

# MANAGING



Linda Boelter

## Deciding which bills to pay first

**W**hen you are between jobs, the paychecks may stop coming, but the bills don't. When you do not have enough money to cover your monthly expenses and pay all your creditors, you face some tough financial decisions.

You may be tempted to use credit cards, take out a home equity loan, or borrow money to pay bills. But taking on more debt is generally not a good idea. Unless your situation turns around quickly, more debt only creates bigger problems.

Instead, focus on cutting your spending and working with your creditors to reduce your payments until your situation improves.

### Sizing up your situation

When your bills add up to more than you can pay, you need to contact the people to whom you owe money — your **creditors**. Explain your situation, and ask for their help.

Creditors are usually willing to work with you if you contact them before you get behind in your payments.

#### Before you talk with your creditors:

Carefully examine your situation to decide whom, how much, and when you can pay. Completing Worksheet 1 on page 2 is the first step in preparing a repayment plan you can afford.

### Answer these questions

- How long is your present situation likely to last?
- How much income can you count on each month?
- How much money do you need to cover essential monthly living expenses? How much is left for debt repayment?
- What **assets** — savings or items you could sell — do you have that could help pay off your debt?
- Who are the creditors you owe, and how much do you owe each one? List the monthly amount due, the amount past due, and the total balance you owe. Use Worksheet 1 on page 2.
- What is the interest rate for each debt? You may be able to transfer balances from a high-interest loan or credit card to one with a lower interest rate.
- What is the **collateral** — security for installment loans or credit contracts? If you are not sure which loans are secured, check the credit contracts. List these items in the column labeled "Security for loan" on the worksheet.

These answers are important to know for talking with creditors. For example, if you use your car as collateral on a loan and you **default** (cannot repay that loan on time), the creditor can repossess your car to pay the debt you owe.

For help completing Worksheet 1, see the following fact sheets in this series:  
*Setting spending priorities/Cómo establecer las prioridades de gastos,*  
*Strategies for spending less/Cómo gastar menos,* and  
*Making the most of what you have/Cómo sacar el mayor provecho de lo que tiene.*



# Worksheet 1: Monthly debts owed

To complete this worksheet:

- Answer the questions on page 1.
- List all the creditors to whom you owe money. Be sure to include all credit card accounts, merchant charge accounts, installment loans, personal loans, and past due accounts.

Creditor	Monthly payment	Amount past due	Total balance owed	Interest rate	Security for loan
<b>TOTAL debts owed:</b>					

## Who gets paid first?

**You are legally obligated to pay all your creditors.** But if there is not enough money to pay all your bills, you must decide which creditors to pay and how much.

One way to do this might be to divide the money available, and pay every creditor part of what you owe them. This may seem fair, but it does not always work.

Each creditor must agree to reduce the amount they receive and extend the payment period.

This method also does not take into account that some bills, such as those for essential living expenses, are more important to pay than others. Instead, decide which bills must be paid right away and which ones can wait.

Here are some questions to help guide your decisions.

## What will most affect your family's health and security?

Housing, utilities, food, transportation, and medical care usually take priority.

Unless you plan to move to less expensive housing, keeping up with your rent or mortgage payments is essential to avoid eviction or losing your house.

For suggestions on what to do if you cannot make payments for rent, mortgage, property tax, or utilities, see the fact sheets in this series *Keeping a roof overhead/Cómo asegurarse de que la familia tenga donde cobijarse* and *Strategies for spending less/Estrategias para gastar menos*.

While food is essential, there are ways you can reduce the amount you spend on food each month. For ideas, see the fact sheet in this series *Strategies for spending less/Cómo gastar menos*. Or contact the Wisconsin Nutrition Education Program at your county UW-Extension office: [www.uwex.edu/ces/cty](http://www.uwex.edu/ces/cty).

Your reduced income may fall within guidelines for receiving government food assistance:

- To find out if you qualify for **Food Stamps**, contact your county or tribal social or human services office.
- To see if you qualify for the **Women, Infants, and Children (WIC)** nutrition program, contact the local WIC office ([www.dhfs.state.wi.us/wic](http://www.dhfs.state.wi.us/wic)), or tribal or public health department. You do not need to be on public assistance to receive WIC benefits.

If you need a vehicle to keep or get a job, paying car loan or lease payments is a priority. Because the vehicle is usually the security for the loan, you must also make payments on time to avoid repossession.

If you lease a vehicle, check your lease for penalties that result from default (failure to pay) or early termination of your lease.

Take care not to let medical insurance slide when money is scarce. If anyone in the family becomes ill or injured, medical bills can be devastating without insurance.

