

# When the Income Decreases, But the Bills Don't

## DON'T IGNORE YOUR SITUATION

Though you may be working very hard to get a new job, to get on your feet financially and to once again become current on your bills, time can pass more quickly than you realize.

- Don't ignore bills and past due notices. If you don't contact your creditors about your financial difficulties and don't make scheduled payments, several things can happen:
- Vital services, such as gas, electric, water and phone can be shut off.
- Late charges and interest can continue to increase your debt.

Your account may be turned over to an independent debt collector. Once the account is turned over for collection, the original creditor loses almost all control over what would be an acceptable payment plan. Any good relationship from personal contact with the original creditor is lost. Collection agencies are usually more aggressive and less willing to compromise. In addition, since they frequently bring lawsuits against debtors to collect debts and are more familiar with the legal system, they are probably more willing to go to court than the original creditor.

You have a much better negotiating position with the original creditor - don't wait until the debt is turned over for collection to discuss your concerns.

## CONTACT YOUR CREDITORS

Contact your creditors in writing. A letter is better than a phone call because:

- You have had a chance to think through your circumstances and plan your budget for paying your bills.
- You won't get upset or confused if the creditor tries verbal intimidation.
- You both have a record of your proposal.

*Before writing your letters, review the following:*

- The amount of take-home income you can count on. Be realistic. Include unemployment or other benefits, consistent child support or other payments, wages for part-time work, etc. Do not include what you hope to get from family or any inconsistent sources.

- Current **FIXED** expenses: Your cost for housing, vehicle, insurance (if paid monthly), installment credit, anything requiring a set monthly payment.
- Current **VARIABLE** expenses: Your costs for food, clothing, utilities, recreation, auto gas/repairs, contributions, or any expense which may "vary" from month to month. Again, be realistic. You may be able to cut down in certain areas, but cutting your food bill in half or saying you won't drive your car or get any clothes for your children may not be realistic.
- Current **PERIODIC** expenses: Payments made semi-annually or annually for things such as auto registration, insurance, school tuition, etc.
- Approximately how long your income will be reduced. Be realistic - don't say you'll be back to full-time work in a month if you have no leads at this time.
- Suggest to the creditor what you think is a reasonable amount to pay each month and your plan for repaying the debt.

*After you have written these letters:*

- Mail a letter to each creditor and keep a copy for yourself.
- Write a summary list of your spending and repayment plans and keep it by the telephone. Creditors may call with additional questions. If they do, refer to your plan and don't promise increased payments you cannot make. Be honest and courteous.

## SET PRIORITIES

**Credit Priorities:** Not all of your debts equally impact your family. Following is a list of priorities to establish in dealing with debts. Your priorities may differ. Establish your own list, and verify you have contacted all your creditors. Remember, however, that just because a category of debt is listed as a third priority, that does not mean it isn't important. It simply means you need to contact the higher priority creditors first.



## CREDITOR CHECKLIST: WHOM TO PAY FIRST

First priority:

- Mortgage or Landlord
- Tax Liabilities
- Second Mortgages
- Auto Loans
- Utility Companies

Second priority:

- Finance Companies (secured)

Third priority:

- Credit Cards
- Retailers Doctors and Dentists
- Hospitals
- Finance Companies (unsecured)

## ADDITIONAL INFORMATION FOR DEALING WITH VARIOUS CREDITORS

For the following organizations, follow the basic procedure of notifying them by mail of your situation as soon as possible and suggesting partial payments or assistance.

The following information gives advice on handling each type of debt and specific information on how the various organizations deal with past due accounts.

### UTILITY COMPANIES

**Key point:** Each company has its own procedure to follow before disconnecting service. The procedure generally includes notification by mail and/or in person before the service is turned off.

*What can happen:*

- The company may offer budget plans for you to pay off your bills.
- There may be emergency funds you can apply for to help pay past due bills.
- The company does not want to shut off your service and is usually willing to work out a plan to help you pay your bills.

