



# Financial First Aid

Many circumstances in life can derail even the best money management plan. If you have found yourself in a situation where you can't keep up with your bills, you'll need to take an inventory of your resources and prioritize your financial obligations.

With limited funds available it may not be possible to pay all your bills in full every month, but by prioritizing your expenses and taking a proactive approach to your finances, you may be able to minimize the consequences until you get back on your feet.



**Consumer Credit Counseling Service of San Francisco**  
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**800.777.7526 415.788.0288 [www.cccssf.org](http://www.cccssf.org)**

## Step 1: Take Inventory of Income & Resources

Record all sources of income, including realistic expectations of income that you will be receiving soon.

MONTHLY RESOURCES	
Unemployment benefits	
Income from spouse, job, working children	
Worker's compensation	
Rental income	
Other	
POSSIBLE RESOURCES	
Cash on hand	
Savings	
Money market accounts, CDs	
Cash value of whole life insurance	
Present value of bonds	
Retirement plans (subtract IRS fees & penalties – about 50%)	
Lump sum vacation pay	
Collectable insurance claim not yet filed	
<b>TOTAL MONTHLY INCOME</b>	

### Ways to Increase Income

- If you live near a college or other type of adult school and you have a spare room, you could rent it out on a month-to-month basis. Some schools even have housing coordinators who handle the arrangements.
- Have a garage sale.
- Can older children or an unemployed spouse find work?
- If you are getting a tax refund each year, consider increasing the number of exemptions you are claiming on your W-4 form at work. This will give you more take-home pay. (Consult with a tax advisor to make sure this will not result in an end-of-year tax debt.)
- Make sure you apply for all benefits you may be eligible for, such as unemployment insurance, AFDC, social security, etc.

### Liquidating Assets

In certain situations, tapping into an IRA, a 401(k) or a life insurance policy makes sense – the penalties for early withdrawal from a retirement account may be reasonable when compared with the possibility of losing your home through foreclosure. The important thing is that you not make these decisions lightly. Be sure to speak to professionals who can help you look objectively at your options.

Early withdrawal from a retirement plan can result in hefty penalties and taxes, in some cases eating up to 50% of your balance. Borrowing from a life insurance policy may be an option, but remember that any portion that is not repaid is money that will not be going to the beneficiary.

Some 401(k) plans allow participants to borrow up to a certain percentage of the account balance. Borrowing from your plan may help you avoid penalties and tax consequences. Speak to your benefits specialist to learn more about your company's plan.

### Ways to Cut Expenses

- Can you pack school/work lunches? Give up eating out?
- Talk with your minister about temporarily eliminating your contribution until your financial situation improves. Maybe you could do some volunteer work instead.
- Could you substitute expensive leisure activities with less costly, or free, alternatives?
- Exercise for free – walk, run, bike or check out exercise videos from the library.
- Cancel your cellular phone.
- Is there a friend who is able to provide low-cost daycare? Or could you form a daycare “pool” with other parents?
- Cut long distance phone bills and drop extra telephone services like call-forwarding and caller ID.
- Are there club memberships, newspaper or magazine subscriptions, or cable services you could cancel or suspend?
- Make coffee dates instead of dinner dates.

## Step 2: Review Your Expenses

**Essential Expenses:** Complete the worksheet below to see how much you're spending and where you can make some adjustments. You could try conserving energy to reduce the utility bills or you could spend less on gasoline by carpooling. Also, while savings would normally be considered essential, in an emergency situation where you are just trying to keep your head above water, savings goals might have to be put on hold temporarily.