If you lost your job and had medical insurance through your employer, you should receive a notice about continuing your coverage. If you can afford to pay the premium, continuing the insurance is generally a good idea — especially if someone in your family has an existing medical condition that requires care.

Often, the only way to avoid restrictions for a pre-existing condition is to maintain coverage with the same insurer. For more suggestions, see the fact sheet in this series *Meeting your insurance needs/Cómo pagar por el seguro que necesita*.

### **If you do not have health insurance:**

Your reduced income may qualify you for Medicaid — medical assistance for people of any age who cannot otherwise afford to pay their bills. Uninsured children may qualify for BadgerCare. Contact your public or tribal health department.

## What will you lose if the bills are not paid?

In addition to your house or car, you can lose other property if you fail to make payments. Loans to purchase furniture, appliances, boats, recreational vehicles, and electronic equipment often include the item as collateral for the loan. Even so, repaying secured loans may have a lower priority, especially if you can manage without the item.

## How much do you still owe?

Determine how much you have paid on each loan and how much you still owe. If you have only one or two payments remaining on a loan, it may be worthwhile to finish paying and get that debt out of the way.

You may be able to return newer items or sell them to pay the debt. You will need the creditor's permission to sell an item used as security for a loan. If you choose to surrender the item to the creditor, you will still be required to pay the difference between the market value and the amount remaining on the loan.

Or you could try negotiating with the creditor. If you owe more than the market value of the item, offer to pay a little less than its value to settle the debt. Be sure to get the agreement in writing.

Also make sure the creditor agrees to remove any negative entries that have been reported on your credit record as the result of that loan.

## Do you owe child support, back taxes, or student loans?

### Child support order

Failing to pay a child support order can have serious consequences. You may be held in contempt of court, have your wages garnished, have your tax refund intercepted, or be jailed.

#### **If your income has dropped sharply:**

Contact your family court to find out about obtaining a lower support order as soon as possible. This cannot be done retroactively.

**If you do not modify the order and fail to make child support payments:** You are legally responsible for all unpaid support obligations.

### Income taxes due

**If you owe unpaid income taxes:** The Internal Revenue Service (IRS) may seize your paycheck, bank account, house, or other property.

#### **If you cannot pay the total amount due:**

Contact the Wisconsin Department of Revenue and the Internal Revenue Service (IRS) right away. Ask for information on repayment plans, and find out whether your reduced income makes you eligible for tax credits.

Contact the Wisconsin Department of Revenue at (608) 266-7879 or at [www.dor.state.wi.us](http://www.dor.state.wi.us). As of 2004, there is a \$20 fee to make an installment agreement. Contact the Internal Revenue Service (IRS) at (800) 829-1040 or

TTY: (800) 829-4059. When you reach a person, ask to be transferred to "advanced accounts." Spanish help is available toll-free (press 8). To order tax forms and publications, call (800) 829-3676 or check the website at [www.irs.gov](http://www.irs.gov). Allow 2 weeks for delivery.

### Property taxes

**If you are a homeowner with reduced income:** Make sure you know when your property taxes are due. In most of Wisconsin, property taxes can be paid in two installments:

- The first is due January 31 and is payable to the local treasurer.
- The second is due July 31 and is payable to the county treasurer.

#### **If you are late paying property taxes:**

You will receive notice of any actions. Take these notices seriously.

Beginning February 1 or the day after the first installment is due, you will be charged monthly interest on the full unpaid property tax, adding to your total bill.

Soon after the second installment is due, the county sends a notice to all property owners who still owe taxes. This informs you that if you do not pay property taxes within 2 years, you will lose title to your property. Eventually, unpaid taxes will result in the sale of your property through an auction.

#### **If you cannot pay your property taxes:**

Contact your county treasurer and explain your situation right away. If you cannot pay for a while and resume payments later, you may still face foreclosure. Find out what you must do to prevent this.

### Student loans

Failing to repay federal student loans according to the terms of your promissory note has consequences nearly as serious as those for failing to pay child support. The loan holder may garnish your wages or bank account, intercept your tax refunds, seek payments from your co-signer, or sue you for repayment.

**If you are having trouble making your federal student loan payments:** Contact your loan servicer immediately. A number of repayment plans are available, but only if you take the initiative before you miss payments.

You may be able to have payments **deferred** — or postponed — during periods of unemployment or financial hardship. But you cannot qualify for a deferment once your student loan is in default.

For more information on repaying student loans, request a copy of *The Student Guide/Guía* para estudiantes from the Federal Student Aid (FSA) Information Center at (800) 433-3243 or [www.studentaid.ed.gov](http://www.studentaid.ed.gov).

