Debt Free In Due Time

A GUIDE TO OVERCOMING FINANCIAL CHALLENGES
& BUILDING A BRIGHTER FINANCIAL FUTURE

About GreenPath

GreenPath, Inc., is a nationwide non-profit consumer credit counseling service that has been helping people resolve financial problems, achieve financial goals and get relief from debt since 1961. You know us as GreenPath Debt Solutions. Our compassionate, professional credit counselors are committed to helping you solve your financial problems and achieve your financial goals. Through debt counseling, debt management, and financial education, we work with you to explore options and help you select the debt relief strategy that's best for you.

Headquartered in Farmington Hills, MI, GreenPath operates 37 full-time branch offices in Michigan, New York, Wisconsin, Illinois, Indiana and Arizona, and delivers licensed services throughout the United States over the Internet and telephone.

Our core purpose:

Through financial knowledge and expertise, we enable people to enjoy a better quality of life.

About this Book

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that GreenPath, Inc. is not engaged in rendering legal, accounting, or other professional services. If legal or other expert advice is required, the services of a competent professional should be sought.

This book is intended as a general guide to personal money management. Everybody's situation is unique, so the options and alternatives available to one person may not be available to another.

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Introduction: Getting on the Right Path

"I'm afraid . . . and the collection calls never stop."

"I'm just so tired of the stress."

"Why is managing money so difficult?"

FINANCIAL CHALLENGES — WHETHER SUDDEN OR LONG-IN-THE-making, self-inflicted or unavoidable — can seem debilitating. They create fear, stress and uncertainty, threatening to affect our health, careers, personal relationships and quality of life. While these are natural reactions to a very stressful situation, implementing a plan to address the hardship can create a positive, healthy and "can-do" outlook.

Financial counselors from GreenPath Debt Solutions bring you *Debt Free In Due Time*. I hope you can use the advice here to help manage your debt and set yourself up for a brighter financial future. By seeking counseling through GreenPath, you have already taken an important step.

It's Simple . . . Really!

The good news is that getting out of debt is simple — not easy, just simple. To do it, one must:

- Be diligent and make the best choices possible
- Spend less than they make
- Bravely face a fierce and frightening "monster" — debt — and its consequences head on
- Know their rights and how to exercise them

It's true that this may be "easier said than done," but this book can help you do all of these things by providing you with information you can use immediately. Through this book, you will learn about your rights and responsibilities, sound money management practices and strategies for dealing with creditors in a number of realistic and urgent situations.

I hope you will put it to work right away and that there will be better days ahead . . . perhaps sooner than you expect.

Jane McNamara
President and CEO
GreenPath, Inc.

CHAPTER ONE

Balance and Stability: Building Your Household Budget

THE FIRST AND MOST IMPORTANT STEP TO EFFECTIVE FINANCIAL planning is developing and implementing a **budget**. That, of course, sounds easy enough and even simplistic. But if it were so easy, do you think that so many millions of people would be as deeply in debt as they are? In its simplest form, budgeting simply means to *live within one's financial means*. This is in sharp contrast to the prevailing lifestyle of "living beyond your means". How do people live beyond their means? A very common way is excessive use of credit.

If your debt is already out of control, it will be that much harder to implement a budget. However, it's doubly important that you do begin a budget if you are in debt. Without one, it's a virtual certainty that you'll never be able to live without debt. A budget forces you to get your spending under control, to "live below your means". If you have debt that must be managed and eventually paid off, living below your means is exactly what you're going to have to do. Only then will you free up money that can go toward reducing and eliminating your debt.

It will be difficult at first, but most behavioral changes are. You're changing your mindset and attitude toward your money, and that takes time. But the longer you do it, the easier it becomes. It won't be too long before your budget has become your habit. And with your spending under control, you'll be well on your way to meeting your long-term financial goals.

Let's Get Started

Your plan begins with a thorough and realistic assessment of the household budget. It continues with the task of changing long-time spending habits, and it ends with a realistic plan that you and/or your family can use to decrease much of the stress you face currently and prepare for the future.

Budgeting involves a very basic principle:

SPEND LESS (-)	SAVE MORE (+)

It sounds basic, but it's good advice. Simple concepts, after all, are often the basis for effective life changes.

At GreenPath, we think of budgeting as a seven-step process through which you:

1) Determine your values
2) Establish your financial goals
3) Determine household income
4) Identify all household expenses
5) Develop a plan
6) Track the budget for accuracy
7) Re-evaluate the plan

There's no time like the present for getting started.

Step One: Determine Your Values

Each individual and each family has a unique set of values. Values help us make decisions and live life as we see fit. We spend money based on our value system — and that's OK. The key here is to understand that most people have a limited amount of income — we need to decide and agree on where our money goes.

For example:

- Should the family take a Disney vacation or purchase a new dining room table?
- How much does the family donate to church and charity?
- How much does the family spend on entertainment?
- Is any money spent on cigarettes or alcohol?
- How much money is spent on education?

Values dictate much of what we do and why.

Step Two: Establish Your Financial Goals

What are you working toward — in both the short and long term? The idea with this step is to prioritize your goals and get agreement on them from your family or financial partners. When you adjust your budget and find you have to make some sacrifices, having clear goals will make it easier to see which adjustments and sacrifices are needed to achieve your goals.

Characteristics of Goals: Specific, Measurable, Attainable, Reasonable, Realistic, and Timely

Understanding the difference between a dream and a goal is important. If you say that you want to visit Hawaii one day, then you have a dream. But, if you say that you have to attend your cousin's wedding across the country in three months and will need to save $1,200 to pay for the trip, then you have a goal.

What is the difference between the two? The goal is specific and measurable, realistic and reasonable.

To achieve the goal, you need to answer some specific questions: How much do you need to save? When do you need the money? How many pay periods occur during that time? How much is available to be saved?

When you have the answers, you have a goal that meets the "SMART" test. It is:

- **S**pecific – The goal is easy to reach because the target is clear, rather than vague and elusive
- **M**easurable – Benchmarks show how much progress is being made toward the goal
- **A**ttainable – The goal should be within reach
- **R**ealistic – An unrealistic goal sets you up for failure
- **T**imely – Working with stated deadlines creates an urgency that will spur action and create results

Consider the following goals:

Dream	SMART Goal
I will take a European Vacation someday	I will save $250 per month for two years in order to take a trip to France
I will go to school someday	I will enroll in marketing classes at the local university starting in the Fall semester
I will lose some weight	Through diet and daily exercise, I will lose 20 pounds by the end of the year

Having a "SMART" goal doesn't always mean it's "SMART" enough. Goals may need to be periodically revisited and adjusted. For example, you might need $5,000 in two years to pay off a specific debt. Since you get paid twice each month, you would have to save $104 each pay period to achieve your goal. Depending on a number of factors, it might work if you reduce your grocery budget, carpool to work and cut back on discretionary expenses. But, if anything in the scenario changes, you might need a more realistic plan — like paying it off in three or four years.

It is also important to recognize that each member of the family has his/her own ideas about which goals are important. Since one of the biggest sources of disagreement and aggravation is the subject of family finances, it is imperative that everyone sit down together to identify and agree upon family goals. Open communication among all family members helps prioritize goals and uncover concerns while ensuring everyone is in agreement and working toward the same common goals.

Schedule a family meeting today. Make sure you have sufficient time and use the worksheets we've included here as your guides.

Keep in mind the following rules of thumb:

- **Short-term** goals are those that can be achieved in a year or two.
- **Mid-term** goals are those that can be achieved in two to five years.
- **Long-term** goals are those that can be achieved in greater than five years.

Note: Reducing your level of indebtedness is likely your first — and most urgent — goal since it is likely to affect your chance at achieving other goals.

Worksheet: Thinking About Your Goals

Short-term Goals – Goals you would like to accomplish within the next one to two years:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________

Mid-Term Goals – Goals you would like to accomplish in the next two to five years:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Long-Term Goals – Goals you would like to accomplish in five years or greater

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

After you have identified your specific goals, put them down on paper, including all of the financial details. Here are two examples:

Goal	Short-, Mid-, or Long-Term	Total Amt. Needed	# of Months Until Goal is Reached	Amt. to Save Each Month
Purchase new home computer system	Short-	$2,000	12	$167
Save for a down payment on a house	Mid-	$3,600	36	$100

Goals change continuously over a lifetime as we enter and exit various stages of life. Revisit your goals often to see if they are still relevant.

Spending Money - The Best Choice Depends on Your Goal

Scenario A: You receive a large sum from your tax return.

If improving your credit score is your highest priority, you can pay off any debts that are in charge-off or collection status first.

If lowering your monthly payments is your highest priority, you can pay down the credit cards that require the highest percentage payment.

If lowering your overall interest costs is your highest priority, you can pay off your highest interest debt first.

Scenario B: Your credit card balances continue to increase, due to lack of disposable income

If improving your monthly cash flow is your primary concern, you can cancel some of those variable expenses, like entertainment, cable TV, and high-speed internet.

If rising interest rates are of primary concern, stop using the cards, and pay off as much of balances as possible. Avoid any discretionary spending until the card balances are paid down.

Scenario C: You have significant debt, but also have savings and investments that you can liquidate.

If you can, it may be a good idea to liquidate savings on which you are earning a low interest rate to pay down higher interest debt. However, keep in mind that it is also critical to retain some of your savings for emergencies.

Step Three: Determine Household Income

Your household budget should be based upon your net (take-home) income, as opposed to your gross income. Include all types and sources of income: salaries, part-time jobs, government benefits, child support, pensions and assistance from family members, etc. Leave nothing out. The budget is for your eyes only, but exercise caution with regard to including overtime, bonuses and anticipated commissions. It is not wise to base your monthly budget on income sources that are sporadic and/or uncertain.

Step Four: Determine Household Expenses

Whether the expense is for taxes, household bills, groceries or childcare, it falls within one of three basic categories of expenses:

- **Fixed expenses** are those expenses that are generally the same each month, and may be contractual — like your rent/mortgage, personal loan and car payments.
- **Flexible or Variable expenses** are those expenses that can and do change each month — like your entertainment, some utilities, groceries, and medical expenses.
- **Periodic expenses** are those expenses which occur quarterly, semi-annually, or even annually. Examples of this category would be life and auto insurance premiums, tuition, and your property taxes (if not escrowed).

Sort your expenses according to these categories to better see the potential impact that you can make with simple and effective changes.

Step Five: Create a Plan

Here's where we assign the money. Starting with the total amount of disposable cash, determine how much you are going to spend in each of the categories. <u>Always take care of the high priorities first</u> — your rent/mortgage, transportation, groceries, and utilities. Second, make sure to budget for the periodic expenses like insurance and taxes. Finally, determine what's left over and allocate the dollars appropriately. Don't forget — savings needs to be considered an expense! Many people have developed the good habit of saving the first 10% of their wages, and then base the budget off of the remaining 90%.