CATEGORY	ITEM	PER WEEK	PER MONTH
HOUSING	Rent/mortgage		
	2nd mortgage		
	Property taxes		
	Homeowner's/renter's insurance		
	Condo fees/HOA dues		
	Gas/electric		
	Water/sewer/garbage		
	Telephone		
FOOD	Groceries/household items		
	At work/school		
INSURANCE (exclude payroll deducted amounts)	Health/dental/vision		
	Life		
	Disability		
MEDICAL CARE (exclude payroll deducted amounts)	Doctor/chiropractor		
	Optometrist/lenses		
	Dentist/orthodontist		
	Prescriptions/medications		
	Counseling/therapy		
TRANSPORTATION	Car payment #1		
	Car payment #2		
	Auto insurance		
	Gasoline/oil		
	Maintenance/repairs		
	DMV/smog		
	Tolls/parking		
	Public transportation/taxis		
CHILDCARE (exclude payroll deducted amounts)	Daycare/sitting		
	Alimony/child support		
MISCELLANEOUS	Banking fees		
	Laundry		
	Pet care		
	Union dues		
	Storage		
	Other		
INCOME TAXES	Prior year		
	Estimated tax payments (self-employed)		
<b>TOTAL MONTHLY ESSENTIAL EXPENSES</b>			

**Discretionary Expenses:** During this period there will most likely be some necessary sacrifices to make, especially in regard to non-essential expenses. More than ever, you'll need to pare down your discretionary spending. Look at your budget critically to find places to make cuts.

CATEGORY	ITEM	PER MONTH
PERSONAL	Beauty/barber	
	Clothing/jewelry	
	Cosmetics	
	Manicure	
	Other	
ENTERTAINMENT	Cable/satellite	
	Movie/video	
	Dining out	
	Sports/hobbies/clubs	
	Vacation/travel	
	Books/magazines	
	CDs/tapes	
MISCELLANEOUS	Gifts (holidays & birthdays)	
	Home maintenance	
	Pager/cell phone	
	Postage	
	Cigarettes/alcohol	
	Contributions to church or charity	
	Online service/computer expenses	
	Other	
<b>TOTAL MONTHLY DISCRETIONARY EXPENSES</b>		

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### Step 3: Take An Inventory Of Your Debt

List all of your debts, including past due child and spousal support, back taxes, secured loans, student loans and unsecured debt.

CREDITOR	BALANCE	PAYMENT
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
<b>TOTAL MONTHLY DEBT PAYMENTS</b>		

## Financial Summary

<b>Total Monthly Income</b> (from page 2)	\$	+
<b>Total Monthly Essential Expenses</b> (from page 3)	\$	-
<b>Total Monthly Discretionary Expenses</b> (from page 4)	\$	-
<b>Total Monthly Debt Payments</b> (from page 4)	\$	-
<b>Monthly Income Surplus or Shortfall</b>	\$	=

## Step 4: Prioritize Your Bills

Not all of your debts impact your family equally. Those that enable you to maintain the health and well-being of yourself and your family are most important.

### Delinquent Mortgage

Maintaining your housing payments is a first priority. Mortgage delinquency can result in foreclosure if you don't take immediate steps to remedy the situation. Think carefully about whether you want to stay in your home. If not, you may choose to sell, offer a deed-in-lieu of foreclosure, or conduct a short sale with the permission of the lender.

If you want to keep your house and have already missed mortgage payments – or think you might in the near future- you have some options. If you are current on your loan, and have some equity in the property, consider refinancing. If not, a forbearance or other payment arrangement might be in order.

If your situation is temporary, contact the lender. Request an arrangement, in writing, providing documentation of your situation and your prognosis. It may be possible to send reduced payments for a specified period of time, with an arrangement to make them up later. Be sure to make it clear that your problems are due to circumstances beyond your control. Never promise to make payments that you can't afford, as a lender can revoke an arrangement if you break your agreement.

By staying in contact with your lender, documenting your situation, and following through on agreements, you may be able to avoid foreclosure. The longer you wait, however, the more difficult it becomes. The closer you

get to the date, the more challenging and expensive it becomes to remedy the situation.

### Delinquent Rent

If you are delinquent on your rent, be sure to speak with or write to your landlord. If you have any funds available, try to make arrangements to pay. The landlord may accept partial payments for one or two months. Be sure to give a concrete plan and prognosis. Also, if you have a private landlord (as opposed to a building management firm), you may be able to do some maintenance work in place of part of your rental cost. If you cannot reach an agreement, you must either leave the premises or the landlord will proceed with eviction.

