NebGuide

University of Nebraska–Lincoln Extension, Institute of Agriculture and Natural Resources

Know how. Know **now.**

G1827

Solving Financial Problems

Kathy Prochaska-Cue, Extension Family Economist

This publication explains processes to help people work through financial issues that prevent them from paying their bills.

Some people try to ignore debts when they experience financial difficulty. Others fear contacting their creditors. They don't understand the consequences of not paying bills.

Not paying bills will not only affect a credit score but will lead creditors to take action trying to get payment. Bills can be turned over for debt collection. Property such as a car can be repossessed. Wages may be garnished. Bankruptcy may be filed.

Setting up a debt repayment plan is one option when bills pile up and can't be paid. People must, however, have discipline to follow through with a plan. For assistance in preparing a plan, check *www.paydowndebt.unl.edu*, or contact a nonprofit credit counseling service. If these don't work, legal solutions, including bankruptcy, are the last options for debt problems.

What can be done if the bills have piled up and there are problems?

Solving financial problems

There are only two ways to solve financial problems: increase income or decrease expenses. Decreasing expenses also includes adjusting debt payments.

Not all possibilities for increasing income will be feasible in a particular situation, but consider all of the following options so nothing is overlooked. Upgrade a present job to one that pays more. Switch jobs to a better-paying one. Work overtime or take on a second or third job. A household member who is not currently employed finds employment as long as more money will be made than spent in additional job-related expenses. Qualify for assistance, either public or private, such as food stamps, food pantry, child support, rent subsidy, grants or other help. Short-term, one-time solutions include selling assets no longer needed and/or used such as an extra vehicle, having a garage sale, or selling something online or through the classifieds.

Temporary adjustments in expenses may provide temporary income increases. Stop payroll deductions for retirement, savings or education funds for a short time. Adjust tax withholding so enough is being withheld to pay income taxes but not so much that a large tax refund results next spring. Do more home production, such as child care or Web design, if the knowledge, skill and needed equipment are at hand. Use community resources for recreation. Paying insurance premiums monthly instead of quarterly, semi-annually or annually usually costs a few dollars more over the year but gives relief since the amount paid each time is much smaller than with fewer payments over the year.

To decrease expenses either ***cut down*** or ***cut out***. For most people cutting out something entirely all at once may be impossible. But shaving a little off all or most expenses might be more realistic. Certain expenses can't be cut out entirely because of health or safety concerns, such as utilities, food, health, recreation and insurance, but cutting them back a bit might be a possibility.

When debt problems are present, always go to a cash-only basis to pay for day-to-day living expenses. Quit adding debt. Get all credit cards out of wallets and perhaps out of reach except in a true emergency.

Developing a debt payment plan

Adjusting credit payments is another way to cut expenses. To do this, develop a credit repayment plan.

A debt payment plan shows the way to start getting out of debt, gives a better sense of control over the situation, and is a start on the road to solving financial problems. To set up a debt payment plan, follow these steps:

1. Admit there is a debt problem that needs to be solved.
2. Write down who is owed money and how much.
3. Find as much money as possible for debt repayment.
4. Develop a plan for paying back debts.
5. Communicate with creditors.
6. Revise repayment plan as needed.

Admit there is a debt problem

The first step toward getting out of debt is to come face-to-face with the situation and admit there is a debt problem. This often is the hardest step in the repayment process, but it is a step that must be taken before any plan will ever be successful.

Write down who is owed money and how much

Make a list of who is owed money and how much. Get out all credit statements and write down the following information:

- name, address and telephone number of each creditor
- account number
- collateral (house, car or any other asset that secures any debt)
- outstanding balance owed
- amount of monthly payment and due date
- amount and date of last payment
- type of legal action already taken by the creditor, such as garnishment or repossession
- whether a collection agency or an attorney is involved

Find as much money as possible for debt repayment

Find as much money as possible to go toward debt repayment. Develop a "bare-bones" spending plan for living expenses. Earn extra income if possible. Cut or eliminate expenses, at least for a short time, until debts are paid.

