

Communicating With Creditors

WHEN YOU FACE MISSING PAYMENTS AFTER A DISASTER

After a natural disaster, you may face temporary loss of income and steep bills for clean-up and repair not covered by insurance. If you realize you can't pay all your bills, it is important to face your debts and know how to talk to creditors.

Your past experiences with creditors are important. If you have consistently paid bills when due, your creditors will be more cooperative than if you were late or didn't make regular payments. Creditors want to keep your business, but as businesses they also need to be paid.

Contact your creditors immediately; don't wait for them to contact you. Explain your current situation. Tell them your family income is reduced and you are not able to keep up with your payments. Frankly discuss your future income prospects so you and your creditors can figure out solutions to the problem. Most creditors would prefer to receive smaller payments on a regular basis than to begin expensive collection procedures.

WHERE TO BEGIN

Before you and your creditors agree on a reduced payment or some other solution, determine how much money you have to pay off your debts. Figure out how much income you can count on each month and how much you need to pay for your essential monthly living expenses.

Once you have gathered this information, contact each creditor explaining your family's situation and work out a solution. Be prepared to explain:

- ◆ The reason you cannot pay.
- ◆ Your current income and prospects for future income.
- ◆ Other obligations.
- ◆ Your plans to bring this debt up-to-date and keep it current, including the amount you will be able to pay each month.

Visit local creditors in person. Contact out-of-town creditors by phone or letter. If you phone, write down the name and title of the person to whom you talked. Follow the conversation with a letter summarizing the agreement between you and the creditor. Keep copies of your correspondence as well as any replies.

As you negotiate with each of your creditors, don't agree to any loan simply to get off the hook. Be sure you will be able to follow through on the agreement. Establish a payment rate that is realistic and acceptable to both you and the creditor.

RENEGOTIATION OPTIONS

Here are some alternatives to consider when negotiating with your creditors:

- ◆ Reducing the monthly payment
- ◆ Refinancing the loan
- ◆ Consolidating your loans
- ◆ Deferring a payment for a short time if you expect your income will increase soon
- ◆ Reducing or dropping late charges
- ◆ Paying only interest on the loan until you can resume making monthly payments

WHEN THEY CALL...

If you receive a call from a creditor or a collection agency:

◆ Ask the name of the caller. Get the name of the creditor and the name, address and telephone number of the collection agency. Get the exact amount of the account that is claimed to be due. Write down the date and time of each call.

◆ Don't get angry. Remain calm in order to obtain the information noted above.

◆ Dispute debts in writing. If you believe you do not owe the amount claimed or disagree in other ways, make your reasons known promptly in writing to both the creditor and the collection agency. Request a written statement of your account.

Additional resources:

Your county family living agent

Related publications:

UW-Extension publications--

"Managing Between Jobs — Deciding Which Bills to Pay First," (B3459-3);

"Managing Between Jobs — Strategies for Spending less," (B3459-2);

"Managing Between Jobs — Talking with Creditors," (B3459-4);

"Making Ends Meet: Our Spending Plan," (B7760313).

- ◆ Voluntarily surrendering or giving back an item purchased on credit
- ◆ Selling the item and using the cash to satisfy, or partially satisfy, the debt (you are still responsible for any remaining balance)

Not all creditors will be willing to accept alternatives. However, they will be more likely to work with your family if you contact them before they contact you. If you fail to follow the plan that you and your creditor agreed upon, you may hurt your chances of getting future credit. Tell your creditors about anticipated changes that may affect your payment agreement.

IF YOU DON'T PAY YOUR BILLS

If you miss a payment, you will face increasing pressure to pay. First you will receive a letter reminding you that you missed a payment and asking you to pay promptly. After that, you may receive a more direct letter demanding payment, or you may get a phone call.

If the bills are still not paid, they will probably be turned over to an independent collection agency.

CREDITOR'S OPTIONS

Creditors can take several kinds of legal action against you if you fail to make payments:

- ◆ *Acceleration.* The entire debt is payable at once if you miss a payment. The courts can force you to pay by seizing your property and selling it.
- ◆ *Repossession.* The creditor can seize the item you bought or the property you used as collateral. If the sale of the property brings less than the amount you owe, you must pay the difference.
- ◆ *Wage garnishment.* A court order requires your employer to withhold part of your wages and pay your creditor.
- ◆ *Foreclosure.* The lender may start proceedings to take possession of your home/business and sell it to recover the remaining balance of the loan. You are responsible for the legal fees of foreclosure and the difference between the selling price of the property and the amount owed on the loan.

All of these actions are very serious and could jeopardize your ability to get credit in the future. To avoid such problems, work out solutions for debt repayment early and stick with the plan unless it is renegotiated.