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ALABAMA A & M AND AUBURN UNIVERSITIES

If You Can't Pay Your Bills

The cost of living is increasing, yet the buy-now/pay-later syndrome, greater expectations, higher standards of living, and sloppy buying habits are all contributing to a large number of Alabamians finding themselves in financial trouble. If you are one of these and feel that matters are getting beyond your control, don't despair. There are several things you can do. For example:

- Explain your situation to your creditors and try to renegotiate your payments.
- Go to a consumer credit counseling service for help.
- Get a consolidation loan from a bank, credit union, or finance company.
- Close all of your charge accounts except one. Use this one only for emergencies. This will also help your credit history.

An Emergency Family Finance Plan

Before you decide how you will handle your crisis and pay off your debts, take time to do the following:

1. Discuss the problem with your family. Stress the need for cooperation, sacrifices, and controlled spending.
2. Have each family member make a list of all his or her daily expenses. Include everything—lunches, car fare, and incidentals.
3. Set aside a period of frugal spending, such as a week or a month. Spend absolutely no money that is unnecessary or that can be postponed until the end of this period.
4. Each week, ask every family member to react to his or her spending by marking with a red pencil all unnecessary expenses on the list. In this way, each person is made aware of what he or she is spending. Family members can also help each other avoid impulse buying.
5. Agree on a certain allowance for each person and promise as a family that anything one person wants to buy above the set amount will be discussed and decided on by the family.

6. Project expenses for 6 months or a year. Write down major bills and fixed expenses, such as insurance premiums, taxes, and medical bills. Make a spending plan. Divide the large payments by the number of months. This will help you to be realistic about upcoming expenses. If at all possible, set aside some money each month to help meet these deadlines.

After you have done these things, you should have a better understanding of your problem and what you need to do to resolve it. Then you can make a better decision about which, if any, of the following alternatives you should choose.

Things To Consider When You Need More Help

Loan Renegotiation

Go to each of your creditors yourself and try to renegotiate your debts. This will require detailed planning on your part. You will need to know:

- How much money you have coming in on a regular basis.
- What your fixed or predictable expenses are, such as rent or house payment, insurance, and debt repayments.
- What your flexible expenses are, such as food, recreation, clothing, and transportation.
- What your resources and plans are for emergencies, such as unexpected medical care.

When you know what you can and are willing to pay, talk to your creditors about making smaller payments and extending the loan over a longer period of time. Most of them will make adjustments if you show you are sincere and willing to pay. Remember, you will pay more in finance charges to extend your debts over a longer period of time.

Be sure to have any new agreement in writing. Then stick to the agreement. A record of financial responsibility will influence your ability to get credit in the future.

Credit Counseling Services

Credit counseling services help people who are in financial trouble work out a plan for getting out of debt. A counselor will study your financial situation and make suggestions for more effective money management. In some cases, this money management plan is enough for you to carry on by yourself. If necessary, though, the counselor will contact your creditors and explain your situation. Agreements are made with these creditors, allowing the loan to be paid off in smaller installments over a longer period of time.

Many counseling centers are financed through the lending industry and any charge to the customer is small. Be wary of charges that are a percentage of your debt.

Some churches and volunteer groups, banks, and savings and loan associations offer money management counseling. If you belong to a credit union, you may find that it offers some financial advice. You may also contact the National Foundation for Credit Counseling by writing to 801 Roeder Road Suite 900, Silver Spring, MD 20910 or by calling (301) 589-5600 for names of their members who offer such a service near you.

Services may vary from place to place. Contact your county Extension office for information about counseling in your community. Make an appointment before you go.

Before using the credit counseling service, be sure you know: (1) who sponsors the program, (2) what, if any, charges will be made, and (3) how the program operates. Do not confuse credit counseling services available at little or no charge with fee agencies in the business of debt pooling or debt adjusting. Debt pooling and debt adjusting agencies frequently charge high fees to pay bills without offering any counseling. These agencies are illegal in some states but not in Alabama.

Working with a consumer credit counseling service has many advantages. It can:

- Lessen the worries of family members.
- Help you develop discipline and regularity in paying bills.
- Keep your family from bankruptcy.

