



Dealing with Creditors during a Financial Emergency

If you are one of the thousands of people undergoing your first financial emergency caused by death, divorce, unemployment, illness or some other reason, what to do with outstanding bills may be keeping you awake at night.

If you find yourself letting bills sit unopened for days on end, you are not alone. There are many who face the same problems you do. Some are managing more successfully than others because they know how to deal with creditors and also how to determine what bills to pay and what happens when you do not pay.

First Things First

The first concern to be addressed is that some very tough financial decisions will have to be made. The quicker you realize that when income is reduced and changes in spending must be made, the more likely it is that financial problems will be avoided. Try to keep a cool head and involve other family members in making decisions. The more cooperation, the more likely the plan will work.

Your past relationship with your creditors will probably be your best asset at this time. If you have been a good bill payer, making regular timely payments, your creditors will be more cooperative than if you have not.

Creditors are in the business of lending money and/or providing services. They do not want their merchandise back. Therefore, creditors encourage consumers to contact them early and not wait until payments are past due.

If you were having trouble managing your credit cards before your financial emergency, get rid of them. If not, set them aside to use as emergency tools only!

How Do You Decide What To Pay And To Whom?

It is important to recognize that you are obligated to pay all of your creditors. If you don't, your credit record will be negatively affected and court action could result. Sometimes, decisions have to be made on who gets paid first. In order to establish priorities, ask yourself these questions:

1. What will have the greatest consequences for the health and security of my family?

For most people, the house, utilities, car, and insurances take preference in that order. For these payments, creditors should either be paid or contacted immediately to be sure suitable arrangements can be made for smaller monthly payments.

2. Does the creditor have collateral?

Can cars, appliances or other items be repossessed or seized to pay the debt? If you do not know, check your contract. Don't just take the word of the creditor. Debts without security may have less priority.

3. How much equity have you built up?

A refrigerator is essential but if you only have two payments left on your stereo set that may take preference. For items purchased shortly before the situation change, consider selling or returning them.

4. How much interest do you have to pay?

Some credit card firms are charging a high percent of interest. If you have a small personal loan with a lower interest rate, you may want to consider paying off the outstanding balance on the credit card first. This will reduce the finance charges coming out of your pocket.

5. Should you take out a consolidation loan?

Generally speaking, no, unless you can realistically prove to yourself that the loan will indeed improve your finances in the long run. For most consumers, putting all debts under the umbrella of one loan makes payment easier. A new loan adds new credit costs. Some financial institutions will not grant consolidation loans unless the consumer agrees to get rid of existing credit cards and not take on any additional installment debt during the time period of the loan.

6. What will happen to my credit record?

The nonpayment status of your bills will be recorded on your credit record. For this reason, it is important to contact your creditors right away even doctors, lawyers, and other professionals. If you can manage to pay something on each debt, you will keep in the good graces of your creditors and forestall any reporting of late payments to the credit bureau.

7. Should I take cash advances to pay my bills?

Cash advances will only delay the inevitable and should not be taken to pay other bills. They merely transfer the debt load to another creditor and cost more because of higher interest rates and other fees. Eventually, the cash advance line will be depleted. You will be in worse shape than if you had faced your problems head on and contacted your creditors immediately.

Creditors are more willing to negotiate with someone who is honest in the beginning than with someone who continues to charge when they know they cannot pay their debt. Credit is a valuable tool that can provide assistance in difficult times. Safeguard your credit by recognizing signs of trouble and by taking control of a troubled financial situation *before* creditors begin calling.

Contacting Your Creditors

When you contact creditors, ask if your payments can be temporarily lowered. Don't be talked into paying more than you can afford. Keep in mind that if the emergency continues, you may have to approach creditors again for a reduced payment.

It is important to keep the lines of communication open with your creditors — don't avoid them. When contacting a creditor by telephone, get the name and the position of the person with whom you are speaking if possible. If you write to the creditors, keep copies of the letters you send those that you receive. All correspondence by mail should be sent certified so you know your letter was received. It will save you time and energy in the future.