It's very likely that you may have to identify areas where you can cut and/or reduce spending. A sure-fire way to get yourself into financial trouble is to consistently spend more on a monthly basis than you bring home. Your debt will increase, and your ability to save and remain stress free will decrease. A sound monthly budget should provide a blueprint for accomplishing these two critical elements of money management:

1) Learning to live on the income you bring in, and
2) Paying your bills on time and in full every month!

Step Six: Keep Track of Expenses

Tracking your expenses in a notebook, spreadsheet or banking/budgeting software is the only way to make certain you know where your money is actually being spent. You might be surprised at how much money you continuously spend on "non-essential" items such as gifts, extra clothes, coffee, weekend shopping, snacks, newspapers and eating out.

Step Seven: Evaluate Your Budget

Creating a workable and realistic budget is one thing — understanding if it's working is another. After 90 days or so, determine whether or not you are moving toward your financial goals at the right pace.

1) Are you paying your bills on time and in full?
2) Are you beginning to pay down and eliminate debt?
3) Are you able to save?

Life events will happen — make changes when and where necessary. However, don't lose the good money management habits you will have learned. Budgeting at every stage in the life cycle is a cornerstone to a strong financial picture.

Sample Budget Worksheet

CATEGORY	BUDGET AMOUNT	ACTUAL AMOUNT	DIFFERENCE
INCOME:			
Wages and Bonuses			
Interest Income			
Investment Income			
Miscellaneous Income			
Income Subtotal			
INCOME TAXES WITHHELD:			
Federal Income Tax			
State and Local Income Tax			
Social Security/Medicare Tax			
Income Taxes Subtotal			
Spendable Income			
EXPENSES:			
HOME:			
Mortgage or Rent			
Homeowners/Renters Insurance			
Property Taxes			
Home Repairs/Maintenance/HOA Dues			
Home Improvements			
UTILITIES:			
Electricity			
Water and Sewer			
Natural Gas or Oil			
Telephone (Land Line, Cell)			
FOOD:			
Groceries			
Eating Out, Lunches, Snacks			
FAMILY OBLIGATIONS:			
Child Support/Alimony			
Day Care, Babysitting			
HEALTH AND MEDICAL:			
Insurance (medical,dental,vision)			
Out-of-Pocket Medical Expenses			
Fitness (Yoga,Massage,Gym)			
TRANSPORTATION:			
Car Payments			
Gasoline/Oil			
Auto Repairs/Maintenance/Fees			
Auto Insurance			
Other (tolls, bus, subway, taxi)			

CATEGORY	BUDGET AMOUNT	ACTUAL AMOUNT	DIFFERENCE
DEBT PAYMENTS:			
Credit Cards			
Student Loans			
Other Loans			
ENTERTAINMENT/RECREATION:			
Cable TV/Videos/Movies			
Computer Expense			
Hobbies			
Subscriptions and Dues			
Vacations			
PETS:			
Food			
Grooming, Boarding, Vet			
CLOTHING:			
INVESTMENTS AND SAVINGS:			
401(K)or IRA			
Stocks/Bonds/Mutual Funds			
College Fund			
Savings			
Emergency Fund			
MISCELLANEOUS:			
Toiletries, Household Products			
Gifts/Donations			
Grooming (Hair, Make-up, Other)			
Miscellaneous Expense			
Total Investments and Expenses			
Surplus/Shortage (Spendable income minus expenses & investments)			

For expenses incurred more or less often than monthly, convert the payment to a monthly amount when calculating the monthly budget. For instance, convert auto expense that's billed every six months to a monthly amount by dividing the six-month premium by six. This money should be kept separate from your other money so it's available when the bill be-comes due.

Did You Know?

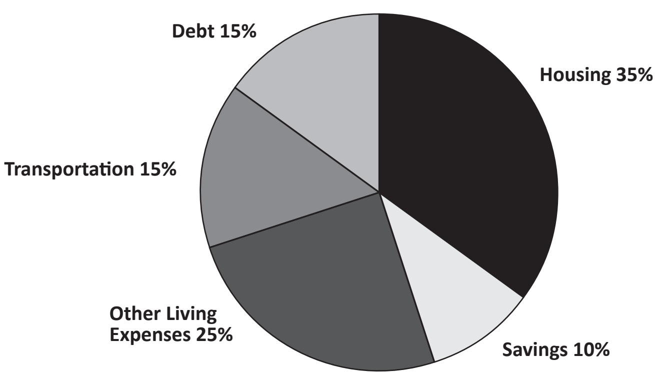
Saving just a little every day can add up to hundreds of dollars of savings each year. Think about your typical day. Do you spend $2.00 for a cup of coffee, $1.60 for a bagel, and $0.75 for a newspaper every day? During the course of a year, you will spend more than $1,000! What can you do instead? Consider the following simple remedies:

- Make coffee at home.
- Buy bagels and snacks at the grocery store and bring them to work.
- Read the newspaper online.

Don't panic — it's OK to enjoy a coffee and bagel at your local coffee shop! The key message here is that the smaller spending that occurs on a daily (lunch, soda, etc.) or weekly (gasoline, snacks, etc.) basis tends to be ignored. However, $10-$15 of discretionary spending on a daily basis will have an impact on your monthly surplus or deficit.

Recommended Distribution of Net Income

Spending Plan Guide



The graph describes GreenPath's recommended distribution of your net income. If you are spending more than what is recommended in a certain area, seek cost-cutting opportunities. Please keep in mind that these percentages are general guidelines intended as a guide.

Housing (35%) –
- Mortgage/Rent
- Repairs/Maintenance
- Property Taxes
- Utilities
- Insurance

Other Living Expenses (25%) -
- Entertainment
- Groceries
- Clothing
- Furniture
- Vacations

Transportation (15%) –
- Car Payments
- Gasoline
- Insurance
- Repairs / Maintenance
- Parking / Tolls / Public Transportation

Debt (15%) –
- Student Loans
- Credit Cards
- Personal Loans
- Installment Loans

Savings (10%) –
- General Household Savings
- Retirement
- College Planning
- Emergency Fund (3-6 months of living expenses)

Dave and Mick: Same Income, Different Stories

Consider Dave and Mick. Both of them work at the same company and essentially make the same salary. Dave decided that he wanted a house bigger than all of his friends' houses, so his monthly mortgage payment consumes 45% of his monthly net income. Of course, he also had to decorate his new house, so 25% of his income is now dedicated to credit card debt. He is spending the recommended 15% on transportation, but he splurges every week on concerts and dining out. In all, he spends an average of 30% of his income on entertainment. In the end, Dave has nothing left over for savings and not enough to fund his lifestyle. He turns to credit cards to bridge the gap, a mistake which can take years to correct.

Mick also purchased a nice house, but he only spends 37% of his income on the mortgage. He shopped around for the best price on a car and he recently consolidated his student loans, so 20% of his income goes towards debt. Although the price of gas has been rising lately, Mick carpools and avoids unnecessary trips, so he has been able to keep his transportation spending at 17% of his net income. Knowing that he is spending more than the recommended amounts in some of the other categories, Mick has cut back on dining out and he entertains friends at home. He only spends 12% of his income on entertainment. All of these savings help ensure he can always assign 10% of his income to savings and that he has an $86 surplus to use how he sees fit!

	Dave	Mick
Monthly Net Income	$2,150	$2,150
Housing	$967.50	$795.50
Debt	$537.50	$430
Transportation	$322.50	$365.50
Other Living Expenses	$645	$258
Savings	$0	$215
Result	$(322.50) Deficit	$86 Surplus

How does Mick do it? He pays attention, tracks his budget and decreases spending in some categories when he needs to increase spending in others.

Note: The Family Budget

A family budget is much different than an individual budget in several ways:

- Money is being managed for two or more persons
- Additional expenses must be accounted for — these include items such as diapers, children's extracurricular activities, higher utility bills, additional healthcare, another vehicle, etc.
- The mis-management of funds affects not only one person, but potentially the entire household
- A greater degree of coordination and communication is required to track spending from multiple sources

Though a family budget can be created in a similar manner to that of a personal (individual) budget, there is a greater chance that unforeseen expenses will materialize. For that reason, GreenPath counselors encourage you to emphasize clear communication and involve everybody in the process.

Maximizing Your Income

To increase the amount of money available for you to use each month, you don't always have to get a second job (but sometimes that is a viable option!). Making pay stub adjustments, changing benefit plans and reviewing other often-neglected choices can result in additional income.

Your Tax Withholding: Changing your tax withholding can mean more money for your use now. If you usually receive a tax refund, consider the impact to your weekly cash flow if you opted to retain more of your money, instead of having it deducted from your check. Rather than using credit, having a little extra cash could be the key to a balanced budget. Review your withholding allowances to make sure the proper amount is taken out from each paycheck — a modest refund is usually a good target. Engage the services of a tax preparer or an accountant, if necessary.

Changes to withholding can be made at any time during the year.

Your Retirement Plan Contributions: If your employer offers a 401(k) or similar retirement plan, it is a good idea to participate. However, you need to balance current needs with future ones. If you are contributing in excess of the employer match and need extra monthly funds to avoid financial issues, consider scaling back your contribution.

Paycheck Planning: Do you automatically deposit a portion of your paycheck into a separate savings account? Are there any other voluntary deductions that can be adjusted? For example, are you making any charitable contributions from your paycheck that can be stopped temporarily?

Working Overtime: Are more hours available at your current job? Are there extra projects you could take on for more compensation?

Lump Sum Vacation Pay: Do you have any accrued vacation pay at work that you can cash in?

Benefits: Make sure you apply for other benefits for which you may be eligible, such as Aid to Families with Dependent Children (AFDC), Social Security, and the like.

Part-Time Job: Can you secure a part-time job to make up all or some of the difference?

Marketable Skills: Do you or a family member have a skill that could be marketed like tutoring, cooking, home health care, lawn care or car maintenance?

Spouse: Does your spouse work? If not, can he/she? Can he/she work extra hours? Family Members: Do you have any family members living in the house that can contribute to the household income? Can your children contribute for their expenses, like cell phones, car payments, and car insurance?

Rent a Room: If you live near a college campus and have a spare room, can you rent it out on a month-to-month basis? Check with the housing coordinator at the local college for more information.

Child Support: Has your custody and/or financial situation changed since the court order was issued? If so, is it time to request that your child support obligation or entitlement be reviewed?

Unemployment Compensation: If you are unemployed, apply for unemployment compensation as soon as possible after you experience a job loss.

Once you have maximized your income, look closely at your expenses to determine what can be reduced. Quite often, a combination of increased income, reduced expenses and the restructuring of debts will be the best solution and help you make ends meet.

Minimizing Your Expenses

Tracking and reviewing your monthly expenses allows you to see more clearly where you can reduce or eliminate expenses, which expenses are "needs" vs. "wants" and where you should prioritize your spending. GreenPath counselors recommend making housing and utilities your highest priorities.

There are hundreds of ways that you can reduce your expenses. It may help you "find" money in your budget for use in the more important categories.

Housing: If your mortgage payment includes an escrow payment for insurance and taxes, shop your homeowners' insurance to find a better rate and lower your monthly payment.

