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When Money is Tight, Which Bills Should You Pay First?

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Madison, Wis.--When money is tight due to a job loss, debt or simply the high cost of food, fuel and energy, you may be tempted to turn to credit cards or take out a loan to weather the financial storm.

But taking on more debt is generally not a good idea, says J. Michael Collins, University of Wisconsin-Extension family living educator and assistant professor of consumer finance at the UW-Madison School of Human Ecology.

“Unless your situation turns around quickly, more debt only creates bigger problems,” he says. “Instead, focus on cutting your spending and working with creditors to reduce your payments until your situation improves.”

When bills add up to more than you can pay, the best advice is usually to contact your creditors. Explain your situation and ask for their help. Creditors are often willing to work with you if you contact them before you fall behind on your payments.

But before you talk to your creditors, collect all of your bills and bank statements to figure out how much you are spending each month and where you can cut back.

“Remember that you are legally obligated to pay all your creditors,” says Collins. “But when there’s not enough money to pay all your bills, you must carefully consider when and how much you can afford to pay.” Credit counselors can help with this task, but you can help yourself by: 1) getting organized; 2) calling your creditors; and 3) sticking to a payment plan.

If you rent, tell your building manager or landlord about your situation before the rent is due. It costs money to find new tenants, so the landlord may be willing to work out a solution with you.

If you miss a mortgage payment, the lender will notify you that your payment is past due and may charge you a late fee. If you don’t make the mortgage payment or contact the lender after two to three months, the lender may start foreclosure—the legal process of selling your home to pay off the debt. The most important step you can take is to contact your lender before you miss a payment; lenders will work with you on a payment solution to avoid the time and cost of

foreclosure. You can also look for help by calling the HOPE hotline: 888-995-HOPE (or go to www.995hope.org/).

Other housing costs include property taxes--a homeowner's next most important payment after the mortgage. If you cannot pay your property taxes, contact your county treasurer right away. Even if you miss some payments and resume them later, you may still face foreclosure. To find out how to prevent this, your county treasurer (listed under local government in your phone book) can advise you.

Utility cutoffs can occur when bills go unpaid. Fuel suppliers can't shut off heat during the winter, but you will still be required to pay the full amount owed with interest. If you can't pay, contact your utility company before the bill is due or you need fuel. Utility companies often have budget counselors to help you work out realistic payment plans. Also find out if you are eligible for low-income home energy assistance or other benefits.

Keep in mind that home heating and air conditioning are the most expensive utility costs. With family members, decide how you can safely reduce your costs by adjusting your energy use.

Reduce the amount you spend on food by adopting strategies such as purchasing lower-cost sources of protein (dry beans, eggs, peanut butter and chicken). Check ads for weekly specials and other deals, and buy cheaper generic and store brands. Take advantage of free or reduced-price school lunches or breakfasts for your children. Find out if you qualify for help with the costs of food by contacting your county social or human services office. You may also qualify for the WIC—Women, Infants and Children (www.dhfs.state.wi.us/wic) even if you are not on public assistance.

If you need a vehicle to keep or get a job, paying car loan or lease payments is a priority. If you lease a vehicle, check your lease for penalties that result from failure to pay or early termination of the 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 don't have 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 and their mothers qualify for BadgerCare Plus in Wisconsin. Contact your public health department for more information or see <http://www.access.wisconsin.gov>.

Ask yourself what you will lose if don't pay the bills on items such as furniture, appliances, boats, recreational vehicles or electronic equipment. Repaying these loans may have a lower priority—especially if you can manage without the item. Think about what you can sell, or return. You may also be able to renegotiate a lower payment with the creditor, but get any agreements in writing.

When you have determined how much money you have for monthly living expenses and for paying off debts, write down a repayment plan that shows how much to pay monthly on each bill and when each bill is due. Be sure to pay on time since late fees can really add up.

With this plan in hand, you are ready to contact each creditor to explain your situation. Tell each how much and when you can pay. Be patient—you will be on the phone for awhile and be prepared to be frustrated. If you are not making progress, don't be afraid to ask for a manager or a loss mitigation specialist.

After you've worked out a repayment plan, stick 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.

Face the situation honestly and openly discuss spending decisions with all family members, so everyone understands the changes and sacrifices needed for your plan to succeed.

No matter how bad your situation may be, you can't afford to ignore your bills and creditors. Prompt action is essential. Take charge—let your creditors know you are having trouble before you miss a payment and the situation gets worse. If you feel like your situation is getting worse and you cannot make ends meet, filing bankruptcy may be an option. But remember, bankruptcy won't relieve you of all debt, can be costly and slow to pursue and will remain on your credit record for years to come.

For more information on ways to manage your money, contact your local county Extension office or view the publication series "Managing Between Jobs" at <http://learningstore.uwex.edu/Managing-Between-Jobs-C71.aspx>

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