## Do you have outstanding balances on credit or charge card accounts?

Making minimum monthly payments on your credit cards and department store charge cards will...

- Keep these accounts current.
- Avoid costly penalties and charges for late payment.
- Avoid negative reports on your credit record.

However, paying **only** the minimum amount due — usually 2 to 3 percent of the total balance owed — will increase your finance charges and extend the time it takes to pay off the balance. That means you will end up paying much more than your purchases are worth.

Since most credit card and other charge card debt is **unsecured** — not backed by any collateral — it often has lower priority than repaying secured debt. Don't be pressured into paying more than you can afford on credit cards or other unsecured debts. It is usually more important to keep up your home or vehicle payments.



## Credit counseling

**If you are having difficulty paying credit card debt:** A non-profit Consumer Credit Counseling Service may be helpful because of their relationships with major credit card companies.

Most local credit counseling agencies provide individual budget counseling and can set up debt management plans to pay your creditors. Wisconsin laws limit fees to \$50 for the initial budget set or \$25 for clients who sign up for a debt management plan.

Monthly fees vary for debt management plans, so be sure to find out before signing any agreement. Some companies charge a flat monthly fee, while others charge based on the number of creditors in your plan. In Wisconsin, the maximum fee cannot exceed 10 percent of the money paid to creditors or \$120, whichever is less.

Many companies offering credit counseling aggressively advertise on television and on the Internet. Some are legitimate and helpful, while others have drawn many complaints for deceptive practices, improper advice, excessive fees, and abuse of non-profit status.

### **Beware of companies that...**

- Try to push you into a debt management plan
- Offer debt consolidation loans

### **To find out if a company is licensed in**

**Wisconsin:** Check "Adjustment Services Companies" on the Wisconsin Department of Financial Institutions web site at [www.wdfi.org/fi/lfs/licensee\\_lists](http://www.wdfi.org/fi/lfs/licensee_lists).

### **To find the nearest consumer credit**

**counseling program:** Contact the National Foundation for Credit Counseling (NFCC) at (800) 388-2227 — English, (800) 682-9832 — Spanish, or [www.nfcc.org](http://www.nfcc.org).

## What about your credit rating?

Nonpayment of bills is reported on your credit record, which can damage your ability to get credit or increase the cost of credit. A prospective employer may ask to see your credit record.

That's why it's important to contact all creditors immediately if you cannot pay your bills. If you pay something on each debt as agreed, creditors are less likely to report problems to credit bureaus.

## Your repayment plan

Once you have determined how much money you have for monthly living expenses and for paying off debts, use your answers to the questions on pages 3-4 to decide how much to pay each creditor.

Establish a repayment plan that shows how much to pay monthly on each bill. Put this plan in writing. PowerPay is one type of basic online program that can help you organize your bills. One nice feature is that it can produce a calendar detailing who needs to be paid and when. This free resource is available at [extension.usu.edu/cooperative/powerpay](http://extension.usu.edu/cooperative/powerpay).

With this repayment plan, you are ready to contact each creditor to explain your situation. Tell each one how much you can pay, and when you can pay.

For suggestions on how to contact creditors and what to say to them, see the fact sheet in this series *Talking with creditors/Comunicación con los acreedores*.

Some businesses — such as utility companies, hospitals, and medical clinics — have special counselors for customers who cannot pay their bills. These counselors can set up a budget plan to help you make your payments. They can also tell you if you qualify for any government assistance programs that help with home energy or medical bills.

## Stick to your plan!

After you have worked out a repayment plan, follow through with it. Make the payments you promised.

If you fall behind on your new commitments, creditors will be less understanding. If you fail to pay as promised, creditors may hire a collection agency or start legal action against you.

Pretending your money problems don't exist won't make the problems go away. It's better to face the situation honestly. Openly discuss spending decisions with all family members, so everyone understands the changes and sacrifices needed for your plan to succeed.

**Remember:** No matter how bad your situation may be, you cannot afford to ignore your bills and creditors. Prompt action is very important. Take charge. Let your creditors know you are having trouble before you miss payments and the situation worsens.

## Resources

### Know your rights

Look for these consumer guides at your local public library or online. If you do not have a computer, most libraries have one you can use.

Detweiler, Gerri. *The Ultimate Credit*

*Handbook: How to Cut Your Debt and Have a Lifetime of Great Credit.* 3rd ed. New York: Plume/Penguin, 2003.

