pool” with other parents?
- Cut long distance phone bills and drop extra telephone services like call-forwarding and caller ID.
- Are there club memberships, newspaper or magazine subscriptions, or cable services you could cancel or suspend?
- Make coffee dates instead of dinner dates.
- Don't use your ATM card at machines that charge a fee.

STEP 3: TAKE AN INVENTORY OF YOUR DEBT

List all of your debts, including past due child and spousal support, back taxes, secured loans, student loans and unsecured debt. Reading our suggestions for dealing with different types of debt will help you prioritize your bills and develop a plan for working with your creditors.

Creditor Name	Balance	Payment
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		

Financial Summary

Using the totals from the previous charts, fill in the chart below. The results, whether positive or negative, will approximately reflect the status of your monthly financial outlook.

① Total Monthly Income (from page 2)	(+)	\$
② Total Monthly Essential Expenses (from page 3)	(-)	\$
③ Total Monthly Discretionary Expenses (from page 4)	(-)	\$
④ Total Monthly Debt Payments (from above)	(-)	\$
⑤ Monthly Income Surplus or Shortfall	(=)	\$

STEP 4: PRIORITIZE YOUR BILLS

Not all of your debts impact your family equally. Those that enable you to maintain the health and well-being of yourself and your family are most important. For example, you need to pay your utility bill before your department store bill. (Keep in mind that laws regarding foreclosure, tenant rights, secured debt and other consumer finance issues may vary by state.)

- Housing Payments
- Car Payments
- Insurance (car, medical, life)
- Utilities
- Secured Debt
- Student Loans, Taxes, and Support Payments
- Unsecured Debt (bank cards/ retailers)
- Miscellaneous bills (medical, auto repair, legal, etc.)

Housing Payments

Delinquent Mortgage

Maintaining your housing payments should be your first priority. Mortgage delinquency can result in foreclosure if you don't take immediate steps to remedy the situation. Think carefully about whether you want to stay in your home. If not, you may choose to sell, offer a deed-in-lieu of foreclosure, or conduct a short sale with the permission of the lender. There is important information that you should have before you decide how to handle your delinquent mortgage. CCCS offers counseling and publishes *Early Delinquency Intervention: Saving Your Home from Foreclosure*. Call (800) 777-PLAN to request a free copy.

If you want to keep your house and have already missed mortgage payments or think you might in the near future, you have some options. If you are current on your loan, and have some equity in the property, consider refinancing. If not, a forbearance or other payment arrangement might be in order. If your situation is temporary, contact the lender.

Request an arrangement, in writing, providing documentation of your situation and your prognosis. It may be possible to send reduced payments for a specified period of time, with an arrangement to make them up later. Be sure to make it clear that your problems are due to circumstances beyond your control. Never promise to make payments that you can't afford, as a lender can revoke an arrangement if you break your agreement. Bankruptcy may also be a way to protect your home if you are delinquent, but you should certainly seek legal advice before filing.

By staying in contact with your lender, documenting your situation, and following through on agreements, you can probably avoid foreclosure. The longer you wait, however, the more difficult it becomes. Typically, after 2 to 3 missed payments, the lender files a Notice of Default and a copy is mailed to you. After that time, you usually have only 3 to 4 months before the trustee sale of your home takes place and you have to vacate the premises. The closer you get to that date, the more challenging and expensive it becomes to remedy the situation.

Delinquent Rent

If you are delinquent on your rent, be sure to speak with or write to your landlord. If you have any funds available, try to make arrangements to pay. The landlord may accept partial payments for one or two months. Be sure to give a concrete plan and prognosis. Also, if you have a private landlord (as opposed to a building management firm), you may be able to do some maintenance work in place of part of your rental cost. If you cannot reach an agreement, you must either leave the premises or the landlord will proceed with eviction. You will receive a three day notice to pay back rent or vacate the premises. If you do not leave, the landlord will get an unlawful detainer or summons from the court. Filing a legal response at the county courthouse will require your landlord to set a court date to evict you, and perhaps buy you some time to make other arrangements.

Car Payments

Missed car payments can quickly result in serious consequences. If you are delinquent on your car payment, or think you might become delinquent, contact the lender right away. Sometimes it is possible to modify your loan to cover the missed payment, or maybe you can trade down or refinance your car. If your car is repossessed, it will be sold at auction. The difference between what you owe plus repossession and storage costs and what they sell it for will become an unsecured debt for which you will be responsible.

As a last resort, some people just give the car back to the lender. This is considered a voluntary repossession. The credit implications are not as severe, and there are no repossession costs added to the balance you may owe after the car is auctioned.

