money in motion

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**"As long as we have hope, we have direction,
the energy to move and the map to move by, we have a hundred alternatives,
a thousand paths, and an infinity of dreams."** —*Author Unknown*

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Chapter 8

What to Do When Things Go Wrong

Even with the best-laid plans and intentions, you can experience financial problems. Perhaps you, or someone close to you, has been laid off from a job, is undergoing expensive medical treatment, had a marriage or relationship end, or closed a business. These issues, as well as many others, can lead to financial problems.

What are some of the warning signs that you are headed for serious financial trouble?

- Your credit card balances are growing each month.
- You are taking cash advances on one credit card to pay another.
- You are getting calls or letters notifying you that your payments are past due.
- You are hiding the mail or have stopped opening your statements because you fear the balances on them.

What should you do if you find yourself in any of these situations? **You first need to face the situation head on, so that you can determine the underlying cause of the problem.** A rising credit card balance is not the real problem, though it is a symptom of one.

The causes of financial problems come in many forms. Perhaps you've experienced a layoff, are going through a divorce, or you have incurred serious medical expenses. You might have had to take an unplanned early retirement. Perhaps someone in your household is dealing with an alcohol, drug or gambling problem, or a shopping addiction. A death in the family can cause financial hardship. Perhaps your home or family was affected by a natural disaster. Maybe you co-signed a loan for someone, or you are helping your adult children, even though you're putting your own financial well-being at risk. If you are spending more money than you are bringing in, you need to determine the root cause.

It can be difficult to think about the root of your financial

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problems, but now is the time to be honest with yourself. Not only do you need to ask yourself what is causing your financial problems, but you also need to consider what you're willing to do in order to make it through this period of time.

Next, take an inventory of where you are. Open any and all unopened statements and mail, and make a complete and detailed list of all your debts. Use the Creditor Inventory Form in Chapter 4.

Once you've acknowledged the cause of your financial difficulty and have made a detailed list of all your outstanding debt, you need to review your budget. What is your current income? What are your current living expenses? Review the budget form in Chapter 2.

As you look at your expenses, ask yourself the following questions:

- What areas can I cut?
- Can I reduce my spending and/or get a second job so that I will have money to pay my debts?
- Do I have any assets I can sell?

You should also consider looking for types of assistance in your area that could help you cover some monthly expenses or deal with the root causes of your financial problems. Check with your state, county and city to find out what services are available. The 211 helpline is a useful place to begin your search. The helpline provides information about resources that are available in many areas nationwide. Go to the national site www.211.org. By entering your city, state and zip code, the site will locate the nearest resources for you. If a helpline isn't available in your area, your nearest United Way might be your best referral source.

Searching the Internet can also help you find many of the resources you need. The majority of businesses, organizations and government agencies have websites.

Every organization and type of assistance has its own guidelines – and those guidelines can change. You might qualify for some kinds of assistance, but not others. The types of services, assistance and organizations you are likely to find in your state, county or community include:

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- **Department of Social Services** oversees the SNAP (food stamp) program; Temporary Assistance to Needy Families (TANF); adult services; child support issues; protection services
- **U.S. Department of Veterans Affairs** offers a crisis line (1-800-273-8255/ www.va.gov) for veterans and their families, and help with health-care issues, benefits, education, and more. Organizations such as the **Veterans of Foreign Wars** (VFW) (www.vfw.org) and the **American Legion** (www.legion.org) also offer assistance to veterans and their families.
- The **Social Security Administration** (1-800-772-1213/ www.ssa.gov) assists people with Social Security and disability questions, and includes links and resource lists on its website for help with prescriptions and state health insurance assistance
- **Mental-health organizations** provide outpatient counseling, and services related to behavioral health, chemical dependence and other issues
- **Low-Income Energy Assistance** for help paying heating/ cooling costs
- **Community health care/clinics** offers health services at reduced costs
- **Career centers or employment centers** to help you find a job or change jobs
- **Food pantries, food banks or organizations such as churches** provide short-term supplies of food for people in need
- **Shelters assist the homeless, or women and children** in need of safe housing
- **Rental assistance for low-income households**
- **Legal services**, in a limited capacity, for low-income households
- **Disaster-relief organizations** for victims of storms, floods and other natural disasters
- **Senior citizen centers** provide meals, social activities, classes and more for older adults
- **Thrift stores** offer clothing and household goods at very low prices

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Reviewing your budget, looking for services and organizations that can assist you, listing your debts and creating an inventory of your finances will give you a clear picture of your income and debts.

With this information, consider whether you could get your finances back on track with some cooperation from your creditors. **Your creditors will often be willing to work with you if you call them and explain the situation.** Let them know what you can pay and when you can pay it. When you make such arrangements, make sure that you follow through with what you say. Creditors are less likely to work with you in the future if you have made promises in the past and not lived up to them.