Utilities: To conserve on your gas, electric and water bills, shut off your appliances, lights and faucets whenever possible and involve the whole family. If your income is fixed, contact your utility company for a "budget plan." Most utility companies offer fixed payment plans based on your last 12 months of use. This is convenient and can make budgeting easier.

Phones, internet and cable television are less essential utilities and are expense categories that can be reduced. Look for bundled services that combine all three services into one payment that is lower than paying for each individually. Or, consider eliminating one or more of the services completely. If you have a cell phone and a land-line phone, consider cancelling one. You can also downgrade your cable package to basic channels and lower the speed of your high-speed Internet service for savings.

Transportation: Try to minimize unnecessary driving and even excessive use of public transportation. Make the most of your transportation dollar by planning several stops on one trip. Carpool with friends and co-workers to reduce commuting expenses.

Shop around for better rates on your automobile insurance. Talk to your agent about unnecessary coverage, multi-policy discounts and raising your deductibles to lower your monthly payments.

If you are about to pay off a car loan, resist the temptation to buy a new car right away. Continue to drive the old car and enjoy the extra money in your budget for awhile. Budget a monthly amount for future car repairs and maintenance. Even though a major repair can be costly, it usually pales in comparison to payments on a new vehicle.

Food and Household Goods: Many people don't really know how much they spend for food and household goods, but your grocery bill can be significant depending on the size and habits of those in your household. Begin by tracking your weekly and monthly spending by saving receipts. Figure out what you are spending now. Then, give yourself a target spending goal for each week, and be diligent about sticking to your target. Pick a grocery day to buy everything at once for the week. Put cash in your pocket and leave your credit cards at home. The surest way not to overspend is to have just enough cash available at the checkout counter.

Clip coupons and pay attention to sale items. Try to only buy what you really need. Consider discount and bulk-food stores.

More tips are available in the appendices at the back of this book.

Budgets — Some Final Thoughts

Creating a budget isn't incredibly difficult, but where most people fail is trying to maintain the budget. It usually starts with good intentions, but just like dieting, it doesn't take much to derail your entire plan. Here are three (3) traits you must possess if you want to create and maintain a successful budget:

1) **A Positive Attitude**

Without a doubt, you need to go into the budgeting process with a positive attitude. If you think of budgeting as a chore, or that you are sacrificing something, you'll find it is extremely difficult to keep at it.

Don't think of the negative aspects of a budget, but think about the rewards. If you stick to your budget, what will you achieve? You may get out of debt sooner, you might be able to save money for a family vacation, or even be able to save more money for retirement or your child's education. Whatever your financial goals are, you need to focus on the budget as a tool to reach these goals.

2) **Stay Motivated**

Building on the positive attitude, you need to maintain motivation. What can happen over time is that you get into the habit of following your budget, and it all becomes routine. If you lose that motivation, you become complacent.

To become motivated again, consider rewarding yourself, or even increasing your goals. You need to find something that will push you to go the extra mile. If your goal was to have that credit card paid off in eight months and you've been plugging along just fine, challenge yourself to pay it off in seven months. If you do, reward yourself with something you'd enjoy.

The feeling of accomplishing your financial goals is intoxicating, so if you can continue to push yourself to reach these goals, you'll be able to maintain the excitement and motivation needed to keep at it.

3) **Keep Realistic Expectations**

One of the biggest budget killers is unrealistic expectations. If you set your sights too high, you only become discouraged when you fail to reach them. While it is admirable to try and accomplish great things, you need to set goals that are challenging, yet realistic.

One way to do this is to start fairly small with short timeframes. If you create smaller bite-sized goals over the coming months, you can see how likely you are to accomplish them, then, build upon those goals to set your sights a little higher. This is not only a great way to stay motivated, but it also helps keep your goals manageable.

CHAPTER TWO

Where's the Money? Assessing Your Resources

WHEN TIMES ARE TIGHT, IT IS A GOOD IDEA TO TAKE inventory of what you have and what is available to you to pay down debt and to pay your bills. If you can raise money to pay off debts, you may be able to correct your situation quickly. You may have assets like investments, retirement accounts, home equity, property or luxury items you can sell. However, while it may seem like a good idea to liquidate these during tough times, there are pros and cons to using these resources.

Each situation must be carefully considered and weighed against other important potential resources like family and friends, banks and other lenders, and charitable organizations. GreenPath warns against jumping to take advantage of a new loan offer. While this may seem easy, quick and painless, taking home equity loans, payday loans and other loans for consolidating your debt can come with a high cost. Before you go that route, look to what you may already have available.

Savings

Saving isn't easy, but having the funds available for a short-term need (like a surprise car repair or unexpected medical bill) or a long-term goal (like a down payment on a house, college tuition or retirement) is essential to your personal fiscal health and satisfaction. It is for that reason that you must carefully weigh the potential consequences of using this money.

Investments

If you have invested in stocks, bonds, real estate or commodities and feel you can liquidate these assets to alleviate financial pressures now, think through the reality of investing. To take advantage of the market you need to be able to stay in it. It may be better to keep your money invested now. Discuss your options with a financial planner.

Retirement Accounts

If you have exhausted all other funds and feel you have no choice but to use your retirement funds, check with your plan administrator to see if a loan is available. You will have to pay back the loan with interest, but the upside is that you'll be paying the money back to yourself.

If a loan is not available, you may be able to liquidate some or all of your account. If you are not at least 59½ years old, you will be charged a 10% fee. You will also pay income tax on all of the money taken out. In the end, the amount you'll receive will be less than the original value of your account, after fees and taxes.

You should think very seriously before using a retirement account because the consequences are severe. You will pay a high cost now and lose valuable money for the future. If you have a large amount invested and a small loan or withdrawal solves the problem completely, this may be a viable option. If not, you may want to look at other options.

Property and Other Assets

When assessing your assets, take inventory of more than just money. Your physical property and items have value that you may be able to take advantage of to get yourself out of a financial bind. There are two ways to use property to your advantage — sell the item or borrow against it. Both choices should be carefully weighed.

- **Home Equity**

  The difference between the current market value of your home and the amount you owe on your mortgage loan is your home equity. This is the part that you own and can possibly use. With equity in your home, several options may be available — 1) a home equity loan, 2) a home equity line of credit, 3) a refinance of your existing mortgage or, 4) if you meet the requirements, a reverse mortgage.

  There are advantages and disadvantages to using home equity — the decision really comes down to the individual situation. Using home equity to pay off unsecured, credit card debt puts you at risk of losing your home, because it is with your home that the new debt is secured. If you default, the lender can foreclose.

  As with retirement savings, home equity is an important asset. If you have significant equity and you can comfortably afford another payment and a new loan will help, this may be a good option. If not, think very carefully before calling a lender.

The Upside and Downside

Sandy has been single all of her life. She owns her own home and has about 40% equity in her $200,000 house. She had a great job with great pay. But, her pay has just been decreased by 20%. She has $25,000 in credit card debt that she will begin to get behind on next month as soon as her pay is cut. Assume she uses her home equity to help her through.

How could this help her?
The $25,000 in credit card debt is costing her $500 a month in just minimum payments. If she uses a home equity loan to pay off the credit card debt, the monthly payment for the loan will be around $250 thus improving her cash flow.

How could this just get her deeper into trouble?
If Sandy continues to use her credit cards after she pays off the credit card debt with the home equity loan, the advantage to her cash flow will not be realized. She must get control of her spending to ensure that she doesn't run up her credit card debt again. In fact, she may need to reduce other expenses to offset the reduced income she will be facing.

- **Reverse Mortgages**

  If you are at least 62 years old and you have significant equity in your home, you may be able to get a reverse mortgage. A reverse mortgage is a home equity loan that you do not have to pay back unless you sell the house, move out or pass away. The benefits for a senior homeowner can be significant. Part of the proceeds from reverse mortgages must be used to pay off current loans on the home, eliminating those payments from the monthly budget immediately. The remainder of your reverse mortgage proceeds can be taken as a lump sum, a monthly payment or a line of credit.

  If you have debts or a large one-time expense, you should consider a lump sum. If you need extra money to make ends meet every month, consider the monthly payment option. If you just need the security of having a fund to use, consider the line of credit. You can also receive your loan in a mix of the three options.

  You will be required to go through a counseling session with a HUD-approved counseling agency before getting a reverse mortgage. During the counseling session, you and your counselor can discuss the pros and cons of your situation and what options are best for you.

- **Other Assets**

  Take a long look through your house, garage and closets. Do you have any property or items of value? Are you willing and able to rent or sell them? Antiques, household goods and clothing can be sold at garage sales or consignment shops or through online auction sites. An extra car could be sold or loaned to a friend or family member. Do you own a boat or motorcycle that could be sold for cash or to eliminate a monthly payment?

Before considering taking on more debt, take inventory of your assets. You may have more than you think. Every little bit will help on your way to getting back on track.

Outside Resources

If your own personal assets are not enough, you should explore outside resources. Support and funds may be available from your employer or school, state and local government, non-profit agencies and charities. There may be certain criteria for assistance, but you should know what is out there. A few common resources are:

- **Supplemental Security Income** (**SSI**) is a Federal income supplement program funded by general tax revenues. It is designed to help aged, blind, and disabled people, who have little or no income. Supplemental Security Income provides cash to meet basic needs for food, clothing, and shelter.

- **Social Security Disability Insurance** pays benefits to you and certain members of your family if you are "insured," meaning that you worked long enough and paid Social Security taxes. Disability under Social Security is based on your inability to work. You are considered disabled under Social Security rules if you cannot do work that you did before and cannot adjust to other work because of your medical condition. Your disability must also last or be expected to last for at least one year or to result in death.

- **Medicaid** is a state-run program that provides medical insurance for low-income people. Each state has different eligibility requirements and different application procedures.

- **Food Stamp Programs** provide food benefits to low-income households. The federal government funds the food stamp benefits and programs are administered by the state. The amount a household receives each month usually depends on the household income, available resources and size of the household.

There may be many more resources in your area, especially for seniors, single mothers and small children. Programs for child care, heating cost reduction and infant formula are common in most areas. Check your local and state government agency Web sites to find out how to qualify and apply.

CHAPTER THREE

Dealing With Urgent Situations

POSITIONING YOURSELF WHERE YOU CAN BETTER DEAL WITH your financial challenges is an important, but "big picture" goal. If you are facing harassing collection calls, lawsuits, a pending foreclosure, repossession, utility shut-off and/or a wage garnishment, these situations have an urgency that can't be ignored. They are serious consequences of delinquent debts, and experiencing any one of them can potentially change your entire financial situation. Avoiding them entirely — or dealing with them in a constructive manner — must be your priority.

"Lawsuits." "Repossession." "Foreclosure." "Collections."

The words alone strike fear into everybody, but knowing how these processes work can take some of the mystery and fear out of the equation so that you can concentrate on what it will take to stop them …and then actually stop them!

There can be serious consequences to becoming delinquent with your bills and creditors, but the situation is not without remedy.