Insurance

If you can't make your insurance payments, call your agents. Explain your circumstances, offer documentation, and ask about the length of your grace period. If you allow your insurance to lapse, you may have difficulty getting new coverage, or have to pay a large amount when reinstating the policy.

Auto: For auto insurance, see if your insurer will agree to increase the deductible on your collision and comprehensive coverage. And, if you are making large annual payments, ask to switch to monthly or quarterly payments. If your car is not new, you may want only liability coverage in order to decrease your premiums.

Life: Missing payments on term life insurance can cause you to lose your policy. If you are making payments into a cash value policy, speak to your agent about suspending or reducing them temporarily. While, you may be able to borrow money from a cash value policy, weigh this decision carefully as there may be penalties and loss of potential capital appreciation.

Health: If you are no longer employed, check to see if the health insurance from your former employer is



continued and for how long. Compare this to the cost of adding yourself to a family member's insurance policy, if possible. If coverage is not available or if you can't afford the premium, see if you qualify for public medical insurance or look into catastrophic insurance that would pay for major hospitalization only. With a high deductible, these policies can be relatively inexpensive. There are low-cost medical services in most communities for basic health needs.

Utilities

Delinquent utility payments can cause your service to be suspended or terminated. Aside from the obvious problems this causes, many utility companies require you to catch up delinquent payments and put down a deposit in order to reinstate the service. If you have fallen behind, call the utility company and ask about payment arrangements. Many companies will let you repay your past due balance over a six month period. Also, speak to the company about reduced rates for people in hardship, or any emergency funds that you can apply for. But you must contact them promptly and fulfill any promises you make.

Secured Debt

The handling of secured debt other than your home or primary vehicle is a matter of personal priority. If the item is repossessed, it will be sold. If the sale price does not cover the balance of the debt plus repossession and storage costs, you will owe the difference as an unsecured debt called a deficiency balance. Giving the property back may still result in a deficiency balance, but you will save repossession costs. If you can sell the property for enough to cover the balance of the debt on your own, that may be a good option. If you are already delinquent on a secured debt, or think that you might be soon, and you want to keep the item, contact the creditor to try to make some sort of hardship arrangement.

Student Loans

Deferments are available for people in hardship situations for up to two years on many loans if you meet the lender's criteria. Forbearance is similar to deferment, but often more easily granted. Again, it may be possible to lower or suspend principal payments for up to two years, but you must either pay the interest or allow it to accrue. You must be fairly current to qualify for these programs. If you are delinquent, consolidation may be the answer. Consolidating student loans not only brings them current, improving your credit and possibly qualifying you for deferment, but also offers several payment options. One option is an income-based arrangement in which your payments vary annually according to your income. Allowing your loans to go into default, and not doing anything to cure it, will not only result in credit damage, but serious collection tactics, including wage garnishment and interception of tax returns. Also, student loans are difficult to discharge in bankruptcy.

The Department of Education (800-621-3115) can help you locate your loan if you are unsure who is servicing it. SALLIE MAE (800-524-9100) and Southwest Student Services Corp. (800-367-2369) are organizations that consolidate loans. The Ford Federal Direct Loan Program (800-848-0979) is a consolidation program through which you may be able to arrange an income-based repayment plan.

Taxes

Contrary to what you may believe, the IRS *is* willing to negotiate a tax repayment plan with taxpayers who want to get back on track. If you haven't filed, do so right away. Request forms from your local IRS office or by calling (800) TAX-FORM. *Failure to File* penalties can be far greater than *Failure to Pay* penalties. If you owe federal taxes, the IRS begins their collection process by sending out a series of letters. The last is a *Notice of Intent to Levy*. After that is received, the IRS may take such action as garnishment, tax liens, or levying (seizing) your property. Both before and during the process, you have some options as far as repayment is concerned. If you owe less than \$10,000, you can set up a 36-month repayment plan. If you have some funds available, you may be able to set up an offer in compromise, which is a settlement of your debt for less than what is owed. In cases of extreme hardship, the IRS may be willing to code your account as being uncollectible for a year. To make any of these arrangements, call the IRS at (800) TAX-1040. State tax boards may be a bit more difficult to work with, but contacting them is in your best interest.

Child and Spousal Support

Child or spousal support is not an expense that can easily be reduced. You must go to court to have your amount reduced or modified. It is likely that you will need the assistance of a lawyer or, at least, a legal typing service. Even if your ex-spouse or child's other parent agrees to the reduction, it must be handled through the court. Remember, the modification is not retroactive — you are responsible for the full amount, and all past due payments, until the court agrees to a reduction. Also, you cannot discharge past due support in bankruptcy. Neglecting this obligation can result in very aggressive collection action, including garnishment and criminal prosecution.