Develop a plan for paying back debts

Eliminate all debts from the list of total debts that cannot be adjusted by working with creditors. These include any secured by collateral or court-ordered payments like child support or taxes. Payments for these nonadjustable debts still must be made in full. Debts that are still on the list are the ones that may be adjusted.

With the list of debts and the total amount of money available for debt repayment in mind, develop a debt repayment plan using one or any combination of the following five methods:

- Pay each creditor the same amount.
- Pay each creditor the percent of total debt each debt represents.
- Pay each creditor the percent each debt's monthly payment represents of the total amount of all monthly payments.
- Put most of available debt repayment money toward the debt with the smallest balance.
- Put most of available debt repayment money toward the debt with the highest interest rate.

The first three plans usually result in one or more creditor not being willing to go along with the plan. For all three, creditors who had been receiving larger payments will not be cooperative. Since they typically represent the majority of the total debt owed, the plan won't work if they don't agree. For this reason, the last two methods are recommended.

For more help in developing an actual debt repayment plan for a specific situation, see *www.paydowndebt.unl.edu*, which can do the calculations automatically.

Additional tips for successful repayment plans

Plan to pay off small debts quickly so there are fewer debts to deal with.

Pay each creditor a minimum of $25 monthly.

Put away all credit cards and promise not to use them until debts are paid. Resolve not to use any additional credit except in a true emergency.

Communicate with creditors

The next step in developing a debt repayment plan is to contact each creditor and explain the repayment plan. Contact the creditor in person if possible. Always follow up with a letter outlining the new agreed terms for that debt. If a creditor can't be visited, call or write a letter.

When calling, always get the name of the person you are talking with as well as his or her direct phone or extension number. Ask that all payments made go to principal not for interest or late fees. If that person can't negotiate credit terms, ask to speak with his or her supervisor. Continue to do this until you talk to someone who can make changes in the repayment terms.

Don't promise a creditor anything unless it can be delivered. Creditors would rather receive a small payment than nothing at all. Know your limits and stick to them.

Revise credit repayment plan as needed

When one debt is paid off, put the money that had been going to the paid-off debt toward one of the remaining debts. Continue to keep in touch with creditors so they know you are continuing to work with your plan. Also, do not add any new credit debts.

Work with creditors

Two other ways to work with creditors include refinancing a debt and consolidating debts.

Refinancing a debt lowers monthly payments by extending the length of the debt. So the total finance charge repaid increases. Refinancing also may require additional collateral or someone else with a better credit history to co-sign your debt.

As with refinancing, the monthly commitment is less after consolidating because the length of the debt has been extended. While an advantage to debt consolidation is that there is just one payment, the disadvantage is the total finance change will increase since the debt is extended further into the future.

A danger with both refinancing and consolidation is that because of lower total monthly payment for debt, debtors may think they have more money to spend and will take on additional debt. Adding new debt defeats the purpose of refinancing or consolidating in the first place.

Credit counseling services

If you are unable to solve your financial problems alone, legitimate financial counseling services may help set up a budget and a debt payment plan. Nonprofit financial counseling agencies charge little, if anything, for their services. Housing authorities, credit unions, banks, military bases, employee assistance programs through an employer, and private credit counseling services provide financial counseling. Always check the reputation of a credit counseling service with the state attorney general's office and the local Better Business Bureau.

Legal provisions

A final answer to debt problems is bankruptcy. For more information about bankruptcy, seek legal assistance from an attorney who specializes in bankruptcy or a legitimate legal services agency.

Getting out of financial trouble is not easy. Discipline, flexibility and working with a repayment plan are important tools.

This publication has been peer-reviewed.

UNL Extension publications are available online at *http://extension.unl.edu/publications*.

Index: Financial Management
Money Management
Issued February 2008

Extension is a Division of the Institute of Agriculture and Natural Resources at the University of Nebraska–Lincoln cooperating with the Counties and the United States Department of Agriculture.