

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.

Step 1: Take Inventory of Income and Assets

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

Monthly income

Item	Amount
Net income (your job)	\$
Net income (spouse's job)	\$
Government benefits	\$
Other	\$
Other	\$
Total monthly income	\$

Assets

Item	Amount
Checking/savings accounts	\$
Money market accounts/CDs	\$
Stocks/bonds	\$
Retirement plans	\$
Equity in house (marketing value - loan amount)	\$
Equity in cars	\$
Cash value of life insurance policies	\$
Other	\$
Total assets	\$

Liquidating assets

Liquidating assets is one way to pay for immediate expenses. However, be aware that it may come at a cost. For example, withdrawing money from a 401(k) can result in taxes and penalties of up to 45% of the amount withdrawn. You are also leaving yourself less money for the future. Still, the consequences of liquidating assets may be reasonable when compared with the possibility of losing your home or car. The important thing is that you not make these decisions lightly. Consider consulting with a financial professional who can help you look objectively at your options.

Liquidation is not necessarily the only way to utilize assets. Some retirement plans and cash-value life insurance policies let you borrow against their value. You do not have to pay penalties or taxes when you borrow against a retirement plan as long as you do not default on the loan. Similarly, if you have equity in your house, you may be able to get money to pay the bills from a home equity line or loan or cash-out refinance. However, keep in mind that if you cannot afford the payments, you could lose your home.

Ways to increase income

- If you live near a college or other type of school and you have a spare room, you could rent it out on a month-to-month basis. Some schools even having 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, food stamps, Social Security, and TANF (Temporary Assistance for Needy Families).

Step 2: Review Your Expenses

Getting a part-time job or renting out a room is not a practical option for many people. However, almost everyone can reduce their spending in some way.

First, use the worksheets on pages 2 and 3 to list your expenses. Then, look over them carefully and consider what you can cut. Discretionary expenses, such as clothing, dining out, and vacations, are often the easiest to trim, but you may be able to cut spending in other places too.

For example, if you have a cell phone, can you cut your land-line or at least extra features (e.g., call waiting and caller ID)? Can you carpool, walk, or take public transportation more often to save money on gasoline? Can you reduce energy consumption (by turning off lights when you are not in the room, wearing a sweater instead of turning on the heater, etc.) to lower your utility bills?

Essential expenses

Category	Item	Current	Proposed
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 (exclude payroll deducted amounts)	Health/dental/vision		
	Life		
	Disability		
Medical care (exclude payroll deducted amounts)	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 (exclude payroll deducted amounts)	Daycare/sitting		
	Alimony/child support		
Miscellaneous	Banking fees		
	Laundry		
	Pet care		
	Union dues		
	Storage		
	Other		
	Other		
Income taxes	Prior year		
	Estimated tax payments (self-employed)		
Total monthly essential expenses			

Discretionary expenses

Category	Item	Current	Proposed
Personal	Beauty/barber		
	Clothing/jewelry		
	Cosmetics		
	Manicure		
Entertainment	Cable/satellite		
	Movies/video		
	Dining out		
	Sports/hobbies/clubs		
	Vacation/travel		
	Books/magazines		
	CDs/tapes		
Miscellaneous	Gifts (holidays & birthdays)		
	Home maintenance		
	Cell phone/pager		
	Postage		
	Cigarettes/alcohol		
	Contributions to church or charity		
	Online service/computer expenses		
	Other		
Total monthly discretionary expenses			

Step 3: Take an Inventory of Your Debts

List all of your debts, including past due child and spousal support, back taxes, secured loans, student loans, and unsecured debt (credit cards and personal loans).

Creditor	Balance	Payment
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
Total monthly debt payments		

Financial summary:

Once you have determined your total monthly income, expenses, and debt you are ready for your financial summary. Subtract the total of all monthly expenses and debts from your monthly income. If the result is a positive number, you can add the extra money to your savings to reach your goals sooner. If your expenses exceed your income, you'll need to make some adjustments to bring your finances back into balance.

Total monthly income (from page 1)	Total monthly essential expenses (from page 2)	Total monthly discretionary expenses (From page 3)	Total monthly debt payments (from page 3)	Monthly income surplus or shortfall
	-	-	-	=

Step 4: Prioritize Your Bills and Communicate With Creditors

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.

Delinquent mortgage

Maintaining your housing payments should be your first priority. Mortgage delinquency, if not remedied, can ultimately result in the lender foreclosing on the home. Don't wait to act. The longer you wait, the more difficult it becomes to reach a resolution.

Think carefully about whether you want to stay in your home. If not, selling the house is a logical choice. What if you are having difficulties attracting a buyer? If the lender agrees, you may be able to do a deed-in-lieu of foreclosure (where the house is given back to the lender) or a short sale (where the house is sold for less than the amount owed on the mortgage).