You may want to consider taking out a consolidation loan to help you get back on your feet. However, before you borrow money to consolidate debt and pay off credit cards, you should consider what action you are going to take to make sure that the problem does not occur again. Unfortunately, many people who consolidate credit card debt find themselves in the same situation four or five years later because they fail to change their spending habits. If you are going to use a consolidation loan to pay off credit card debt, destroy all but one or two of your cards so you don't find yourself in this situation again.

You may also have the option of tapping into the equity in your home to pay off debt; but again, this decision requires careful consideration. If you are reasonably certain that you can make the monthly payment on a home equity loan, then it may be a good option for you. However, if you do not or cannot make your home equity loan payment, you could end up losing your home.

If you find yourself strapped for cash, think carefully before going to a payday loan company, check cashing establishment, or title loan company to solve your money problems. In most cases, these loans will only compound your problem. It can sound so easy, "Get quick cash with no credit check." Keep in mind, however, that this quick cash comes at a steep cost. The average interest rate on a payday loan is 200% to 400%. The problem with these kinds of loans is that the term is typically so short that it may be difficult to repay the loan when it comes due.

You may find that you're unable to resolve the situation you're facing by reworking your budget and making the appropriate changes. Or perhaps you just feel overwhelmed. This is the time you should visit a professional credit counselor employed by a non-profit credit counseling agency.

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Look for a credit counseling organization that will take the time to review your finances and provide you with various options to improve your situation. After an analysis of your finances, your credit counselor may suggest that you use a debt management or debt consolidation program. Through this kind of program, a credit counseling agency can negotiate with your creditors to reduce your payments and waive or reduce fees and interest. You should not use a debt management or debt consolidation program unless you are having difficulty with your debts, as it is not a program for individuals who have good credit and are just tired of paying interest.

Like all businesses, some credit counseling agencies are better than others. You should ask the following questions before choosing a credit counseling agency.

Is the credit counseling agency accredited? The credit counseling agency should be accredited by an independent accrediting organization.

Are the counselors trained professionals? The counselors should have some form of certification, along with professional degrees.

What fees does the agency charge? The organization should provide you information regarding their fees in writing.

What services does the credit counseling agency provide? The agency should provide counseling, education, and a debt management program. An appointment with a professional agency typically lasts 45 to 90 minutes and includes a thorough review and analysis of your situation. If a credit counseling agency spends only 15 or 20 minutes reviewing your situation and then tells you whether or not it can help you, you should look for another agency that will spend an adequate amount of time reviewing your financial situation.

What accounts will the credit counseling agency assist you with in a debt management program? If the counseling agency will only assist you with credit cards, again, you should go elsewhere. The credit counseling agency you choose should be able to assist you with credit cards and non-secured debts such as medical and collection bills.

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As you search for an organization to assist you, be aware that a credit counseling agency and a debt negotiating company are not the same thing. Although debt negotiation companies attempt to work with your creditors to reduce the amount of debt you'll have to pay, these companies charge you a percentage of the money they save you -- and you will have to pay taxes on the amount of money that is written off of your account. If you do not have a lump sum to send the debt negotiating company, it will let you make monthly payments but will hold all your money until it has enough to negotiate with one of your creditors. In the meantime, your creditors are not being paid, your accounts become delinquent, and you incur additional fees. The delinquency is reported to the credit bureau. Furthermore, most creditors will report a settlement on your credit report, which lenders may not view favorably.

You should also be cautious about seeking advice from family or friends. Just because a person has been able to handle their own finances does not mean that he or she will know the best way to handle yours. If a well-meaning friend or relative gives you advice without knowing all the details, their advice could make your situation worse. Take what happened in Kem's case, for example.

Kem was struggling to make his monthly car payment when a friend and co-worker who learned of his troubles suggested that he just take the car back to the dealership and stop making payments. What Kem found out the hard way was that you cannot return a car without serious consequences.

If you stop making payments and the lender takes the car back it is called repossession. If you give it to the lender, as Kem did, it is called a voluntary repossession. Both show up on your credit report as a repossession and have a negative impact on your credit report and credit score. If Kem did not want the car, his best option was to sell it.

Another negative result of returning a car is that the lender will resell the vehicle, normally at an auction, leaving you without a car and possibly with a large debt. If you, for example, owe $15,000 on the car and the lender sells it for $10,000, you still owe the difference of $5,000. Depending on what you initially purchased the vehicle for, you could find yourself with a deficiency balance over $10,000 if you voluntarily return it or if it is repossessed.

If you have tried credit counseling and it isn't resolving your problems, you may want to make an appointment with a bankruptcy attorney. The bankruptcy system in the United States was set up to provide individuals with financial difficulties a fresh start.

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In 2005, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act. Congress passed this law to ensure that bankruptcy was the option of last resort and to prevent abuse in the bankruptcy process. As of October 17, 2005, the process for filing bankruptcy changed and became more complicated.

