

Cutting Family Debt Payments

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This guide, one in a series on consumer financial management, helps show how to cut family debt payments.

Installment payments, credit cards, and other credit payments are necessary expenses but there are ways to save money. As you read through the following ideas, check any you want to try.

How to Talk to Creditors

Don't Wait for Creditors to Contact You. Your first reaction when you discover you can't pay all of your bills is probably to panic and hide. The experts say that's the worst thing you can do. It is better to face your creditors. Call them before bills are due. They will be more likely to believe you.

Before you contact your creditors — either in person, over the telephone or via a letter — know the amount of take-home income you can count on and your fixed expenses (housing, car payment, and other debit payments).

Discuss what you think is a reasonable plan for paying the debt with your creditor. Explain your situation and ask about delayed payments or partial payments.

- Work out smaller payments for a short period.
- Refinance loan(s), that is, make another contract for smaller payments over a longer period of time. New payments will be smaller in size but the overall costs for the loan will be larger.
- Consider a consolidation loan. Remember, such a loan, while giving some immediate debt relief, will extend the total time necessary to repay the debt obligations. Each payment for the consolidation loan will be smaller than the total amount of the original payments, but you will be making debt payments for a longer time.

Revise Your Plan

Work out an agreement with each creditor that both of you can accept, put that agreement in writing, and follow the agreement. If you don't, future chances of getting credit will be influenced by the creditor's view of you and your promise to pay. Always keep creditors informed of changes that might affect your payment agreement.

Vehicle Payments

If you can't make a vehicle payment and if it is collateral for the loan, the vehicle might be *repossessed*.

If your car is repossessed, it will be sold at a public or private auction. If it sells for less than the amount owed, you still have to repay the rest.

To avoid repossession, check with the creditor to see if the loan can be rewritten for lower monthly payments. (Remember that this will increase the total finance charges for the loan.) If you don't need the vehicle (if it's a second vehicle, a recreation vehicle, or a vehicle more expensive than you need), ask the creditor if you could sell the vehicle and pay the creditor off with what you receive.

Credit Cards

No more "Charge It Please!" If you are late in payments, your credit card company will threaten to cancel the credit card or account. The creditor will use this as a threat but may not act upon it until after several months of late payments. Additional charges are made on the past due balance or what is still owed.

Credit might be canceled when you charge a higher amount than your credit limit or are late in making payments. You also might lose credit when you cannot be located by mail or phone.

If you are past due in credit card payments, avoid any more charges on the accounts, call the creditor with an explanation, and pay the minimum charge per month.

If charging is necessary, avoid charging a large amount on any one card or account, especially if you are to pay in full at the end of the month or if you are near your credit limit.

Never ignore a billing error. Tell the company immediately so the error can be corrected and the incorrect information can't hurt your credit rating.

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