

Families Taking Charge Talking With Creditors

Introduction

In an ideal world, income exceeds expenses and your decisions concern investment or savings alternatives. Your goal is to better your family's welfare.

In the real world, where many circumstances can lead to a loss or drop in income, you may be caught unprepared and with a seemingly endless list of bills to be paid. Family welfare is still your goal-this time to protect it in the best way you can.

Loss of income often forces a change in decision-making strategy. Instead of selecting a course of action that will do the most good, you may be temporarily forced to choose a course that will result in the fewest undesirable consequences. It is important not to leave these decisions to chance.

In other words, if you face a list of bills too long for your current resources, hard choices must be made as to which bills should be given high priority and which can be deferred, renegotiated or otherwise settled.

This section suggests some ideas to consider if your family is having trouble meeting financial obligations after a loss in income. Keep in mind that, for the most part, these are temporary measures. To succeed in the longer run, you will need to find permanent means of increasing income, reducing expenditures, or both.

As you review that stack of bills, consider which creditors you should pay first or, put another way, which creditors you can least afford not to pay.

Where to Begin

Before you and your creditors agree on a reduced payment or some other solution, determine how much money you have to pay off your debts.

Figure out how much income you can count on each month and how much you need to pay for your essential monthly living expenses. You'll need to know who and how much you owe, as well as how you plan to pay them.

Publication 354-101 in this series, "Deciding Which Bills to Pay First," can help you review your situation and figure out a plan to divide your income to pay your monthly living expenses and set priorities for paying bills.

Contacting Your Creditors

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

- The reason you fell behind in your payments
- 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 the local store, the budget counselor at the utility company. Don't 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 up the conversation with a letter summarizing what you and the creditor agreed. Keep copies of your correspondence as well as any reply.

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Use the sample letter (page 4) 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, don't 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.

Prepare a payment plan before you talk to creditors. Consider two or three alternatives. Contact creditors before the bills come due. Take along your proposed payment plan and a copy of your net worth statement and financial plan. When you reach a compromise plan with creditors, carry out your part of the agreement.

If you cannot arrange to pay your creditors with current or expected resources, a few alternatives remain.

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

- Reducing the monthly payment
- Refinancing the loan
- Deferring a payment for a short time if you expect to get called back to work soon
- Reducing or dropping late charges
- Paying interest only 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 deb

Not all creditors will be willing to accept alternatives. However, they'll be more likely to work with you 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 creditor agreed upon, you will hurt your chances of getting future credit. Tell your creditors about any changes that may affect your payment agreement.

Debt Consolidation

This type of loan may be useful under certain circumstances when you are having trouble meeting current obligations. Your monthly loan payment may be less than the total of individual debts you had before. You should be aware, though, that commercial debt consolidation loans cost money and almost always extend the life of your debts.

If you are considering a consolidation loan, contact several financial institutions and ask what annual percentage rate (APR) they would charge on a loan of the amount you need. Ask if there are any other finance charges associated with the loan. Ask what happens if you should default on a payment and what is required for collateral.

While a debt consolidation loan provides a service in that it may simplify your life, consider carefully that you are also taking on new debt to finance the new loan. If you choose this route, be sure to shop around for the best terms. Finally, don't be deluded into thinking a consolidation loan has solved your financial troubles. You still need to exercise financial care.

If You Don't 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 can't use abusive language or threaten you with violence. They can't call you at unusual hours or threaten criminal prosecution. And they can't discuss your financial situation with others.

Here's what to do if you receive a call from a creditor or a collection agency.

- Identify the caller. 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.

- Don't get angry. Remain calm. Arguments don't 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.

Creditor's 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 warning you of the intended action. Here's a list of what a creditor can do if you fail to pay your bills.

Acceleration-the entire debt is payable 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 still must pay the difference.

Wage garnishment-a court order that requires your employer to withhold part of your wages and pay your creditor.

Foreclosure-if you do not make your mortgage payments for at least three months, your lender takes possession of your home and sells it to pay off the loan. You are responsible for the legal fees and difference between the selling price and the amount owed.

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 working out solutions early.

Bankruptcy

If your financial affairs have deteriorated beyond repair, bankruptcy is a last recourse. Bankruptcy laws were designed to absolve persons of insupportable debts and spare them undue harassment by creditors. While there is no hard-and-fast rule, bankruptcy might be a consideration if: 1) your creditors are unwilling to renegotiate debts; 2) no other source of help is available.

You should view the use of bankruptcy extremely seriously. Bankruptcy remains on your credit history for 10 years and seriously jeopardizes your credit rating

"Bankruptcy" really includes two choices. Chapter 13, formerly called the wage earner's plan, is designed for persons with a source of regular income and less than \$100,000 of unsecured debts who wish to pay their bills. Chapter 13 allows the debtor, acting through a bankruptcy trustee, to work out a whole or partial repayment plan if half of all creditors agree. Payments are made to the court, interest charges stop on the date of filing, and the payment schedule initially stretches for a period of 36 months.

An important advantage of Chapter 13 bankruptcy over Chapter 7 is that successful completion of the payment schedule will appear more favorably on a credit history than taking a Chapter 7 bankruptcy.

Chapter 7 bankruptcy is also called "voluntary" or "straight" bankruptcy. Under Chapter 7 when a petition is filed for bankruptcy, it includes a list of all assets and liabilities. The court liquidates major assets with the exception of certain personal possessions. Chapter 7 bankruptcy theoretically wipes the financial slate clean. The potential stigma of taking bankruptcy should be carefully considered, however.

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Adapted from: University of Wisconsin-Extension. "Managing Between Jobs: Talking with Creditors."*

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Sample Letter

Date

Your Address

Account # _____

Name of Creditor

Address

City, State, Zip Code

Attention: Delinquent Account Representative

Subject: Your Name; Your Account Number

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

I have taken a careful look at my financial situation. I have set up a realistic minimum budget for my living expenses and have developed a debt repayment program. I am hoping you will accept a reduced payment. Amounts will be increased as soon as possible until the debt is totally repaid.

I owe (12 creditors over \$7500). My asset value is less than (\$3,000). My only assets are (a car with a Blue Book value of \$1,000, some home furnishings worth \$1,500 and my clothing). My monthly take-home pay is (\$708). I have (\$242) left over after basic living expenses for debt repayment. I would like you to accept a partial payment of (\$50) per month to repay my obligation. You may expect the first payment on (July 1, 19).

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

Sincerely,

Your Name