*Your utilities can be disconnected if:*

- You have a poor record of paying bills with the local company.
- Your bill is larger than usual. (Telephone only)
- You have lived in the area a short time and there is no credit history. (Telephone only)
- Company efforts to reach you by phone or mail received no response.

*Once your utilities are disconnected you may find you have to:*

- Pay the past due bill in full.
- Pay a substantial deposit, for example, twice the amount of your average bill.
- Re-apply for the utility and pay installation charges.

## HOUSING PAYMENTS

### House payments

Generally, the lender does not want to foreclose on the mortgage. There are rarely winners in a foreclosure because of the costs involved in the process.

Try to work out a payment plan with the lender to cover you until you are better off financially. Some lenders may allow temporarily suspended payments; some may suggest partial payments for one to six months.

If you have a Union Plus Mortgage, you may be eligible for additional hardship benefits. Please call 1-800-848-6466 to find out more.



You may also consider selling your house, but consider all other options before you do. You may not be able to make a profit on the sale of your home.

You may not be able to find less expensive housing if you rent, and moving costs can be considerable.

### Rent payments

Your landlord may accept partial payments for one or two months, so write to your landlord about your situation immediately. You may want to look for less expensive housing, but be realistic and remember to include moving expenses, deposits, and family adjustments as you calculate costs. If it is a private landlord and you or family members are able, you may be able to do some maintenance work in place of part of your rental costs.

## CAR AND OTHER VEHICLE PAYMENTS

**Key point:** If you cannot make your car or other vehicle payments, the vehicles might be repossessed. Repossession means that the creditor takes the vehicle, and it is sold at auction. If the vehicle is sold for less than is still owed on it, as is often the case, you are still liable for the remainder that is owed on the vehicle.

*What to do*

Check with the creditor to see if the loan can be rewritten for lower monthly payments. Ask for an extension, with the extension fee attached, to the end of the loan.

If you do not need the vehicle, ask the creditor if you could sell the vehicle and pay the creditor off with what you receive. Also, find out about the procedure if you sold the vehicle to someone who would take over payments for you.

## CREDIT CARD BILLS

**Key point:** Credit card payments are a major part of your credit report. Late payments, failure to pay, or cancelled accounts will reflect negatively on your credit report.

If you do not notify these creditors, interest charges will continue to grow, your accounts could be cancelled and the debt may be turned over to a collection agency. Notifying your creditors may not stop these events; however, creditors are more likely to assist if you inform them of your situation.

If you have a Union Plus Credit Card, you may skip your payment twice per year if your account is in good standing. In addition, you may be eligible for additional benefits if you are on strike. Please call 1-800-622-2580 for details.

### *What to do*

Write letters to all your creditors immediately to explain your situation and offer to make a reduced payment.

Do not replace income with credit card cash advances. Available credit should be used cautiously to satisfy "needs" not "wants".

## INSURANCE PREMIUM PAYMENTS

**Key point:** There may be a grace period in making payments from 10-30 days, but check with your insurance company. Also, if you allow insurance to lapse, you may not be able to renew. Do not let a short-term situation harm your family's well-being.

### *What to do*

Write your insurers immediately and explain your situation. Ask what payment options are available.

Determine your minimum needs for insurance. Cancel duplicate or non-essential policies. For basic essential policies consider these options:

**Car Insurance:** You must keep Liability coverage; it is a State law. You may reduce premium costs by increasing the deductible on Collision and Comprehensive, or, if there is no lien, eliminating the coverage.

**Health Insurance:** Check to see if the health insurance provided by your former employer is continued and for how long. Find out who is responsible for the premium and what amount. If coverage is not available or if you can't afford the premium, find out if you qualify for Medicaid. Also, check into policies that would pay for major hospitalization (with a very high deductible, these can be less expensive than the more comprehensive plans) and find out what community services are available for routine medical concerns.

**Life Insurance:** Change your policy to a less expensive form, if possible. Check into borrowing money on your policy to pay premiums.

## SOME ADVICE ON DEBT CONSOLIDATION LOANS

In time of financial turmoil, a debt consolidation loan may sound very tempting. Bill consolidation sometimes costs you more money over time because the interest charges may be higher than the interest charges on your current debts. Shop around, as you would for any type of credit, to find the lowest interest.