You're Not Going to Jail!

It is helpful to know that, in general, a person who owes a debt cannot be put in jail for failing to pay it. Creditors cannot put people in jail except in the rare circumstance where a court has directed payment and has found the person in contempt of court for clearly being able to pay, but willfully disobeying a court order.

Collections and Collection Calls

A collection agency is a company or an individual (often, a lawyer) who collects debts on behalf of others. A creditor trying to collect its own debt (such as a hospital or your bank's own credit department) is not a collection agency. However, a hospital or any other creditor might secure the services of a collection agency to collect an unpaid bill. In that case, the creditor will allow the collection agency to keep a percentage of whatever they collect from the debtor. Since the collection agency's fee depends on how much it recovers for the creditor, there are instances where the tactics used to get debtors to pay a bill may seem aggressive.

Avoiding Collections

If you find yourself falling behind on your payments, call the creditor to explain your situation. Be honest, courteous, and straightforward. It is important to be prompt with this step, particularly with hospitals, payday lenders, and others who are likely to turn a debt over to a collection agency quickly. In the case of other creditors, like retailers, banks and finance companies, it is still beneficial for you to act promptly so that you can keep the lines of communication open. Avoiding the situation will only compound your problems down the road.

During your call, try to arrange a repayment plan that is reasonable based on your current household budget. Be prepared to explain your situation to the creditor, and to provide the reason(s) for your difficulties. Be careful not to be combative or to make promises that you cannot keep. Collectors may continue to call to remind you of the agreed upon payment schedule, but you will have demonstrated your intent to repay the debt and your regular monthly payments of the agreed upon amount will go far in alleviating your creditor's doubts.

If Collection Activities Have Already Begun

If you are already feeling harassed by calls from a collector, the simplest strategy to stop collection activity is to write the collector a cease letter. Federal law requires collection agencies to stop contacting you after they receive a written request to stop, but this law does not apply to creditors collecting on their own debts.

The letter should be written by you in simple and understandable terms. While you don't have to give any special explanation why the collector should stop collection activities, it is generally a good idea to explain why you cannot pay at this time. Be sure to keep a copy of the written request for your records. Understand — you still owe the debt — but the action of writing this letter should provide some relief from the calls.

Cease letters are generally effective, but if this approach does not stop the collection activity, a letter from an attorney usually will. Collection agencies are required to stop contacting a consumer known to be represented by an attorney, as long as the attorney responds to the agency's inquiries. A sample cease letter can be found in the appendix, located at the end of the book.

Foreclosure

If you are behind on your mortgage payments, you are at risk of foreclosure. This is the legal process where the lender takes possession of your home and eventually sells the property to satisfy the mortgage obligation. Though a mortgage company can initiate foreclosure proceedings anytime after a default, most lenders initiate standard collection activities (calls, letters) after the first missed payment. As explained in the previous section, it is to your benefit to communicate with your lender as soon as you experience a hardship.

As you work with your lender, be advised that there are a number of potential options to consider, all intended to help preserve homeownership:

- **Reinstatement:** A lump sum payment that brings your account current. If you're behind on your mortgage payments, you can negotiate a reinstatement, making a specific lump sum payment by a specified date. Lenders often combine reinstatement with forbearance.

- **Forbearance:** A temporary agreement that delays or reduces payments for a short period of time. Mortgage lenders will only allow forbearance if you can demonstrate that your situation is only temporary, and eventually be able to resume regular payments.

- **Repayment (or Workout) Plan:** Your lender will propose a plan that allows you to repay your arrearage (the amount past due) over a specified time period. Understand that you must demonstrate the ability to be able to afford your regular monthly mortgage payment, plus the additional amount to cover the arrearage. It is not uncommon for a lender to propose a 12-24 month workout plan, to allow a borrower to catch up and get current on the loan.

- **Loan Modification:** A Loan Modification is a permanent change in one or more of the terms of a loan, allows the loan to be reinstated, and results in a payment the borrower can afford. For example, a lender may consider changing the loan from an adjustable to a fixed rate mortgage. Other common actions are permanent reductions in the interest rate, and lengthening the loan from 30 to 40 years. A less common occurrence is when the lender voluntarily forgives principal, reducing the loan amount.

- **Partial Claim:** This option has special qualification criteria. It involves getting an interest-free loan from the U.S. Department of Housing and Urban Development (HUD) or the Veterans Administration (VA) in order to bring your mortgage current.

In the event you experience a hardship, contact your lender immediately to discuss your situation and explore these options. You may still be able to avoid foreclosure and stay in your home.

If your mortgage is seriously past due, your loan may be nearing a foreclosure. To remedy the situation at this point, you may be expected to pay the lender's attorney fees in addition to any past due amount. Understand that the term "sheriff sale date" refers to the point at which the lender will generally assume ownership of the dwelling. Most states allow for a redemption period following the sheriff sale date — you may still have retention options during the redemption period — make sure to talk to your lender.

If you can no longer afford your mortgage payment, but would prefer to avoid a home foreclosure, you may want to consider the following options:

- **Short Sale:** A deal between the homeowner and lender to sell the property for less than the current balance on the mortgage, with the mortgage lender taking the loss. The lender agrees to accept the proceeds of the sale as "payment in full" for the outstanding balance.

- **Deed-in-lieu of Foreclosure:** This option occurs when a borrower "gives back" all interest in a property to the lender to satisfy a loan that is in default and avoid foreclosure proceedings.

  The deed in lieu of foreclosure offers several advantages to both the borrower and the lender. The principal advantage to the borrower is that it immediately releases him/her from most or all of the personal indebtedness associated with the defaulted loan. The borrower also avoids the public notoriety of a foreclosure proceeding. Advantages to a lender include a reduction in the time and cost of a foreclosure.

Note on Credit: There will be negative consequences to your credit report/score with a foreclosure, as well as other options like a short sale or deed in lieu.

Note on Taxes: There may be tax consequences with respect to forgiven debt. For example, if your lender agrees to accept $100,000 through a Short Sale, but the current mortgage balance is $120,000, the lender has "forgiven" $20,000. The IRS (*www.irs.gov*) generally considers forgiven debt as taxable income, but you should consult your own tax advisor to understand how this will specifically impact you.

Repossession

Most people rely on their car to get to work, school, the store, etc., but, your lender retains important rights until you have made the last payment on your auto loan. It only takes one missed payment for the lender to begin collection efforts, and they always retain the right to "repossess" in the event the loan is not repaid as agreed.

Contact your creditor when you first realize you will be late with a payment. Many creditors will agree to a loan extension or payment deferral if they believe that your hardship is temporary and that you will be able to pay later. Sometimes it may be possible to negotiate with your lender to improve your position. Depending on criteria such as the current market value of the vehicle, your loan balance, the condition of the vehicle, and your payment history, you may be able to work out a new payment plan or a lump sum buyout. If you do reach an agreement to modify your original contract, be sure it is in writing.

If your creditor refuses to negotiate and demands that you return the car, learn about state laws specific to auto repossessions. State law places limits on how and where your creditor may repossess the vehicle, and there are also re-sale procedures that must be met once the vehicle is in the creditor's possession. If any of these rules are violated, your creditor may lose other rights against you, or even be required to pay you damages.

Another option to consider is a "voluntary repossession." Voluntary repossession is the act of "giving back the keys" to the creditor, and this generally reduces your creditor's expenses — which you otherwise would be responsible for paying along with any deficiencies on the loan once the car is sold.

Note on Credit: There will be negative consequences to your credit report/score with repossession, whether voluntary or involuntary. However, you need to look at the big picture — it may be more beneficial to improve your monthly cash flow by reducing your car payment from $400 to $200, allowing you to stay current on your other bills. Negative items on a credit report are most detrimental at the time they occur — the impact to the score fades with time.

Utility Shut Off

Having your essential utilities like gas, electric and water shut off can be more than an inconvenience. In some situations, it can be life-threatening. Fortunately, most utilities are willing to help people in the event a genuine hardship exists. In addition, many states have enacted procedures for utility shut-offs that provide some consumer protections — for example, there may be a 30 or 60 day moratorium on some utility shut-offs during the winter months.

Most states require a utility to accept "reasonable" payments to keep service on. However, you need to work with your utility providers if you are behind on your bills — don't ignore their collection efforts:

1) Contact the utility company to request a hardship program and explore other options. You may qualify for immediate assistance, as well, if someone in your household is collecting public assistance, is seriously ill or is a senior citizen.

2) Contact your local and state government for information regarding low income energy assistance programs.

3) Don't stop there! Many religious groups and non-profit community organizations may offer gas and electric help, when it is needed.

Judgments and Wage Garnishment

If you are being sued for money owed to a creditor, the best course of action to protect your rights is to pay attention to all of the information you receive. If you have received a Summons and Complaint document, generally delivered by a sheriff or a professional delivery service, it is important to take the following steps immediately:

- Carefully read the documents.
- Mark down all important dates on your calendar.
- If possible, seek legal advice.

Once you have taken these steps and you know your responsibilities, deadlines and all the expectations of you, consider your options and begin to work towards the best outcome. Ignoring the complaint will result in a default judgment and can potentially lead to a wage garnishment or a lien on your property. You may be able to petition the court for installment payments — this option allows the judge to consider your ability to pay, and determines a reasonable repayment amount.

Lawsuits can be time consuming and costly for the plaintiffs, so creditors usually prefer to avoid the time and expense if there is a reasonable certainty of being paid. Upon receiving the summons, contact the attorney to see if you can negotiate a monthly payment arrangement or a settlement agreement before a judgment is filed.

Settlement Agreements

Creditors are sometimes willing to take less than the original debt balance to avoid a courtroom dispute, and may even be willing to set up a payment plan so you can pay off the debt over a period of time. If you and your creditor reach an agreement that is acceptable to both parties, the agreement should be put in writing, signed, and presented to the judge.

While payment workouts are possible, you should never agree to a payment plan if you are not absolutely sure you will be able to make all the payments.

If you are unable to come to an agreement with the attorney, file a written response with the court. Your answer — usually required within 30 days of the complaint's receipt — should contain the name of the court, the court number, the name of the Plaintiff and the Defendant and your statement explaining what you agree with and what you disagree with in the complaint. It should also explain why you have not paid the debt and offer a payment plan. If you are disputing the validity of the debt, go to court with as much evidence in your favor as possible. The creditor will have to prove that you owe the debt and that they own the debt.

Tips for Responding to a Lawsuit

- **Seek legal advice:** Seek professional legal advice from a licensed attorney. If you cannot afford legal services, check local Legal Aid, the Internet, or libraries for a self-help manual on defending a lawsuit.

- **Always respond to communication from the court:** Open and read all mail, pick up certified mail, and accept delivery of court documents.

- **Read all documents:** It is extremely important that you read carefully and pay attention to all deadlines and details in the document. The summons will provide details for the court's procedure. The procedure will vary from court to court.

