# Managing Your Debts: How to Regain Financial Health

"With budgeting guidance, we now have peace of mind. We have learned a most valuable lesson about money management. Our future looks brighter." – Linda R.

Can't pay your bills? You're not alone. Today, millions of Americans are having difficulty paying their debts. Most of those in financial distress are middle-income families with jobs who want to pay off what they owe.

But it is important for you to act. Doing nothing can lead to much larger problems in the future — even bigger debts, the loss of assets such as your house, and a bad credit record.

The good news is that there are solutions. The remedies provided in this brochure can help improve your relationships with creditors, reduce your debts, and help you manage your money. In brief, these solutions can help give you a new, fresh start.

## ARE YOU IN FINANCIAL TROUBLE?

If bill collectors are calling you, you know you're in financial trouble. But what if you're just having difficulty stretching your paycheck to pay monthly bills? If you answer yes to any one of the following questions, you should act.

- Do you routinely spend more than you earn?
- Are you forced to make day-to-day purchases on credit?
- Are you able to make only the minimum payments on monthly credit card debts?
- If you lost your job, would you have difficulty paying next month's bills?

## WHAT YOU CAN DO FOR YOURSELF

**Review your specific obligations** that creditors claim you owe to make certain you really owe them. If you dispute a debt, first contact the creditor directly to resolve your questions. If you still have questions about the debt, contact your state or local consumer protection office or state Attorney General.

**Contact your creditors** to let them know you're having difficulty making your payments. Tell them why you're having trouble — perhaps it's because you recently lost your job or have unexpected medical bills. Try to work out an acceptable payment schedule with your creditors. Most are willing to work with you and will appreciate your honesty and forthrightness.

**The Fair Debt Collection Practices Law prohibits a debt collector from showing what you owe to anyone but your attorney, harassing or threatening you, using false statements, giving false information about you to anyone, and misrepresenting the legal status of your debts. Remember that under other federal laws to collect debts, creditors cannot seize most government assistance and can only garnish a portion of wages to collect debts.**

**Budget your expenses.** Create a spending plan that allows you to reduce your debts. Itemize your necessary expenses (such as housing and health care) and optional expenses (such as entertainment and vacation travel). Stick to the plan.

"Looking closely at our options helped us realize that we still needed to try self-budgeting before taking more extreme measures. We think that perhaps we were giving up too soon." —Alicia A.

**Try to reduce your expenses.** Cut out any unnecessary spending such as eating out and purchasing expensive entertainment. Consider taking public transportation rather than owning a car. Clip coupons, purchase generic products at the supermarket, and avoid impulse purchases. Above all, stop incurring new debt. Consider substituting a debit card for your credit cards.

**Use your savings** and other assets to pay down debts. Withdrawing savings from low-interest accounts to settle high-rate loans usually makes sense. Selling off a second car not only provides cash but also reduces insurance and other maintenance expenses.

**Look for additional resources** from governmental and private sources for which you may be eligible. Government assistance includes unemployment compensation, Aid to Families with Dependent Children (AFDC), food stamps, low-income energy assistance, Medicaid, and Social Security including disability. Other resources may be available from churches and community groups. Often these sources are listed in the Yellow Pages of your phone book.

## WHAT OTHERS CAN DO FOR YOU

**CREDIT COUNSELING** If you are unable to make satisfactory arrangements with your creditors, there are organizations that can help. An organization that you can call is a Consumer Credit Counseling Service (CCCS) agency. These local, non profit organizations affiliated with the National Foundation for Consumer Credit (NFCC) provide education and counseling to families and individuals.

For consumers who want individual help, CCCS counselors with professional backgrounds in money management and counseling can provide support. To promote high standards, the NFCC has developed a certification program for these counselors. A counselor will work with you to develop a budget to maintain your basic living expenses and outline options for addressing your total financial situation.

If creditors are pressing you, a CCCS counselor can also negotiate with these creditors to repay your debts through a financial management plan. Under this plan, creditors often agree to reduce payments, lower or drop interest and finance charges, and waive late fees and over-the-limit fees. After starting the plan, you will deposit money with CCCS each month to cover these new negotiated payment amounts. Then CCCS will distribute this money to your creditors to repay your debts.