### Car Payments

Missed car payments can quickly result in serious consequences. If you are delinquent on your car payment, or think you might become delinquent, contact the lender right away. Sometimes it is possible to modify your loan to cover the missed payment, or maybe you can trade down or refinance your car. If your car is repossessed, it will be sold at auction. The difference between what you owe plus repossession and storage costs and what they sell it for will become an unsecured debt for which you will be responsible.

As a last resort, some people just give the car back to the lender. This is considered a voluntary repossession. The credit implications are not as severe, and there are no repossession costs added to the balance you may owe after the car is auctioned.

### Insurance

If you can't make your insurance payments, call your agents. Explain your circumstances, offer documentation, and ask about the length of your grace period. If you allow your insurance to lapse, you may have difficulty getting new coverage, or have to pay a large amount when reinstating the policy.

- **Auto:** For auto insurance, see if your insurer will agree to increase the deductible on your collision and comprehensive coverage. And, if you are making large annual payments, ask to switch to monthly or quarterly payments. If your car is not new, you may want only liability coverage in order to decrease your premiums.
- **Life:** Missing payments on term life insurance can cause you to lose your policy. If you are making payments into a cash value policy, speak to your agent about suspending or reducing them temporarily. While

you may be able to borrow money from a cash value policy, weigh this decision carefully as there may be penalties and loss of potential capital appreciation.

- **Health:** If you are no longer employed, check to see if the health insurance from your former employer is continued and for how long. Compare this to the cost of adding yourself to a family member's insurance policy, if possible. If coverage is not available or if you can't afford the premium, see if you qualify for public medical insurance or look into catastrophic insurance that would pay for major hospitalization only. With a high deductible, these policies can be relatively inexpensive. There are low-cost medical services in most communities for basic health needs.

### Utilities

Delinquent utility payments can cause your service to be suspended or terminated. Aside from the obvious problems this causes, many utility companies require you to catch up delinquent payments and put down a deposit in order to reinstate the service. If you have fallen behind, call the utility company and ask about payment arrangements. Many companies will let you repay your past due balance over a six month period. Also, speak to the company about reduced rates for people in hardship, or any emergency funds that you can apply for.

### Student Loans

Deferments and forbearances are available for people in hardship situations for up to two years on many loans if you meet the lender's criteria. You must be fairly current to qualify for these programs. If you are delinquent, consolidation may be the answer. Consolidating student loans not only brings them current, improving your credit and possibly qualifying you for deferment, but also offers several payment options. One option is an income-based arrangement in which your payments vary annually according to your income.

Allowing your student loan to go into default, and not doing anything to cure it, will not only result in credit damage, but serious collection tactics, including wage garnishment and interception of tax returns.

### Taxes

Contrary to what you may believe, the IRS is willing to negotiate a tax repayment plan with taxpayers who want to get back on track. If you haven't filed, do so right away. If you owe federal taxes, the IRS begins their collection process by sending out a series of letters. The last is a Notice of Intent to Levy. After that is received, the IRS may take such action as garnishment, tax liens, or levying (seizing) your property. Both before and during the process, you have some options. You may be able to



set up a monthly repayment plan. Or, if you have some funds available, you may be able to establish an offer in compromise, which is a settlement of your debt for less than what is owed. In cases of extreme hardship, the IRS may be willing to suspend collections for a year. To make any of these arrangements, call the IRS at (800) TAX-1040.

### Child and Spousal Support

Child or spousal support is not an expense that can easily be reduced. You must go to court to have your amount reduced or modified. It is likely that you will need the assistance of a lawyer. Even if your ex-spouse or child's other parent agrees to the reduction, it must be handled through the court. Remember, the modification is not retroactive – you are responsible for the full amount, and all past due payments, until the court agrees to a reduction. Also, you cannot discharge past due support in bankruptcy. Neglecting this obligation can result in very aggressive collection action, including garnishment and criminal prosecution.