A credit counseling service will require that you have enough income to pay your debts when your money is managed under guidance. Social security or welfare payments may be enough. Your budget situation will be analyzed completely in an interview with a counselor.

If you decide to use a counseling service, you generally sign a contract. During this time, you agree not to take on any more debts and to return all credit cards to creditors. A money management plan is drawn up and payment arrangements are made. In desperate situations, when the counseling service vouches that you don't have enough money to pay, your creditor may agree to adjust your debts.

If necessary, the counseling center may make your payments for you from an agreed-upon amount of money that you send them every month. If you fail to follow through with your regular payments, the program will be discontinued. Methods and plans vary from place to place.

Consolidated Loans

This type of loan may help you get back on your feet if you have more monthly bills than you can pay. You take out a cash loan to pay off all your outstanding debts yourself. The single payment on the new loan should be smaller than the total of the other monthly payments. It is usually easier to pay on only one debt.

A consolidated loan stretches out your payments over a longer period of time. You still pay the whole amount before you are debt-free and paying over a longer period of time means you pay more interest. The danger of a consolidation loan is that you might be tempted to take on new credit obligations because your existing payment seems so small.

An officer at your bank, savings and loan association, or credit union can help you examine your financial situation and decide on the method of repayment that would be best for you. Finance companies offer consolidation loans, but their finance charges will usually be higher. Shop around for the best terms available and talk with various types of lenders before deciding on a consolidation loan. Remember, it will usually cost more to consolidate your loans than to pay them as they were contracted.

Wage Earner Plan

If you have tried everything else and have finally decided to file a straight bankruptcy, wait! The Wage Earner Plan, as Chapter 13 of the U.S. Bankruptcy Act is called, might be a better solution to your problem. The great advantage of Chapter 13 is that if you own a house, car, and other assets, you can keep them.

You will pay off your debts according to a plan set up by you in cooperation with your lawyer and approved by the court. Generally, a Wage Earner Plan runs up to 3 years. A restraining order will be issued to your creditors so they cannot harass you in any way as long as you stay with the plan. But, if they feel fraud or misleading information is involved, your creditors do have the option of objecting to the plan before the court accepts it. Usually, it is to their advantage to agree to your filing under the Wage Earner Plan.

If you do not have a lawyer, you should check with your county or local bar association for a lawyer who is familiar with Chapter 13. Also, find out if you are eligible for free legal advice from the Legal Aid Service in your county.

While it is not always practical, it is possible to file a plan by yourself with the nearest U.S. District Court. Remember, as long as you make the payments according to the established schedule, the plan remains in effect. Otherwise, the court will dismiss it. The Wage Earner Plan is not too difficult to work out and if you are unable to continue with it, you can still file straight bankruptcy for little additional expense.

Final Out – Bankruptcy

When all else has failed, filing for bankruptcy is your legal release from your debts. This should not be considered as the easy way out, but as a last resort. When you have tried all possible alternatives, including the Wage Earner Plan, filing for bankruptcy is probably the only thing left for you to do.

By filing for bankruptcy, you are giving up some of your assets in return for being legally released from your debts. Be sure to get competent legal assistance, although, if you have few or no assets, you may not need a lawyer to go through the bankruptcy process.

The process includes: (1) preparing and filing a petition, (2) meeting with your creditors in a federal court to resolve their claims, and (3) appointing a court trustee to collect and sell your possessions at a public auction so that the proceeds can be distributed among the creditors.

Certain assets cannot be taken from you. At the federal level, social security and veteran's benefits are two sources of income that cannot be taken. Other assets retained under Alabama law are \$5,000 homestead exemption and \$3,000 personal effects per person. These are not included in the bankruptcy sale. Also, certain debts are not discharged, including some school loans, taxes, alimony, and child support.

Once the court discharges you, your slate is clean, except for the bankruptcy record, which may be a part of your credit rating for up to 10 years.

References

Act No. 80-569, "Alabama Law," Regular Session, 1980.

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"Your Guide to Consumer Credit and Bankruptcy," The American Bar Association, Department of Public Relations and Information, 1980.

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For more information, call your county Extension office. Look in your telephone directory under your county's name to find the number.

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5M, **Revised August 2006**, UNP-75