With more than 1,100 locations nationwide, CCCS agencies are available to nearly all consumers. Supported mainly by contributions from community organizations, financial institutions, and merchants, CCCS provides services free or at a low cost to individuals seeking help. To contact a CCCS office for confidential help, look in your telephone directory white pages, or call 1 (800) 388-2227, 24 hours a day, for an office near you.

**PERSONAL BANKRUPTCY** Bankruptcy is a legal procedure which can give people who cannot pay their bills a fresh start. A decision to file for bankruptcy is a serious step. You should make it only if it is the best way to deal with financial problems.

"I cannot tell you how happy I am to finally be able to control my finances now that I have followed a budget. So far, so good. I actually have a balance in my savings account!" —Rodney O.

"Our bills have been a source of worry to us. After bringing our problem to credit counselors, we have begun to feel there is a way to cope with it. We are feeling more confident now." —Nelson M.

There are two types of bankruptcy available to most individuals. Chapter 13 or "reorganization" allows debtors to keep property which they might otherwise lose, such as a mortgaged house or car. Reorganizations may allow debtors to pay off or cure a default over a period of three to five years, rather than surrender property.

Chapter 7 or "straight bankruptcy" involves liquidation of all assets that are not exempt in your state. The exempt property may include items such as work-related tools and basic household furnishings, among others. Some of your property may be sold by a court-appointed official or turned over to your creditors. You can file for Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts (those where creditors have no rights to specific property), and stop foreclosures, repossessions, garnishments, utility shutoffs, and debt collection activities. Both types also provide exemptions that permit most individual debtors to keep most of their assets, though these "exemption" amounts vary greatly from state to state.

Bankruptcy cannot clean up a bad credit record and will be part of this record for up to ten years. It can, for example, make it more difficult to get a mortgage to buy a house. It usually does not wipe out child support, alimony, fines, taxes, and some student loan obligations. Also, unless under Chapter 13 you have an acceptable plan to catch up on your debt, bankruptcy usually does not permit you to keep property when the creditor has an unpaid mortgage or lien on it.

Bankruptcy cases must be filed in federal court. The filing fee is $160, which sometimes may be paid in installments. This fee does not include the fees of your bankruptcy lawyer.

Choosing a bankruptcy lawyer may be difficult. Some of the least reputable lawyers make easy money by handling hundreds of bankruptcy cases without adequately considering individual needs. Recommendations from those you know and trust, and from employee assistance programs, are most useful.

Some public-funded legal services programs handle bankruptcy cases without charging attorney fees. Or these programs may provide referrals to private bankruptcy lawyers. Keep in mind that the fees of these attorneys may vary widely.

## POSSIBLE PITFALLS

**Credit counselors who aren't helpful.** Often for-profit or non-credentialed counseling organizations make promises that they cannot or do not keep. Be especially careful when asked for a large sum of money in advance. To check the organization's reputation, contact your state Attorney General, consumer protection agency, or Better Business Bureau.

**"Credit repair" clinics and "credit doctors"** have been frequently criticized for promising that they can remove negative information from your credit report. But accurate information cannot be changed. If information is old or inaccurate, you can contact a credit bureau yourself and ask that it be removed.

**Risky refinancing options.** When already in financial trouble, second mortgages greatly increase the risk that you may lose your home. Be wary of any loan consolidations or other refinancing that actually increase interest owed or require payments of points or large fees.

**A Final Word:** Don't lose hope, even if you despair of ever recovering financially. You can regain financial health if you act. Pursuing the options presented in this pamphlet can put you on the road to financial recovery.

"It feels great to be getting my life (and credit) in order!"
—Robyn H.

The following organizations and individuals worked together in the preparation of this pamphlet and endorse its content.

American Association of Retired Persons
Consumer Action
Consumer Federation of America
National Consumer Law Center staffers
National Foundation for Consumer Credit
U.S. Consumer Information Center
U.S. Office of Consumer Affairs
Visa U.S.A.