### Unsecured Debt

There is some flexibility in arranging a payment plan on credit cards and personal loans. Many creditors offer hardship programs- short-term payment arrangements allowing you to make smaller payments. When requesting these kinds of arrangements, be sure to stress that your situation is due to circumstances beyond your control. Also offer a timeline and your plan for improving the situation. Remember never to promise to make payments

that you can't afford. Generally, if you miss payments during your hardship program, the creditor will revoke the arrangements. Make your offer only after developing a realistic budget. Follow up with a letter like the sample shown below.

Neglecting your debt can result in collection action, credit damage, and creditors possibly taking legal action. Legal action can result in a judgment, enabling the creditor to garnish your wages, place liens on your property, or seize your belongings.

### Miscellaneous Bills

Miscellaneous bills may include medical bills, auto repair bills, legal bills, health club dues or any other unsecured debt besides credit cards or student loans. The process for arranging payment is similar to handling unsecured debt. Keep in touch with your creditors, update them as your situation changes and don't promise to send more than you can afford to pay.

## Step 5: Communicate With Your Creditors

It is best to contact your creditors in writing, keeping copies of all correspondence for your records. Before you write your letters, you will need to clarify the following facts:

- How did you come to be in financial difficulty? Creditors will want to know what specific hardship caused you to miss payments, whether the hardship was beyond your control and whether the situation is likely to happen again.
- What steps can you realistically take to remedy the situation right now? It is important that you understand how much, if any, money you can offer your creditors. It's better to be honest and tell the creditor you are temporarily unable to make any payment than to promise to send money you don't have.
- What are your plans for future income? Creditors

## Sample Letter to a Creditor

January 18, 2005  
ABC Credit Company  
Central City, USA 17171

Dear Creditor:

Due to a layoff, I am temporarily unemployed and, as a result, am experiencing financial difficulties. I have analyzed my current situation with the help of CCCS of San Francisco (*if applicable*).

After making a strict budget for my expenses, I find it necessary that I ask each creditor to accept a reduced payment for the next three months. By then, I expect to be back at work full-time.

I would appreciate your cooperation in making this payment plan work. In place of the regular payment of \$80, I request that you accept payments of \$30 per month during this emergency. I will pay before the 30th of the month.

You can be sure that I will resume normal payments as soon as possible. Thank you for your consideration. If there are any changes in my situation, I will notify you of them as soon as possible.

Sincerely,  
Name  
Address  
Account number

want to know exactly how you are going to resolve the situation and when. Be realistic in your projections.

After you have written your letters:

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

### Your Credit Report

If you are having trouble paying your bills on time, you may be concerned about developing a negative credit

history. If your payments are made 30 days late, you may be reported late to the credit bureaus. If your payments are arriving 60 days late, or if you are making partial payments, your creditors most definitely will report your accounts as delinquent.

While it is important to maintain a good credit history whenever possible (a clean report will make it easier to get credit in the future), it is important to have a clear understanding of where your credit report fits among all your other priorities. In other words, given a limited income that does not enable you to pay all your expenses and bills, it is more important to keep a roof over your head and feed yourself and your family than it is to have immaculate credit.

Keep in mind, too, that although future creditors and others who look at credit reports (some employers, insurance companies and landlords) will see a negative mark, the older the delinquent payment becomes, the less weight it will carry in the decision-making process – especially if your recent payment history is positive.

Information about delinquent payments drops off the report automatically after seven years. If you would like to provide an immediate explanation to everyone who reviews your credit report, you can ask the credit bureaus to add a message (100-word maximum) to your report to clarify the circumstances surrounding your payment history.



Consumer Credit Counseling Service of San Francisco offers a variety of free and low-cost services to help you get out of debt, design a money management plan, and achieve your financial goals. For more information about how CCCS-SF can help you master your money, call us toll-free at 800.777.7526 or log onto: [www.cccsf.org](http://www.cccsf.org) for more information.