- **File an answer:** Usually the summons will ask for a written "answer" to the summons within 30 days. "Appear and defend" does not always mean a physical appearance is required; it may mean a written document must be filed with the court by that date. Some courts have prepared answer forms; others require a written answer to be submitted.

- **Defenses versus counterclaims:** A defense states why you do not need to pay the creditor, either in part or in full. A counterclaim states that the creditor owes you money. One or both may be used.

Appearing in Court

When you appear in court, bring all relevant documents. If you fail to answer the summons and complaint within the allotted time frame or you do not appear in court, the court grants a default judgment. If you cannot appear in court on the date set in the summons, contact the clerk of the court in advance to request a postponement and make certain you attend at the new time. Once a default judgment is granted, you have a short time frame to either pay the balance in full, file a petition for installment payments, or appeal.

Binding Arbitration

If you hold a credit card issued by a major bank, it is very likely that you are covered by a mandatory arbitration provision. This information will be specified in your Cardholder Agreement.

Arbitration is similar to obtaining a court judgment, but without the courtroom proceeding. Arbitration gives the creditor the same rights as a judgment in terms of collecting on the debt. It is a preferred choice for creditors because the process is faster and less expensive than pursuing a court judgment.

If a legal agency pursues collection through arbitration, you will receive a notice from an arbitration organization that includes information about what is required of you in response. Open the letter immediately and read it carefully. You may want to contact an attorney for advice if you are not sure how to proceed or if you are concerned about conflicts of interest issues. Unfortunately, though, there is little room for judgments to be overturned when both parties had agreed beforehand to settle in this manner.

Judgments and Appeal Rights

Judgments can be entered either by the agreement of the parties, after a contested trial, or by default.

Default judgments occur when a debtor ignores the summons and fails to show up in court. If for some reason you fail to show up in court at the specified date and time, consult an attorney immediately to obtain advice on vacating the default judgment entered against you.

If the creditor wins their case against you, the judgment will say how much money you are required to pay. You don't have to pay the money immediately, but the entry of a judgment does give the creditor certain legal rights to force payment, including:

Wage Garnishment

With a wage garnishment, a portion of your paycheck is automatically deducted and sent to the creditor until the debt is satisfied. Federal and state laws provide guidelines as to the amount and/or percentage of one's wages that can be garnished — a general rule is that 25 percent of an employee's wages could be garnished.

Lien

If you own real property, such as a home or a car, the creditor who secured the judgment may record a lien against your property. The debt would then have to be paid when you sell or refinance your property.

Levy

In some cases, a creditor may be allowed to take cash from checking, savings, or other deposit accounts to satisfy the judgment. This is called a levy. Or, the creditor may levy your personal property and sell it at auction, with the proceeds going towards the outstanding debt.

Note: A certain amount of a person's income and property is protected by state and federal laws — this is referred to as exempt property. For a consumer, this represents property, wages, and/or other assets that cannot be taken by a creditor. A person is said to be "judgment proof" when all of his/her income and assets are fully protected under the law against seizure by creditors.

Appeals

In most states, any party to a lawsuit has the right to appeal a final judgment. The process takes place in appellate court. To appeal a judgment, you must file a "Notice of Appeal" — a specific form — within 30 days of the date of entry of the final judgment.

CHAPTER FOUR

Debt Free in Due Time: Implementing Your Personal Debt Reduction Plan

ONCE YOU HAVE A COMPLETE AND ACCURATE BUDGET AND you know what resources are available to you, addressing your debts will be much easier. Next you need a debt reduction plan. Followed diligently, this plan is your key to long-term relief from collection calls, financial stress and anxiety about mounting debt and its related issues.

It is, first and foremost, a guide — a summary of "how-to" and "what-to-do" during tough times. It prioritizes your payments and helps you make smart, informed decisions to help steer you through tough times and in situations when you cannot pay everyone on time.

The key is sticking with it.

Implementing a successful debt reduction plan on your own requires:

- Knowledge
- A down-sized budget
- Self-discipline
- A commitment to living within your means and without additional credit
- A list of your debts, prioritized according to importance, interest rate and urgency

Implementing a debt reduction plan is a three-step process where you:

- Prioritize your debts
- Contact your creditors
- Reduce your debt

Prioritizing Your Debts: Basic Guidelines for Deciding What to Pay First, What to Leave for Last

When you prioritize, you decide which bills to pay first and which to delay until you have more income. Before allocating budget amounts to bills, though, first make certain you have enough money for food, basic clothing and medicines essential to your survival. If you don't have enough for these items or need additional support, explore outside resources like your state's department of health and human services. If you qualify, they can help you meet your basic needs.

In determining other priorities, carefully consider the consequences of not paying a debt before you push it down on the priority list . . . and then consider the consequences of those consequences! In the case of a mortgage payment, you could lose your home. In the case of your auto loan, you could lose your car. That could lead to even more serious consequences if your car is your only means of getting to work. Not paying child support has legal ramifications and not paying student loans also has serious consequences. While the calls from debt collectors and the reporting of negative information on your credit report is a consequence of not paying on other debts, these consequences are significantly less severe and easier to fix. Therefore, if you have no choice but to miss payments, these are the ones that should be the lowest on your payment priority list.

GreenPath counselors recommend prioritizing payments in three categories:

High Priority: These include housing, child support, taxes, essential utilities, insurances, car loans or leases.

Medium Priority: Personal loans secured through a bank or credit union, student loans, home improvement loans, debt consolidation loans, and any other type of installment loans.

Low Priority: Loans for household goods, credit cards, doctor's bills, loans without collateral, rent-to-own contracts are important, too, but prioritized here because there may be greater flexibility with these. Remember late or missed payments will affect your credit score.

Your Obligations are Yours, Not the Debt Collectors!

While you should make every effort to pay all your debt obligations in a timely manner, some debts can be put off in an emergency. Non-payment of these debts will bring collection activities from your creditors. Debt collectors will try to convince you to pay the debt that you owe them. Although you intend to pay the money back, your most important obligation is to yourself and your family, and you need to pay the debts in the order that benefits you the most. Never change your payment priorities because of debt collectors' demands.

GreenPath recommends this order of prioritization because it puts essentials and critical debts first to help ensure you don't get yourself in any more financial trouble than necessary.

Other considerations vary, depending on your specific debt situation:

- **Payday Loans:** Payday loans are among the most problematic and predatory debts in the market. It is best to avoid them at all cost. If you already have payday loans, they can be very difficult to deal with when prioritizing your debts. Many require that you sign over checks that they cash or draft from your account. If you were counting on that money for your mortgage or car payment, you could be in trouble. If you have the funds, pay the payday loans off immediately. If you do not have the money to pay them off, one option is to close your bank account which will make the postdated checks null and void. You will still owe the debt to the payday loan company and they can pursue legal action to collect it, but the cash you need to have available for day-to-day priorities will be protected.
- **Medical Bills:** Bills from a doctor, dentist or hospital for which service has already been rendered also fall into this lower priority category. Generally, you will be able to negotiate a repayment plan at an affordable level.
- **Timeshares and Loans for Boats, Motorcycles or RVs:** Making payments to vacation resorts that aren't your primary residence or for other luxury items, such as a boat or recreational vehicle, are a low priority. While these items may be repossessed, they aren't essential for your everyday living. Also, you may be able to sell them and use the proceeds for more essential needs.

In the Eye of the Storm

Mr. Washington had been caught in the harsh cycle of payday loans for a number of years. He came to count on the loans during a time of reduced income and the local cash advance store employees always made him feel right at home. He never realized that he was paying a very high interest rate on the money he owed. At a local community outing, Mr. Washington was talking to an acquaintance who worked at a local financial institution. This loan officer told him about a loan product that could take his 365% payday loans and pay them off with a 25% rate loan. Even though 25% sounded high, it was a much better deal than he had with the payday lender. The next day was much brighter for Mr. Washington.

Communicating with Your Creditors

Communicating with your creditors early and often is vital to the process of resolving debt issues. If you know you won't be able to pay a bill on time, contact the creditor immediately. Some are willing to negotiate with people who are falling behind. You may be eligible for a special hardship program that will keep your account in good standing by reducing payments, waiving late fees and extending due dates. Waiting until you are behind will not only increase your balance because of increased interest rates and fees, but will damage your credit, as well, and make a work-out solution less likely.

Follow these steps when communicating with your creditors:

1. **Make the Call**
   Call your creditors as soon as you realize you won't be able to pay your bills and calmly explain the situation causing financial challenges. Often financial troubles are a result of job loss, divorce, medical problems, etc. Also explain any encouraging financial developments coming in the near future (like a new job, divorce settlement, disability payments, etc.). Creditors are more likely to work with you if they know you'll have sufficient future income.

2. **Speak with a Decision Maker**
   The first person on the phone is usually a customer service representative, who may or may not have the ability to help. Ask to speak with a manager or supervisor regarding your account. They usually have more authority to strike a deal or make payment arrangements.

3. **Know the Options**
   There is more than one way to approach a debt when times are tight. Common options you may be able to work out with your lender include:

   - Hardship programs that temporarily reduce your monthly payment until you can make long-term changes
   - Modified payment programs, like loan re-writes, extensions or deferments and due date changes
   - Debt consolidation loans
   - Debt settlements

4. **Propose an Alternative Payment Plan**
   Many creditors have pre-defined internal programs available to help people in trouble. Depending on who the creditor is and how you approach the situation, the terms you negotiate may be more advantageous than a standard offer from

the creditor. It never hurts to ask for more help. The worst the creditor can say is no. Start by suggesting something you can actually afford -- for example, half of the required minimum payment, with no fees, for three months — and see what happens.

5. **Create a Paper Trail**

   Carefully log all dates, times and names of the people you spoke with, including the terms of any agreements. Include basic identifying information such as account numbers and current contact information. Save any letters or emails with creditors that can provide proof of communication. Having copies of your correspondence can be a great asset if the circumstances become dire and you have to go to court.

6. **Follow Up with a Letter**

   Follow up all calls with a letter sent by certified mail, and be sure to request a return receipt. The letter should give your account number, current interest rate and payment, summarize your financial hardship and summarize the new, agreed upon terms.

As you go forward with your negotiation, know your abilities and limitations. It can be very tempting to offer more than you can realistically afford, but don't do it. If you think you can send a payment in two months, ask for three. If you make a payment early, great, but if you fail to meet your self-imposed deadline, you may not get another chance for a break. Pay close attention to your budget and what you can afford while negotiating with your creditor.

Available Debt Options

There is more than one way to approach a debt when times are tight. Some common options that people work out with their lenders, include:

Hardship Programs: Many creditors offer short-term hardship programs that will reduce your monthly payment by lowering your interest. This could help increase your cash flow, get the budget balanced and remain in good standing with creditors until you can make long-term changes.

Creditors may also offer you a long-term hardship program. Find out whether fees will be stopped, interest rates will be reduced, what the minimum payment will be, and how long the plan will be in place. Asking for the terms of the hardship program in writing is good practice; it can protect you from any potential misunderstandings.

Loan Rewrites: If you have an installment loan with a bank or credit union, you may request a loan modification, refinance or rewrite in order to lower your payments and improve your cash flow during these challenging times.