Unsecured Debt

There is some flexibility in arranging a payment plan on unsecured debts such as credit cards and personal loans. Many creditors offer hardship programs which are short-term arrangements which allow you to make very small payments at a reduced interest rate. When requesting these kinds of arrangements, be sure to speak to a manager or supervisor and stress that your situation is due to circumstances beyond your control.



Also offer a timeline and your plan for improving the situation. Remember never to promise to make payments that you can't afford. Generally, if you miss payments during your hardship program, the creditor will revoke the arrangements. Make your offer only after developing a realistic budget. Follow up with a letter like the sample shown on page 10.

Neglecting your debt can result in phone calls and credit damage and creditors possibly taking legal action. Legal action can result in a judgment, enabling the creditor to garnish your wages, place liens on your property, or seize your belongings.

Miscellaneous Bills

Miscellaneous bills may include medical bills, auto repair bills, legal bills, health club dues or any other unsecured debt besides credit cards or student loans. The process for arranging payment is similar to the one described for handling unsecured debt. Keep in touch with your creditors, update them as your situation changes and don't promise to send more than you can afford to pay.

Usually miscellaneous creditors charge little or no interest, use less aggressive collection tactics, keep your account in house longer before turning to outside collection agencies and are more willing to work out a payment arrangement with you for repaying what you owe.

Consolidation Loans

Be wary of consolidation loans. In many cases, these loans are given at rates just as high as, or higher than, your credit cards. The monthly payment is lowered, extending the time it takes to repay the debt (and therefore costing you more in interest charges). Even home equity loans, used by many homeowners to consolidate their bills, can be risky. You are essentially taking unsecured debt and turning it into debt secured by your home. If you aren't able to make the payments as planned, you are not just risking your credit rating - you are putting your home in jeopardy of foreclosure!

If you just need a few months of lowered payments until you get back on track, it's probably a better idea to contact your creditors and ask to participate in any hardship program they may offer. They may or may not reduce the interest, but the important thing is that they accept lower payments until your income goes back up. If you have difficulty getting your creditors to cooperate, or if you need a long-term plan to get out of debt, CCCS can help. A professional counselor can work with you to design a realistic budget and debt management plan and will negotiate with your creditors to accept lower payments, stop collection action and, in some cases, reduce or waive late fees and interest charges.

STEP 5: COMMUNICATE WITH YOUR CREDITORS

It is best to contact your creditors in writing, keeping copies of all correspondence for your records. A letter is better than a telephone call because:

- You're able to explain your circumstances and your plan for repaying your bills without being interrupted or redirected by the creditor.
- You won't get upset or confused if the creditor intimidates you.
- You both have a record of your proposal.

Before you write your letters, you will need to clarify the following facts:

How did you come to be in financial difficulty? Creditors like to know what specific hardship caused you to miss payments, whether the hardship was beyond your control and whether the situation is likely to happen again.

What steps can you realistically take to remedy the situation right now? The worksheets in this booklet will help you determine your current income and your essential expenses. It is important that you understand how much, if any, money you can offer your creditors. It's better to be honest and tell the creditor you are temporarily unable to make any payment than to promise to send money you don't have.

What are your plans for future income? Creditors want to know exactly how you are going to

resolve the situation and when. Be realistic when you speak to creditors, but don't specifically identify your current or potential employer. You don't want creditors calling you at work.

After you have written your letters:

- Mail a letter to each creditor and keep a copy for yourself.
- Write up a summary list of your spending plan and repayment plan and keep it by the telephone. Creditors may call with additional questions. If they do, refer to your plan and don't promise payments you cannot make. Be honest and courteous.

Sample Letter to a Creditor

April 18, 2001
ABC Credit Company
Central City, USA 17171

Dear Creditor:

Due to a layoff, I am temporarily unemployed and, as a result, am experiencing financial difficulties. I have analyzed my current situation with the help of CCCS (if applicable).

After making a strict budget for my expenses, I find it necessary that I ask each creditor to accept a reduced payment for the next three months. By then, I expect to be back at work full-time.

I would appreciate your cooperation in making this payment plan work. In place of the regular payment of \$80, I request that you accept payments of \$30 per month during this emergency. I will pay before the 30th of the month.

You can be sure that I will resume normal payments as soon as possible. Thank you for your consideration. If there are any changes in my situation, I will notify you of them as soon as possible.