The United States Trustee Program is a component of the Department of Justice that seeks to promote the efficiency and protect the integrity of the federal bankruptcy system. The U.S. Trustee Program oversees the following types of bankruptcy: Chapter 7, Chapter 11, Chapter 12 and Chapter 13. The two types of bankruptcy that deal primarily with consumers and their debt are Chapter 7 and Chapter 13.

Chapter 7 is also called the liquidation bankruptcy. Assets that are not exempt are collected and sold, and the proceeds are distributed to creditors. All eligible debts are discharged.

Chapter 13 is also known as the wage earner reorganization. This is primarily used by individuals to reorganize their financial affairs and to repay a portion of their debt over a period of three to five years.

The bankruptcy system is needs based. If you are contemplating bankruptcy, you would meet with an attorney. Your attorney would conduct a means test to determine if you have the means, or ability to repay part of your debt. Your income, ability to repay your debts, and equity in your assets will influence your ability to file for bankruptcy. Keep in mind that bankruptcy does not wipe out all debts. Taxes, child support, court ordered restitution, student loans, certain debts incurred 70 days prior to filing, among others, are not dischargeable in bankruptcy.

Filing for bankruptcy does not wipe your credit report clean. As a matter of public record, a bankruptcy is reported on your credit report. A Chapter 7 bankruptcy remains on your credit report for 10 years from the date of filing. A Chapter 13 bankruptcy remains on your credit report for 7 years from the date of discharge, if paid as agreed. The intent by Congress was clear in passing the latest bankruptcy law; individuals with average incomes must make substantial lifestyle changes to obtain bankruptcy relief. Bankruptcy is meant to be the option of last resort and individuals and families should try all other methods of repayment before filing for bankruptcy.

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If you find yourself in a position where your credit has been damaged, due to bankruptcy or any other reason, you may want to know how you can rebuild and reestablish credit. There are legitimate ways to rebuild your credit, but there are also scams out there. It isn't unusual to wish there were an easy way to fix what appears on your credit report. However, if a business claims it can remove a bankruptcy from your credit report for an upfront fee (usually a hefty one), or suggests you create a new credit identity, this is a scam.

The reality is that the only information that can be removed from your credit report is incorrect or unverifiable information. If the information is incorrect, you can have it removed from your credit report yourself by contacting the credit bureaus.

While an entire book could be dedicated to the issue of rebuilding credit, there are a couple of key things that you can do to put yourself on the right track. First, focus on making small loan requests; start with $500 or so, rather than seeking $10,000 on an unsecured loan.

Second, look to a local bank or credit union when you are seeking to rebuild your credit. They have representatives on staff that can tell you what services are available to help you rebuild your credit. Be honest about your situation, but don't feel discouraged if the first bank or credit union you visit is unable to help you. Seek help from another bank or credit union.

Among the services that many banks or credit unions offer to help you rebuild credit are secured cards and small personal loans. With a secured credit card account, you can expect to deposit a specified amount of cash into an account. You won't be able to withdraw this amount; instead, it is used as security or collateral for your credit card.

For example, if you deposit $500 to open a secured credit card account, then you can receive a credit card with a credit limit of around $500. You may be able to charge up to the limit on your card (depending on the terms of the card) and will be required to make monthly payments that will include interest and other fees. You must consistently make your payments in full and on time. If you don't, you can lose the money you have as collateral, further damage your credit record, and your account may be closed.

You can also request a small personal loan, say, for $500. If you are approved for the loan, you may wish to put the full $500 into your savings account and withdraw enough money each month to make your loan payment. Because you need to show that you can make payments on time each and every month, don't pay the loan off immediately. Of course, you will have to pay interest on the loan, but interest is a cost associated with any loan and will be worthwhile when it comes to helping you rebuild your credit.

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And while you may be able to receive a loan from another source, such as a payday lender, this kind of loan will not help you to rebuild your credit. Concentrate instead on taking out and repaying one small loan from a bank or credit union. Once you have repaid one small loan, then consider taking out another one. As you rebuild your creditworthiness, you will be offered better terms for loans and credit cards. Rebuilding your credit will take time but will be worth it in the end.

Even if you have made past mistakes and find yourself in a difficult situation, take heart in knowing that your finances are a work in progress. If you make a mistake, you can take action to correct the error. Past mistakes don't have to mean that you're doomed to a life without credit or that you're stuck paying high rates of interest for credit. Though it will take some time and a commitment to change, you can work your way out of debt and out of poor credit, rebuild your credit, and build a savings account to reach your goals.

Chapter Review

- If you are taking cash advances on one credit card to pay another, getting calls or letters that your payments are past due, are hiding the mail or have stopped opening your statements because you fear the balances on your accounts, or have a credit card balance that is growing every month, you are headed for financial trouble.
- When you find yourself in trouble:
  —Determine the cause of the problem.
  —Take an inventory of where you are.
  —Review your budget and cut expenses.
  —Call your creditors.
  —See a credit counselor.