

## Addressing Financial Difficulties

Talking about finances is generally a hard topic for individuals or families. During times of financial hardship as many people are facing now it is even more important to take time to set up a viable plan to manage our finances.

### *Step 1: Evaluate the situation*

- ▶ Who do you owe money to?
- ▶ When do you have to pay?
- ▶ How much do you owe right now?
- ▶ How much can you pay right now?
- ▶ Does the lender or creditor offer a payment plan?
- ▶ Have you talked to the creditor or lender about payment options?
- ▶ What are the consequences of not paying?

### *Step 2: Investigate your options*

▶ **Job loss** – In the event of a job loss, it can be difficult to continue life as normal. If you were laid off or furloughed see if you qualify for unemployment. You can also contact your creditors to explain that you are temporarily unemployed and see what sort of payment options they offer.

▶ **Unable to pay small bills** – If you are unable to pay small bills such as utilities and credit cards, contact the businesses directly to see if you can work out an agreement. Utility bills do not report to the credit bureaus and they only charge a small late fee. It is not recommended to use a lender to pay these small bills. Instead, see if you can negotiate to pay in a few weeks.

▶ **Unable to pay large bills** – In the event that you cannot pay your mortgage or loan payment, **contact your lender immediately**. Most lenders have forbearance and modification programs set up to help borrowers who are dealing with a temporary financial setback. Make every effort to pay a mortgage or loan payment on time as not paying on time can result in damage to your credit report and/or possible foreclosure of your vehicle or property. Consider using savings or reducing your expenses in order to pay your loans.

Also check Eviction Lab's website for the latest eviction policy changes during COVID-19.  
[www.evictionlab.org/covid-eviction-policies/](http://www.evictionlab.org/covid-eviction-policies/).

▶ **Deep in debt** – If you have a steady income but are facing a large amount of credit card debt, you should develop a plan for paying off the debt over time. Calculate exactly how much you can afford to pay toward your debts each month. Subtract all your minimum payments from this amount and put the rest towards the debt that has the highest interest rate and the highest balance. Do not charge additional expenses to your credit cards during this process.

▶ **Debts in collections** – Unpaid debts such as medical bills, library charges and credit card bills are often sold to collections agencies. These agencies call and send letters in attempt to recover the debts they have purchased for pennies on the dollar. If you have debts in collection, your first move should be to request that the collectors only contact you by mail (instead of phone). By law they must comply with this request. Then work with the original creditor or the collections agency to negotiate a settlement.

### *Step 3: Take action*

There are several options available to help you manage financial hardship:

▶ **Credit cards** – Credit cards work best for short term difficulties that you know you can repay in a few months. You can keep your credit score healthy by keeping your balances below 40% of each of your credit limits. Obtain a free copy annually of your credit report from Equifax, Experian or Transunion and review it for any inaccuracies.

▶ **Savings** – Deciding to access savings during a financial emergency may seem like a bad idea, but it is actually a smart move in some situations. You will not have to pay interest or fees on the money you borrow from a savings account. You may even be able to access your 401(k) funds

under a “hardship distribution” policy. Depending upon the situation, however you may have to pay up to a 10% penalty on the amount you withdraw.

► **Personal loans** – You can consider borrowing \$1,000 to \$15,000 with a personal loan. These loans have a 1-4 year term and work best if you have a stable income and need a large amount of cash for a financial emergency. Be sure to check the annual percentage rate for the loan.

► **Home equity loans** – If you are a homeowner and you have equity in your property, you may be able to cash out some of your equity by refinancing. These loans can also work for consolidating your debts. Be very careful about using a home equity loan, however. The loan is tied to your home. If you cannot make the payments, you could risk losing your home.

For additional confidential assistance contact the EAP at (845) 638-8880.