Leonard, Robin. *Money Troubles: Legal Strategies to Cope with Your Debts.* 9th ed. Berkeley, CA: Nolo Press, 2003.

National Consumer Law Center. *Surviving Debt: A Guide for Consumers.* 3rd ed. Boston: NCLC Publications, 2002: [www.consumerlaw.org/publications/guides/surviving\\_debt.shtml](http://www.consumerlaw.org/publications/guides/surviving_debt.shtml).

Sember, Brette M. *Repair Your Own Credit and Deal with Debt.* Naperville, IL: Sphinx Publishing, 2003.

Ventura, John. *Beating the Paycheck to Paycheck Blues.* Chicago: Dearborn Financial Publishing, 1997.

Wisconsin Department of Financial Institutions. *Wisconsin Consumer Act: Consumer Credit Topics of Interest.* Retrieved June 2004: [www.wdfi.org/wca/consumer\\_credit/credit\\_guides/default.htm](http://www.wdfi.org/wca/consumer_credit/credit_guides/default.htm).

### For help deciding which bills to pay first...

See these money management fact sheets in this series, in English or Spanish:

*Setting spending priorities* (B3459-01)/  
*Cómo decidir cuáles son los gastos más importantes* (B3459-01S)

*Strategies for spending less* (B3459-02)/  
*Cómo gastar menos* (B3459-02S)

*Deciding which bills to pay first* (B3459-03)/  
*Cómo decidir qué cuentas pagar primero* (B3459-03S)

*Talking with creditors* (B3459-04)/  
*Comunicación con los acreedores* (B3459-04S)

*Keeping a roof overhead* (B3459-05)/  
*Cómo asegurarse de que la familia tenga donde cobijarse* (B3459-05S)

*Meeting your insurance needs* (B3459-06)/  
*Cómo pagar por el seguro que necesita* (B3459-06S)

*Bartering* (B3459-07)/  
*El trueque* (B3459-07S)

*Making the most of what you have* (B3459-08)/  
*Cómo sacar el mayor provecho de lo que tiene* (B3459-08S)

*Deciding if bankruptcy is an option for you* (B3459-09)/  
*Cómo decidir si la protección por bancarota es una buena opción para usted* (B3459-09S)

*Taking care of yourself* (B3459-10)/  
*Cómo satisfacer las necesidades personales* (B3459-10S)

*How you can help when mom or dad is unemployed* (B3459-11)/  
*Cómo puedes ayudar cuando tu papá o tu mamá está sin empleo* (B3459-11S)

*Helping children cope* (B3459-12)/  
*Cómo ayudarles a los niños a sobrellevar las dificultades* (B3459-12S)

*Community agencies that can help* (B3459-13)/  
*Las agencias comunitarias pueden ayudar* (B3459-13S)

*Looking for a job—Watch out for scams* (B3459-14)/  
*Búsqueda de trabajo—Tenga cuidado con las estafas* (B3459-14S)

*Where to go for help finding a job* (B3459-15)/  
*Dónde conseguir ayuda para encontrar empleo* (B3459-15S)

*Starting your own business* (B3459-16)/  
*Cómo iniciar su propio negocio* (B3459-16S)



**Copyright © 2006** by the Board of Regents of the University of Wisconsin System doing business as the division of Cooperative Extension of the University of Wisconsin-Extension. All rights reserved. Send copyright inquiries to: Manager, Cooperative Extension Publishing, 432 N. Lake St., Rm. 103, Madison, WI 53706.

**Author:** Linda A. Boelter, CFP®, professor emeritus, University of Wisconsin-Extension.

**Reviewers:** Marsha A. Goetting, CFP®, professor and extension family economics specialist, Montana State University; Michael Gutter, assistant professor and family financial management specialist, University of Wisconsin-Extension; Brenda B. Janke, Lincoln County family living educator and family financial specialist, UW-Extension; Elizabeth Kiss, family resource management specialist, Purdue University; and Barbara Roder, Fond du Lac County family living educator and family financial specialist, UW-Extension.

Produced by Cooperative Extension Publishing, University of Wisconsin-Extension.

An EEO/AA employer, University of Wisconsin-Extension Cooperative Extension provides equal opportunities in employment and programming, including Title IX and Americans with Disabilities Act (ADA) requirements.

This publication is available in English or Spanish from your Wisconsin county UW-Extension office ([www.uwex.edu/ces/cty](http://www.uwex.edu/ces/cty)) or from Cooperative Extension Publishing. To order, call toll-free: 1-877-WIS-PUBS (877-947-7827) or visit our web site at [cecommerce.uwex.edu](http://cecommerce.uwex.edu).