Some of your smaller debts may carry no interest and may be unsecured (meaning the creditors don't hold any collateral). Some bill consolidation loans may require you to put up your household goods, auto, and sometimes, your house as security. Non-payment of this type of loan could result in the loss of the collateral.

Finally, if poor debt management in the past is part of your financial difficulties now, you need to learn to realistically manage your money. A seemingly lower monthly outlay does not mean that financial problems are solved - you may have simply hidden them for a longer period of time.

## YOUR RIGHTS UNDER THE FAIR DEBT COLLECTION PRACTICES ACT (FDCPA)

Debt collectors are prohibited from harassing or abusing you or threatening to take your property without the right to do so. They are also prohibited from using false statements (such as implying that they are attorneys.)

The FDCPA applies to any personal, family or household debt and covers debt collectors who regularly collect debt for others. **It does not apply to the creditors themselves or their lawyers.**

The law prohibits debt collectors from contacting you at inconvenient times (defined as before 8:00 a.m. or after 9:00 p.m.) or places. If you notify the debt collector in writing that your employer disapproves of calls at work, the collector may not contact you at work. They also must not use obscene or abusive language or tell anyone else that you are behind on your debts.

Take initiative and contact your creditors immediately. You may not have to deal with debt collectors.

## CREDIT BUREAU INFORMATION

You are entitled to a free copy of your credit report under certain conditions – one of them being unemployment. Contact each of the three credit bureaus and request your free copy. Check over your credit report for completeness and accuracy, disputing any discrepancies on the dispute form accompanying your credit report.

Equifax	800.685.1111
Experian	800.682.7645
Trans union	800.916.8800

## IN SUMMARY...

1. Establish priorities: What must be done first? Obviously, spending must be reduced to the bare essentials. Overall spending must be evaluated. This takes a budget!
2. Keep a handle on credit and charge accounts: What must be continued and which can be deferred? Notify and negotiate with all creditors for reduced or extended payments. Be honest and forthright. Explain that there is not enough to go around, but you will eventually pay everyone.
3. Stop charging and overextending yourself: You will not get out of this problem by attempting to get more credit. EXCEPTION: If you know that the income interruption is only temporary, then a small loan to tide you over is okay.
4. Protect your home and the assets necessary to gain income once again: This means you must make every effort to keep the rent or mortgage payments, utilities and the car payment for your primary vehicle up to date. However, the second car or recreational vehicle or boat can go.
5. Consider selling assets to keep afloat: What do you own that you can sell (including the gun collection and family silver)?
6. Seek professional advice: Career counseling, VA benefits, United Way agencies, or Union Plus Credit Counseling.



## IF YOU CAN'T MANAGE ALONE

Major financial setbacks such as a strike, layoff, a major illness, or divorce can be devastating. To help union members take a positive first step to regain control of their financial lives, the AFL-CIO's Union Privilege created the **Union Plus Credit Counseling** program. The program is administered by Money Management International (MMI).

MMI is a nonprofit, community service dedicated to delivering professional consumer credit education, confidential financial counseling and debt repayment programs to financially distressed working families.

## UNION PLUS CREDIT COUNSELING IS HERE TO HELP

If you need budgeting help, a spending plan, money management advice, or to establish a debt repayment plan, Union Plus Credit Counseling can assist you.

Should you wish to institute a debt repayment plan, some creditors may waive interest, finance fees, and/or accept lower monthly payments. These arrangements may save you money and maintain good creditor relationships through prompt, consistent payments.

Under the union-only benefit offered by MMI, all counseling, recommendations, and referrals are free of charge. In addition, the setup fee for a debt management plan is discounted by 33% for union members. Although MMI may request a fee or contribution from clients on a debt management plan, MMI will not refuse services to anyone because of their inability to pay.



Working for Working Families

## Credit Counseling

For more information about our program and services contact us at:

**1-877-833-1745**

[www.unionplus.org/creditcounseling](http://www.unionplus.org/creditcounseling)