Installment loans can be either unsecured or secured and, while some lenders may be more likely to modify an unsecured loan, some lenders of secured loans are willing to modify a loan if it makes sense. Generally, modifications will lengthen the amount of time that it will take you to pay off the debt, but will reduce the monthly payment. Typically, when the balance of the loan is greater than the value of the collateral, the lender will not reduce the monthly payment.

Frequently, lenders will treat the request to modify or rewrite a car loan as a new application for credit. Therefore, debt-to-income ratio, credit history, and loan-to-value ratios will be factors that the lender will use to determine whether the loan can be modified.

Additionally, some financial institutions may allow you to sell a vehicle, boat, camper, etc., that they have financed for less than the amount of the loan, and will then write a new unsecured loan for the remaining balance of the debt.

Extensions and Deferments: Could you benefit from a month or two without a car payment? If so, an extension or deferment could help ease some of the financial pressure while you work on balancing your budget.

When you are given a deferment, the current payment is postponed until the end of the loan or lease. Specific terms vary from lender to lender, and you are usually required to sign paperwork before a payment may be deferred. At the end of the loan, the final payment is usually a double payment.

With an extension, the lease or loan is prolonged so that the current payment is not due until the end of the loan term. Specific terms vary from lender to lender and you may need to sign paperwork before the loan or lease may be extended. The term of the loan would be extended by one month, so you would have to make an additional payment at the end of the loan or lease.

Balance Transfers: If your credit is still good, you may be able to negotiate a lower annual percentage rate (APR) with your current creditors, or open a new credit card with a lower APR, transferring your old debt to a card with a new-and-improved interest rate. This strategy could also be used to pay off other debts that are nearing payoff, but you must be very careful with this choice. If you open a new card, you could be tempted to use the additional available credit and get further in debt. Additionally, if the better rate is introductory, you could be in trouble if the debt is not paid completely before the rate changes. Caution and diligence are needed for success with this strategy.

From Red to Green

Mr. and Mrs. Green are two months delinquent on their mortgage payments. The mortgage loan is in Mr. Green's name only. The only debt in Mrs. Green's name is the car, which has always been paid on time. Mr. Green is completing an apprenticeship and will see a significant increase to his salary within the next three months.

How can the Greens get out of the red?
Traditional solutions such as seeking assistance from the lender should be attempted first.

If the Greens are unable to get loss mitigation assistance — or while the lender is considering their application for loss mitigation assistance — they may want to seek an extension or deferment on the car payment. They could then use those funds to help with the mortgage payments.

They could also use available credit on their credit card or open a credit card in Mrs. Green's name, and use the line of credit to take a cash advance to catch up the mortgage. Mrs. Green could also use the credit card to pay for monthly expenses and use her paycheck to pay the mortgage company. However, they must understand that this will result in finance charges on the credit card plus an increased level of debt that will eventually need to be addressed.

Another option to consider is having Mrs. Green consider refinancing the home in her name only. She may be able to get a signature loan to pay the delinquent portion of the mortgage.

Other Options

As you move forward to clear out debt and make a new start, we hope you will remember that a "quick fix," as in most of life's situations, is usually too good to be true. We've assembled some options for your consideration here, some which require more time and diligence than others and some which require you to exercise caution. Each has its advantages and disadvantages — once you are fully educated, choose the one that fits your needs the best.

Debt Management Programs: In a debt management program, credit counseling agencies — like GreenPath — work with creditors to lower interest rates and payments, thus applying more of your money to your principal balances. Clients realize some stress relief, because the credit counseling service helps stop collection calls, negotiates with creditors, offers valuable advice for better money management and takes care of bill paying. Over time, the consistent payments improve clients' credit ratings, while education and counseling services help ensure a brighter financial future. If you are able to balance your budget and qualify for debt management, make certain to choose a credit counseling service carefully. Some questions you might ask are:

- Is it non-profit or for profit?
- How long has it been in business? Does it have a long history of helping people?
- Are all counselors certified? Degreed?
- What services are offered?
- Do they take care of credit card bills only or do they handle all debt and household bills, as well?
- How much do they charge for their services?

More detail on selecting a credit counseling service is included in the appendices at the back of the book.

Debt Consolidation Loans: Rolling all of your current debts into a single debt with a favorable interest rate may be worthwhile, if your credit is still good (or when it has improved) and you can qualify for a lower interest rate than you are currently paying. Risks include foreclosure on your home if you consolidate with a home equity loan and have difficulties making the payments later, or getting deeper in debt. Using consolidation loans as a "cure all" and failing to make critical lifestyle or money management changes almost always results in more debt problems — and much more serious consequences later.

Debt Settlement: A debt settlement is when a creditor is willing to eliminate a debt after receiving a portion of the balance as a lump sum. For example, the creditor shows a balance of $5,000, but would be willing to accept $3,000 as payment in full if you can pay within 30 days.

Debt settlement can result in some savings, but there is a cost. Generally, when a debt is settled for less than the original balance, the credit report reflects that information. That could result in a negative impact to your credit score. In addition, there may also be tax consequences with this option. The IRS considers the amount of forgiven debt as taxable income, so you need to be aware of this before agreeing to a debt settlement. Don't explore debt settlement until you have discussed your situation with a non-profit credit counselor who may be able to help you find other ways to bring your account current.

While it may make your budget more workable immediately, debt settlement should be a next-to-last resort, the last resort being bankruptcy, explored later in this chapter.

Bankruptcy: The option of Bankruptcy is intended to give people struggling or unable to pay their bills a fresh financial start from large amount of debts. It is, however, designed to be the option of last resort. Bankruptcy is a federal law that enables you to wipe out all or a portion of your outstanding debt or to work out a plan to repay some of it. You can choose to file individually or jointly as a married couple. There are two types of personal bankruptcy: Chapter 7 and Chapter 13.

Chapter 7

Referred to as "straight" bankruptcy or "liquidation," Chapter 7 bankruptcy eliminates all dischargeable debts in exchange for certain property. The property is then sold and the proceeds are disbursed to pay your creditors. "Exempt" property is property the law allows you to keep. Depending on your state's exemption rules, your home or car may be exempt property. Debts that are generally not dischargeable include child support, alimony, most student loans and most tax debt.

One important thing to keep in mind is that a Chapter 7 does not eliminate the right of mortgage holders or car loan creditors to take your property to cover your debt. Therefore, if you are behind on the payments on a mortgage or car loan and want to keep the property, a Chapter 7 is probably not the right choice for you.

Chapter 13

This kind of bankruptcy is often referred to as "debt reorganization." It allows you to propose a plan showing how you will pay off your debts over a three- to five-year period. The key benefit of a Chapter 13 is that you are able to keep property such as your house and car. Your monthly payment to the Bankruptcy Trustee may be applied to either your secured and/or your unsecured debts.

Bankruptcy Considerations: Bankruptcy can be beneficial in many ways. It can stop foreclosure on your home, prevent repossession of a car, stop wage garnishment, and prevent termination of utility service. But bankruptcy will not solve all of your problems. GreenPath strongly recommends that anyone considering this option meet with a licensed bankruptcy attorney to understand the full ramifications and impact of filing bankruptcy.

In addition, GreenPath recommends speaking with a knowledgeable credit counselor before beginning the bankruptcy process. Once a full financial assessment is completed, including a budget analysis, most consumers will have a better idea of what options may or may not be feasible for their situation. Credit counselors provide education and guidance on how to manage money and navigate through tough times. People who fail to alter their spending habits start heading down the long road to a potential re-file. You must budget and spend responsibly or you will soon find yourself back in financial trouble.

CHAPTER FIVE

Understanding Your Credit Report

YOUR CREDIT REPORT DIRECTLY IMPACTS YOUR ABILITY TO obtain a credit card, buy a car or home, rent an apartment, or even get a new job. Knowing how to read it, correcting falsely reported information and ensuring its accuracy are in your best interests.

Under the Fair Credit Reporting Act (FCRA), you are entitled to a free copy of your credit report every year from each of the three credit bureaus: Experian, Equifax and TransUnion. GreenPath counselors recommend that all individuals, at a minimum, obtain a copy of their credit report on an annual basis. Reviewing and understanding your credit report and resolving credit issues in a timely manner can save you a lot of money and headaches.

How Can I Get a Copy of My Credit Report?

A web site set up by the Federal Trade Commission allows you to obtain a free copy of your credit report once a year. You can also order your free report by phone, Internet or in writing:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
1-877-322-8228
www.annualcreditreport.com

If requesting individual reports from the three credit bureaus, you may contact:

Experian
1-888-EXPERIAN
(888-397-3742)
P.O. Box 2002
Allen, TX 75013
www.experian.com

TransUnion
1-800-916-8800
P.O. Box 1000
Chester, PA 19022
www.transunion.com

Equifax
1-800-685-1111
P.O. Box 740241
Atlanta, GA 30374-0241
www.equifax.com

Did You Know: You may also receive an additional free copy of your credit report if one of the following applies:

- If a company takes adverse action against you, such as denying your application for credit, and you request your report within 60 days of receiving notice of the action. The notice will give you the name, address, and phone number of the credit bureau used.
- If you certify in writing that you're unemployed and plan to look for a job within 60 days, you're on public assistance or your report is inaccurate because of fraud.

When You Get Your Report

Carefully review your credit report for incorrect or outdated information. If you find errors, take steps to dispute them.

Under the law, both the credit bureau and the organization that provided the financial data, such as a bank or credit card company, are responsible for correcting inaccurate or incomplete information in your report. If you have a dispute, contact both the credit bureau and the information provider to protect all of your rights under the law.

First, tell the credit bureau in writing (submitted by mail or through the Internet) what information you believe is inaccurate. Include copies (not originals) of documents that support your position. In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute, state the facts and explain why you dispute the information, and request deletion or correction. You may want to enclose a copy of your report with the items in question circled. Your letter may look something like the one at the back of this book. Send your letter by certified mail, return receipt requested, so you can document what the credit bureau received. Keep copies of your dispute letter and enclosures.

Credit bureaus must investigate the item(s) in question unless they consider your dispute frivolous. They also must forward all relevant data you provide about the dispute to the information provider. After the information provider receives notice of a dispute from the credit bureau, it must investigate, review all relevant information, and report the results to the credit bureau. If the information provider finds the disputed information to be inaccurate, it must notify the other credit bureaus so that they can correct this information in your file.

Disputed information that cannot be verified must be deleted from your file. In addition, if your report contains inaccurate information, the credit bureau must correct it.

If an item is incomplete, the credit bureau must complete it. For example, if your file showed that you were late making payments, but failed to show that you were no longer delinquent, the credit bureau must show that your payments are now current.

If your file shows an account that belongs only to another person, the credit bureau must delete it.

When the investigation is complete, the credit bureau must give you the written results and a free copy of your report if changes were made. If an item is changed or removed, the credit bureau cannot put the disputed information back in your file unless the information provider verifies its accuracy and completeness. In this case, the credit bureau must also give you written notice of its intent to re-insert the items.