If you do want to stay in the house, there are options for dealing with a delinquent or soon to be delinquent mortgage. Refinancing is one way to bring your mortgage current and/or get better terms, but it can be difficult to get a new mortgage if you have a low credit score or little equity in the home. If refinancing is not possible, your best bet is to contact your lender. Request an arrangement, ideally in writing, and provide a summary of your situation. The lender may allow you to send reduced payments for a specified period of time and pay the remainder later or modify your loan – reducing the interest rate or extending the repayment period to lower the monthly payment. When communicating with your lender, remember to never promise to make payments you can't afford, as you may not get a second chance.

Delinquent rent

If you are delinquent on your rent, be sure to speak with or write to your landlord, giving them a reason for your hardship and concrete plan for the future. The landlord may accept partial payments for one or two months. Leaving is another option if the rent is not affordable, but if you have a lease, you are responsible for the remaining months' rent. However, if you explain your hardship, the landlord may voluntarily release you from the lease. You can also be let off the hook if the landlord finds a suitable replacement tenant. If you stay and do not reach an agreement with the landlord, he or she can start eviction proceedings against you if you do not resume paying your rent.

Car payments

Missed car payments can quickly result in serious consequences, including repossession. Repossessed cars are typically sold at auctions for very little. You are responsible for paying the difference between what you owe (plus repossession and storage costs) and what the car is sold for. This amount is called the deficiency balance.

If you are delinquent on your car payments, or think you may become delinquent, contact your lender right away. Lenders are sometimes willing to modify loans to cover missed payments or set up repayment plans. Other possible options include refinancing or selling the car. Some people choose to give the car back to the lender instead of waiting for the lender to take it. This is called voluntary repossession. You are still responsible for the deficiency balance (and it can still be reported as a repossession on your credit report), but the lender may be willing to offer a concession or two if you save them the hassle of having to repossess the car themselves.

Insurance

If you can't make your insurance payments, call your insurer(s). Explain your circumstances, offer documentation, and ask about the length of your grace period (period past the due date in which you can make a payment to avoid cancellation). If you allow your insurance to lapse, you may have difficulties 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. This will lower your premiums. If your car is older, you may be able to save a bundle of money by going with a liability-coverage-only policy.
- **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.

Student loans

With many loans, you can get a temporary suspension of payments through a deferment or forbearance. Some borrowers also qualify for lower payments through an alternative repayment plan, such as the income-sensitive repayment plan. If you are behind, you may be able to become current by consolidating your loans. (Of course, you do not have to be behind to consolidate.) Defaulted borrowers with public student loans also have a one-time right to get out of default with a reasonable and affordable repayment plan. Allowing your student loans to go into default and not doing anything to cure it can result in credit report damage, wage garnishment, and interception of tax returns.

Taxes

The IRS has many methods at their disposal to collect unpaid taxes, including wage garnishment, liens and seizure of property. However, contrary to what you may believe, the IRS is willing to work with taxpayers who want to get back on track. If you haven't filed in years past, do so right away. If you cannot pay the amount owed in full, you may be able to set up a monthly repayment plan or establish an offer in compromise – a settlement of the debt for less than the amount owed. In cases of extreme hardship, the IRS may be willing to temporarily suspend collection activity. The IRS can be contacted at 800.TAX.1040.

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. 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 reasonable 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 a very aggressive collection action, including garnishment and criminal prosecution.

Unsecured debt

There often is some flexibility in arranging payment plans for credit cards and personal loans. Many creditors offer hardship programs – short-term payment arrangements allowing you to make smaller payments. When requesting these kind of arrangements, be sure to stress that your situation is due to circumstances beyond your control. Also offer a timeline and your plan for improving the situation. Remember to never 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 same shown below. The consequences of not paying unsecured debt are less severe than not paying a mortgage or car loan. Still, neglecting your debt, especially if it is done for a long period of time, can result in collection and legal actions, as well as credit report damage. If a creditor obtains a judgment against you, they may be able 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 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.

Tips for communication

It is best to contact your creditors in writing, keeping copies of all correspondence for your records. Before you write your letters, you will need to clarify the following facts:

- How did you come to be in financial difficulty? Creditors will want 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? 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 in your projections.

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

January 18, 20X0
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 BALANCE (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

Your Credit Report

If you are having trouble paying your bills on time, you may be concerned about developing a negative credit history. If you make payments late, it is likely that the creditors will report that to the credit bureaus. Having late payments on your credit report can significantly lower your credit score.

While it is important to maintain a good credit history whenever possible, it is also important to have a clear understanding of where your credit report fits among all of your other priorities. In other words, given a limited income that does not enable you to pay all of 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 will see a negative mark, the older a delinquent payment is, the less of an effect it has on your credit score, especially if your rent payment history is positive. Furthermore, the negative mark will drop off your credit report completely after seven years.



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