Restructuring Debt After a Disaster

ESTABLISHING PRIORITIES AND ADJUSTING DEBT

You are obligated to pay all of your creditors, even after a disaster has shaken your financial status. However, debt adjustments can ease a difficult financial period by reducing the amount paid to creditors, or extending the time period for payments.

Before contacting creditors, take a hard look at your finances and evaluate how much and when you can pay. Consider:

- **Your monthly income**
- **Essential monthly living expenses**
- **Number of creditors and total amount owed**
- **How long your present financial circumstances will last**
- **Assets (savings, items that could be sold) that could help pay off loans**
- **High-priority debts**
- **Debts that could be satisfied by voluntarily surrendering, or giving back, an item**

DECIDING WHICH DEBTS TO PAY FIRST

If you can't pay all your bills, you must decide how much to pay to which creditors. One way is to divide available money and pay every creditor a share of what you owe. This is probably the fairest way, but it doesn't always work because each creditor must agree to reduce the amount they receive and extend the payment period.

Another creditor payment strategy involves setting priorities. Ask yourself these questions:

- *What will affect my family's health and security the most?* Usually the house, utilities, food, transportation and medical insurance take priority. Don't be tempted to let medical insurance slide when money is tight. If anyone in your family becomes ill, uninsured medical costs could be devastating. Pay high-priority bills or contact creditors at once to work out smaller payments.

- *What will we lose if the bills aren't paid?* You can lose your purchases if the creditor holds the title of the property as security for the loan: a home mortgage or car loan, for example. Sometimes furniture and large appliance loans are secured loans. If you aren't sure which loans are secured, check the credit contract. Unsecured debts may have to take lower priority, although you are obligated to pay them too.

- *How much do we still owe on the loan?* Determine how much you have paid on each loan and how much you owe. If you have only one or two payments to make on a loan, it's probably a good idea to finish paying it. Getting out from under some of your debts can reduce the pressure you feel. You may be able to return newer items or sell them to pay off the debt. If you choose to voluntarily surrender an item, you'll still be required to pay the difference between its market value and the amount remaining on the loan.

- *What interest rate are we paying?* Credit card firms charging 1.5% interest per month would receive 18% interest per year on the unpaid balances. If you have a loan with a lower interest rate, you may decide to pay off a higher interest credit card balance first, to reduce the amount of finance charges you are paying. Until your financial situation improves, watch credit card purchases carefully. Consider putting cards away in a safe place so you are not tempted to use them.

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MAKING IT WORK

Remember — no matter how bad your situation may be, don't ignore your bills and creditors. Prompt action is very important; let your creditors know you are having trouble before you miss payments and the situation becomes worse.

♦ Once you have worked out a repayment plan, follow through with it and make the payments you promised to make. If you fall behind on your new commitments, creditors will be less understanding. If you fail to make the payments, creditors may hire a collection agency to make you pay.

♦ Openly discuss spending decisions with all family members. This will help everyone realize that changes and sacrifices must be made for your family's plan to be successful.

Additional resources:

Your county family living agent, your local emergency government office, the American Red Cross, the Federal Emergency Management Agency

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).

- *Is consolidation a good idea?* Personal finance companies want you to think so, but generally a consolidation loan charges a higher interest rate, often 20% or more. And refinancing to smaller monthly payments will extend the number of payments you must make, adding to the total cost. If you are facing a temporary financial crisis because of disaster, the ease of a single payment may be worth the higher interest rate if you can pay back the loan early with no penalty.

- *What about our credit record?* Nonpayment of debts is recorded on your credit record and can damage your ability to get credit in the future. That's why you should contact all of your creditors immediately if you cannot pay your bills.

YOUR REPAYMENT PLAN

Once you have calculated how much money your family has for monthly living expenses and for paying off debts:

- Decide how much you can pay to each creditor, based on priorities you determined while answering the previous questions.

- Work out a repayment plan that shows how much you plan to pay each creditor. Put this plan in writing.

- Contact each of your creditors to explain your family situation. You will need to tell them how much you are able to pay and when you will be able to pay it. (See the fact sheet, "Communicating With Creditors," in this series.)

- Some businesses, such as utility companies, have counselors to help you budget even payments during the year. They also can tell you if you qualify for fuel assistance or any available programs.

Information from: University of Wisconsin Cooperative Extension, University of Illinois Cooperative Extension Service, University of Florida Cooperative Extension Service