If you request it, the credit bureau must send notices of corrections to anyone who received your report in the past six months. You can also have a corrected copy of your report sent to anyone who received a copy during the past two years for employment purposes. If an investigation does not resolve your dispute, ask the credit bureau to include your statement of the dispute in your file and in future reports.

In addition to writing to the credit bureau, you should tell the creditor or other information provider in writing that you dispute an item. Be sure to include copies (not originals) of documents that support your position. Many creditors have a specific address for disputes. If the provider continues to report the disputed item to any credit bureau after receiving your notice, it must include a notice that you are disputing the item. If you are correct — that is, if the information is not accurate — the information provider may not report it again.

As you file your dispute, remember to document everything. Keep copies of letters that you write, keep track of time frames and list the names of everyone you talk to.

You also have the right to include a 100-word statement in your credit report explaining your situation or position. The credit bureau can edit your statement if it is too long.

Credit Report Basics

Your credit report is a detailed record of how you've managed your credit over time. Lenders use your credit report — or the credit score that results from the data in it — to help them decide whether to grant you credit and, if so, under what terms.

The better your credit report, the more likely your credit request will be granted, and the lower your interest rate will be. Many landlords, employers, and insurance companies also consider an applicant's credit history when making a decision, which makes your credit report either a valuable asset or a liability, depending on its contents.

Because your credit report can have such a great influence on decisions others make about you, it's important to know what your credit report says and how to ensure that the information is accurate.

What Your Credit Report Reveals

Credit reporting companies — also known as credit bureaus — gather and sell credit information about U.S. consumers to current and prospective creditors, employers, insurers, government agencies, and "anyone else with a legitimate business need for the information," such as a potential landlord.

Your credit report includes the following types of information:

Identifying information. This includes your full name and any aliases; Social Security number (for security reasons, this will be omitted on the copy provided to you); current and previous addresses and current phone number; birth date; cur rent and former employers; and your spouse's first name, if you are married.

Public record information. This includes bankruptcy filings, foreclosures, tax liens, and judgments against you.

Credit information. This includes a listing of open, or active, credit accounts as well as closed accounts; account numbers; the date you opened and, if applicable, closed the account; the type of account (mortgage, revolving credit, or student loan, for example); the monthly payment; your credit limit or loan amount and current balance; any co-signers on the loan; and your payment history for the past two years.

Inquiries. This includes the names of companies and individuals who have obtained copies of your credit report ("inquiries") in the past two years.

How Long Does Information Stay on Your Report?

Here are some guidelines about how long different types of data can stay on your credit report:

- "Derogatory" (negative) information can stay on your credit report for up to seven years. This includes late payments, unpaid debts, charge-offs, accounts sent to collections, and judgments against you. If your unpaid debt is turned over to an outside collection agency, that debt could appear twice as a negative on your credit report.

- A Chapter 13 bankruptcy (repayment plan) appears for seven years.
- A foreclosure appears for seven years.
- Student loans typically appear for seven years.
- A Chapter 7 bankruptcy filing appears for 10 years.
- Paid tax liens stay for seven years. Unpaid tax liens can remain for up to 15 years.
- Favorable information can appear indefinitely, but is, typically, dropped after seven years.
- Inquiries from potential creditors stay on your report for two years. (Too many inquires, which are generated when you apply for credit, can be viewed as negative.)
- All derogatory information — even data more than seven years old — will appear in a report provided to an employer if you apply for a job paying $75,000 or more or to a creditor or insurer if you apply for a loan or life insurance policy of $150,000 or more.

What Your Credit Report Doesn't Reveal

Credit reports do not include information about your race, color, religion, national origin, gender, income, assets, occupation, or receipt of public assistance.

Credit bureaus also omit any information that could reveal a medical condition in reports requested by others. For example, a debt owed to St. Francis Cancer Treatment Center would appear simply as a medical payment. However, if you include a consumer statement in your report that includes medical information (explaining, for example, that you were late with a loan payment because you were undergoing chemotherapy), it will be disclosed to others.

CHAPTER SIX

Your Financial Future: Rebuilding Financial Bridges

YOUR CREDIT SCORE, THE NUMBER LENDERS USE WHEN evaluating your applications for credit, is a snapshot of your financial past, but its influence on your financial future is significant. If you already know you have "bad credit," don't worry. You join millions of Americans with less-than-perfect credit ratings and — just by reading this book and by taking the corrective actions described in the previous chapter — you are already a step ahead at improving and protecting your credit profile.

Having a "good credit score" means it will be easier for you to get loans and favorable interest rates. These things usually translate into smaller monthly payments, and those, in turn, can translate into a balanced budget — and the achievement of your financial goals.

It won't happen automatically. It is a process that takes time and effort, but the rewards will pay off!

A Warning about Credit Repair Services

Because bad credit ratings can last a long time — long after financial problems are over — and because they cause such difficulties for individuals and their families, a whole industry has popped up to take advantage of people who are in a hurry to "repair" their credit. These businesses make false promises about fixing your credit problems, and make a lot of money to promise a return to the financial mainstream that never happens.

Know that only a deliberate effort to repay your bills and manage your money well can improve your credit score. Beware of companies and services that promise to erase negative information from your report in exchange for a fee. They are scams. Because your credit score is, essentially, a snapshot of your credit risk picture at a particular point in time, it is a number over which only you have control. It changes as new information is added to your credit bureau report or bank file and, as a result, it is a number that you can actively work to change and improve.

Understanding Credit Scores

The most common model for credit scoring is the FICO score. FICO scores range from 300 to 850 - the higher the score, the lower the perceived risk of default. Each of the major credit bureaus can produce a FICO score based on credit information in its files, but whether it is a "good" score or "bad" is in the eyes of the beholder.

It isn't necessarily correct to assume that you must have a high score to be considered a reasonable risk by a lender. In reality, a "good" score is a number that matches the level of risk a lender is willing to accept for a particular loan or credit card. For example, a score of 750 may qualify you for a gold credit card, whereas a score of 675 may indicate you're a better match for a standard card. Since each institution's scoring system can have varying numeric scales, a score of 675 could indicate high risk in one system and low risk in another.

> ***Did You Know?***
> *There is no legal requirement for a lender to reveal a credit score to an applicant. But if an application is denied, the lender must reveal the reason(s) for the denial.*

Your FICO scores are based only on information that is proven to be predictive of future credit performance, including:

- Payment history, including current and historical delinquencies — approximately 35 percent of your score
- Amounts owed, including outstanding debt balances, both in terms of dollars owed and percent of available credit — approximately 30 percent
- Length of credit history — approximately 15 percent
- Pursuit of new credit, or "inquiries" within the last two years — approximately 10 percent
- Types of credit in use — approximately 10 percent

Your credit score is **not** based on factors prohibited under the Equal Credit Opportunity Act (ECOA), including:

- Race
- Age
- Gender
- Religion
- National origin
- Marital status

Other factors excluded are income, employment and where you live.

Improving Your Credit Score

The first step to a better credit profile was explained in the previous chapter - disputing incorrect information. The next step is establishing a positive present-day picture that will help you with costs and securing credit in the future.

Put Your Best Foot Forward: How to Establish a Strong and Positive Payment History

- Always pay your bills in full and on time
- If you miss a payment, get current quickly and stay current.
- If you expect to have trouble making ends meet, contact your creditors or seek help from a legitimate credit counselor.

Ensure a Strong Strategy: Decide Carefully Before Taking Action

- Keep balances low on credit cards and other "revolving credit."
- Pay off debt rather than moving it around.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Don't open a number of new credit cards that you don't need, just to increase your available credit.

Prove Yourself: Show Off Your Long Credit History

- Don't close old accounts; the length of your relationships with creditors translates well to your FICO score.
- If you have been managing credit for a short time, make sure you don't open a lot of new accounts too rapidly. Frequent shopping for credit appears as a "red flag" and has a negative effect on your score.

Re-Establish: Pursue New Credit Accounts, Strategically

- Apply for a couple of major credit or retail cards, keep your balances low and pay them on time.
- If you can't get a major credit card yet, get a secured card, which requires a security deposit. Just make certain that the issuer will report your good payment history to the three major credit bureaus regularly. If it won't be listed on your report, the effort is wasted.
- Charge only what you can afford to pay — in full — at the end of the month.
- Mail your payment well in advance of the due date.

Diversify: Use Different Types of Credit

- Apply for, and open, new credit accounts only as needed.
- Remember that while a healthy mix of credit types will improve your score, it is not worth seeking credit for credit's sake.

Check, Check and Recheck

- Be sure to check your credit report on a regular basis, taking the steps needed to correct any errors.

Did You Know?

If you apply for several credit cards within a short period of time, multiple requests for your credit report information (called "inquiries") will appear on your report. This often does equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. Typically, these inquiries are translated into "rate shopping" inquiries and are treated as a single inquiry. They have little or no impact on your final credit score.

Keep the Faith: Your Efforts Will Pay Off

The advice may seem frustrating. After all, it would be wonderful if there was a magic wand and an automatic fix that could ensure an instant renewal of trust in your ability to repay credit. Take heart, though. Your new start has already begun and with information, dedication, support from non-profit credit counseling agencies, like GreenPath, and time, you can rebuild your credit history, save a lot of money in the process and move on to a brighter financial future.

Higher Score Equals Big Cash

The Perez family was about to buy their first home. They fell in love with a house and they couldn't wait to move in. The problem was their credit score needed some improvement. The lender showed Mr. and Mrs. Perez how they could save significant money over the life of the mortgage by increasing their credit score from 550 to 700 before borrowing the money.

Eleanor and Jose Perez didn't buy that dream home. Instead they decided to get to work improving their credit score.

But, how much money would they really save over time?
The payoff was huge! They eventually took out a 30-year fixed-rate mortgage of $150,000 after improving their credit score from 550 to 700. They saved approximately $131,000 over the life of the loan — a whopping $365 per month!

While you work to reduce debt and regain financial control, please feel free to call (866) 648-8116 and request to speak again with a GreenPath counselor for free counseling and advice. Refer frequently to the action plan you were provided at the end of your session – that is a key part of your financial roadmap. Helping you improve your quality of life with financial counseling and education is what we do best. Wishing you success . . .

APPENDICES

Sample Cease Letter

Your Name
Your Address
Your City, State Zip

Date

Debt Collector's Name
Address
City, State Zip

Re: Account Number

Dear Debt Collector:

Pursuant to my rights under federal debt collection laws, I am requesting that you cease and desist communication with me, as well as my family and friends, in relation to this and all other alleged debts you claim I owe.

You are hereby notified that if you do not comply with this request, I will immediately file a complaint with the Federal Trade Commission and the [your state here] Attorney General's office. Civil and criminal claims will be pursued.