Sincerely,

Name
Address
Account number

Fair Debt Collection

The Fair Debt Collection Practices Act (FDCPA) regulates collection agencies' conduct toward the consumer. It is important to note that in some states this DOES NOT apply to original creditors or their internal collections departments, but only to outside collection agencies or lawyers performing collection functions. The Federal Trade Commission (FTC) wrote the FDCPA and also enforces the rules.

The FDCPA specifically prohibits many activities. The ones listed here are among the most common:

- A bill collector cannot call you before 8am or after 9pm. However, it IS legal to call you at work. If you inform the collector in writing that the calls are jeopardizing your job, then the calls must cease. You can also write a letter to the collection agency asking that no calls be made regarding the debt. Subsequent calls are then illegal. Always send your letter by certified mail/return receipt requested so that the agency cannot deny having received it. Keep in mind, however, that if you deny the creditor access to you, legal action may become more likely.
- Collectors cannot make false threats. If a collector says he is going to take a specific action against you to enforce the debt, he has to do it. Collectors can, however, imply action and state their legal rights by prefacing their language with “may”, “could” or some other similar word.
- Within five days of the first telephone contact, a letter must be mailed to you at your last known address giving you information about your account and a chance to dispute the validity of the debt. You must dispute information in writing, and collection activities must stop until the debt is verified.
- If you have retained an attorney, the collector must communicate with him/her until the attorney's services are no longer being used.

It is important to be aware of your rights. One of the best ways to avoid problems with debt collectors is to communicate honestly with them and develop a realistic plan (one that is both acceptable to the collector and financially feasible for you) to repay the debt.

Your Credit Report

If you are having trouble paying your bills on time, you may be concerned about developing a negative credit history. If your payments are made 30 days late, you may be reported late to the credit bureaus. If your payments are arriving 60 days late, or if you are making partial payments, your creditors most definitely will report your accounts as delinquent.

While it is important to maintain a good credit history whenever possible (a clean report will make it easier to get credit in the future), it is important to have a clear understanding of where your credit report fits among all your other priorities. In other words, given a limited income that does not enable you to pay all your expenses and bills, it is more important to keep a roof over your head and feed yourself and your family than it is to have immaculate credit.

Keep in mind, too, that although future creditors and others who look at credit reports (some employers, insurance companies and landlords) will see a negative mark, the older the delinquent payment becomes, the less weight it will carry in the decision-making process — especially if your recent payment history is positive.

Information about delinquent payments drops off the report automatically after seven years. If you would like to provide an immediate explanation to everyone who reviews your credit report, you can ask the credit bureaus to add a message (100-word maximum) to your report to clarify the circumstances surrounding your payment history.

Is Bankruptcy the Answer?

In some situations, bankruptcy can offer welcome relief from the stress of bill problems. But, because of the long-term damage to your credit that bankruptcy causes, it should be considered carefully.

Court costs for a bankruptcy are about \$200, although you can have them waived under certain circumstances. Also, it is advisable to seek legal advice, which can range from hundreds to thousands of dollars.

The two most common types of personal bankruptcy are Chapter 7 and Chapter 13. Chapter 7 allows you to completely cancel certain types of debt (credit card balances, medical bills, past-due rent, and others), and stays on your credit report for 10 years.

Chapter 13 is a court-administered repayment plan where you pay a percentage of the debt owed before the remaining balance is discharged. This stays on your report for 7 years. A Chapter 13 provides certain protections from creditors trying to collect on your debts. In fact, it may prevent a mortgage lender from foreclosing on your home while you get back on your feet.

Some types of debt cannot be discharged in bankruptcy. Debts that you most likely will still be responsible for include child support and alimony, taxes, student loans, and court-ordered damages (such as drunk driving settlements).

Filing bankruptcy is a major financial decision and complicated legal procedure. While it is possible to file without an attorney, it is wise to gather any advice or information that you can before beginning the process.

An excellent resource for anyone having financial difficulty is *Money Troubles* by Robin Leonard, published by Nolo Press. This book gives a thorough overview of your options for dealing with your debt. If you are looking for legal services, contact your local Bar Association for legal referrals.

If your income is very low, you may qualify for assistance from a legal aid office which provides free or low cost legal advice. Also, many law schools sponsor legal clinics and give free advice to consumers. Call a school in your area for information.



CCCS offers a variety of free and low-cost services to help you get out of debt, design a money management plan, and achieve your financial goals. For more information about how CCCS can help you master your money, call us or visit us online:

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