Sincerely,

Your Name

Enclosures: (List what you are enclosing)

Sample Credit Report Dispute Letter

Your Name
Your Address
Your City, State Zip

Date

Complaint Department
Name of Credit Reporting Agency (CRA)
Address
City, State Zip

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute are also circled on the attached copy of my report.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identity type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please re-investigate this (these matter(s) and delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing)

Tough-times Letter to Creditors

Your Name
Your Address
Your City, State Zip

Date

Creditor Name
Creditor Address

RE: Account Number

Dear (Creditor Name):

I am writing this letter to request a temporary change in the repayment terms of my account. Since I have become unemployed, I have had to make some financial adjustments.

I have some income from (unemployment, spouse's employment, severance, etc.). However, when I examined my financial situation and made a budget for my basic expenses, it also became necessary to ask each of my creditors to accept reduced payments until I resolve my financial hardship. I would appreciate your cooperation in making this payment plan work.

In place of my regular monthly payments of $ ___________ due on the __________, I am requesting that you accept payments of $ ___________ paid on the ___________. I assure you that I will add no further debt until my financial situation improves.

I will begin making normal payments again as soon as possible. I regret that I have to ask for this consideration and hope that you will understand. When there is a change in my situation, I will notify you immediately.

Your understanding during this difficult time is most appreciated.

Sincerely,

(signature)

Name Printed

Family Goals

Goal	Short-, Mid-, or Long-Term	Total Amt. Needed	# of Months Until Goal is Reached	Amt. to Save Each Month

Money Saving Tips

Clothing

You can reduce your clothing expenses with some of these ideas:

- Shop sales, off-season if possible.
- Resale shops are a good source of clean, low-priced clothing.
- Avoid buying clothes that must be dry cleaned or require special handling.
- Borrow a dress for a big night out.
- Use a consignment shop.
- Iron your own shirts.
- Hand wash instead of dry cleaning.
- Learn to mix and match outfits to cut down on clothing expenses.
- Use hand-me-downs from family and friends.

Credit Cards

Once a budget is balanced and debt is paid off, credit cards should be paid in full each month. In the meantime, here are some tips to use credit cards wisely:

- Compare interest rates, annual fees, and other credit costs.
- Pay off credit cards to avoid interest or, at least pay more than the minimum payment required.
- If you are having problems financially, seek the advice of professionals.
- Pay more than the minimum amounts against outstanding debts.
- Pay your bills the day they arrive. Many credit card companies charge interest based on your average daily balance.
- Use a debit card instead of a credit card, especially if you maintain a balance on your credit cards.
- Use credit cards that have reward programs that offer rewards that you will use.
- Ask your credit card company to waive the annual fee.

Education

Some ideas to save on education and child care expenses include:

- Apply for scholarships and financial aid.
- Consider a two-year college to start.
- Move children from a private or parochial school to a public school.
- Check to see if your employer has a tuition reimbursement program.
- If you're certain that your child will attend a particular school, inquire about paying tuition in advance at a discount.
- Look into school programs that allow students to purchase computers and educational software at a discount.

- Check into work-study programs at college.
- Consider a five- or six-year plan to graduate from college.
- Work during college.
- Form a baby-sitting cooperative with friends and neighbors.
- If you pay for child care, make use of the dependent care tax credit or your employer's dependent care flexible spending account.
- Re-evaluate the family budget to determine if a parent can stay home with the children and avoid child care expenses.

Entertainment

In most cases, entertainment can be decreased or eliminated from your budget to help navigate a crisis.

- Go to movie matinees.
- Go to museums on free days.
- Cut or eliminate your cable television service.
- Use the library for books, movies, and music.
- Utilize local venues for entertainment.

Food

Food can be one of the larger expense categories in your budget. Here are some money saving tips:

- Make a grocery list and stick to it.
- Make menu plans.
- Avoid pre-packaged foods in individual servings.
- Don't shop when you are hungry.
- Use coupons for foods you purchase regularly.
- Buy in bulk or larger sizes for savings.
- Meet friends for coffee instead of dinner.
- Brown bag your lunch.
- Have potluck dinners with friends and family instead of going out.
- At the grocery store, comparison shop by looking at the unit price.
- Make your own coffee for the drive to work instead of stopping on the way.
- Stay away from expensive convenience stores.
- Avoid alcoholic drinks and desserts at restaurants — they are marked way up.
- If you aren't a big eater, share a restaurant entrée with someone and order an appetizer to supplement your meal to reduce the price of eating out.
- Prepare meals in advance and freeze them to avoid the temptation of ordering out at the end of the workday. Cooking at home will make your food budget go farther.

- Fruits and homemade snacks cost less and are more nutritious snacks for you and your children.
- Do without snacks and sweets and remove them from your budget.
- Try generic brands.
- Shop at farmer's markets.
- Pick your own fruits and vegetables at U-Pick farms.
- Take advantage of weekly specials.
- Buy fruits and vegetables in season.
- Shop on double coupon days.
- Avoid impulse buying.
- Avoid last-minute shopping.
- Avoid paying with your credit card unless you can pay back the full amount within the billing cycle. Otherwise, all your tricks for saving money at the grocery store just went to pay the interest.

Health Care

Outstanding medical bills can be a big reason why some people get behind on other obligations. Here are some ideas to stay healthy and reduce medical costs:

- Prevent illness by eating well, getting plenty of sleep, and exercising.
- Quit smoking.
- Shop for generic brands of prescription medications.
- Compare physicians and their office fees.
- Get pre-approval from your medical insurance company before undergoing any procedures or tests.
- Shop around for eyeglasses.
- Ask your doctor for free samples of prescriptions.
- Consider mail order prescriptions.
- Go to an optometrist for routine vision tests or to change an eyeglass prescription.
- Skip the annual full mouth X-rays unless there is a problem. The American Dental Association recommends X-rays every 3 years.
- If you owe money to a doctor or hospital, ask for a special payment plan.
- Inquire with your employer about a health care flexible spending account.

Housing

- If you have equity in your home, you may want to consider selling the home and using some or all of the proceeds from the equity to improve your financial condition.

- If there is no equity in the home and/or the mortgage payment is delinquent, determine whether giving up the home through a deed-in-lieu of foreclosure or pursuing a short sale might be an option. Remember that any amount due on the mortgage that was not paid through the sale of the home may result in the lender pursuing you for the deficiency.
- Share housing with a friend or family member.
- Move to a less expensive place to live.
- When you buy a house, negotiate the sales price and closing costs.
- A new coat of paint by your own hand will increase the value and beauty of your home and save you hundreds of dollars.
- Buy a duplex. Live in one of the units and rent out the other one.
- Move yourself instead of using a moving service.
- If you use a moving service and your personal insurance policy covers damages during the move, don't purchase the insurance offered by the moving company.
- If you use a moving service, pack your own boxes to reduce the cost and to minimize damage.
- If you use a lawn service, consider cutting your own lawn.
- Do any routine maintenance you can instead of hiring outside people. Or check your local shoppers guide for a handyman, possibly a senior citizen.

Insurance

Insurance is an expense category that you will find in a number of sections in your budget. It is presented as one category here:

- Drop duplicate medical insurance.
- Convert your cash value life insurance to term.
- If your car has very little value, you probably only need liability insurance.
- Shop around. Get referrals from friends, check the Yellow Pages or call your state insurance department. Service, such as a timely response, is just as important as price. Ask for quotes from at least three companies and check their complaint record with the National Association of Insurance Commissioners (*www.naic.org*).
- Know your history. When you ask for a rate quote, an insurer looks at your claims history. See what the insurer sees by ordering your CLUE report (Comprehensive Loss Underwriting Exchange). Go to *www.choicetrust.com*. You can challenge mistakes and submit updates.
- File fewer claims. With insurers raising rates and dropping policies if homeowners file frequent claims, you may be better off footing smaller repair bills.
- Raising your deductible from $500 to $1,000 may cut your premium by as much as 25%.

- Maintain good credit. Insurers are increasingly using credit information to price homeowners' policies. You can get lower rates if you have good bill-paying and debt habits.
- Bundle policies. You may save 10% to 15% by buying your auto, homeowners and liability policies from the same insurer.
- Improve your home security. You can get discounts of 5% or more for smoke detectors, a burglar alarm, fire extinguishers and deadbolt locks. The break can be as much as 20% if you install a sprinkler system and a fire and burglar alarm that rings at a police, fire or other monitoring station.
- Seek discounts. Many insurers give discounts to longtime customers — typically 5% after three to five years and 10% after six years. Retirees, who are at home more than working folks and are less likely to be burglarized, may get discounts up to 10%.
- Shop around for auto insurance discounts for multiple drivers, seniors, and good driving records.
- Review your policy once a year. Make sure your policy covers any major purchase or additions to your home. Remember that you'll need a rider or extra insurance for items such as expensive jewelry, computers and artwork, which aren't typically covered by standard homeowners insurance.
- Review policy limits and value of possessions. If you have extra insurance for a particular item, its value may have depreciated.
- Make a list of valuables. You can do it with a notebook, camera or video recorder. Record as much detail as possible, including date of purchase, and keep receipts so you know what you paid. Every time you buy a big-ticket item, add it to your home inventory, which should be kept outside your home, in a safe-deposit box, for example.
- Make your home more disaster resistant. Ask your agent about measures that reduce rates, such as adding storm shutters. Modernizing heating and air conditioning, plumbing and electrical systems could make a difference.
- Don't confuse what you paid for your house with rebuilding costs. The land itself isn't at risk from theft, fire and other perils. Don't include its value when deciding how much homeowners insurance to buy.
- Try for group coverage. Check if a homeowner's policy is available through your employer's group program or through membership in associations or organizations.
- Consider the cost of insurance before a new home purchase. You could pay less, depending on your location.
- Generally life insurance is a good idea for individuals who have others who are dependent on their income. If your circumstances have changed since the insurance was purchased, you may consider changing or dropping your coverage.

Personal Care

Some of these ideas may not be popular choices in your household, but they will help you add money to your budget:

- If possible, cut or trim your family's hair at home instead of at beauty shops or barber shops.
- Utilize the services of a beauty college to save money.
- Use cleaners and moisturizers with basic ingredients – they cost less.
- Utilize home remedies.
- Do your own nails.
- Take five-minute showers.
- Exercise for free. Walk, run, bicycle, or get free exercise videos/DVDs from the library.
- Use generic hair care products.

Savings

Make savings an expense in your budget. If you pay yourself each month, you will accumulate money over time that will be useful in case of an emergency. Here are some helpful tips:

- Give children allowances for housework instead of just giving. Set a predetermined percentage that they must save.
- Set your goals to work toward.
- Make a spending plan and stick to it.
- Avoid using your ATM card at machines that charge a fee.
- If your income is low, file for Earned Income Tax Credit on your taxes.
- Start an emergency fund and label it untouchable.
- The best way to save is to start small and stick to it.
- A 401(k) is an ideal way to save for retirement — get advice from a professional about investing and your portfolio
- Look for higher rates on your savings.
- Increase savings through payroll deductions.
- Compare brokerage fees.
- Avoid non-sufficient funds (NSF) fees by balancing your checkbook each month.

Transportation

Another large expense category is transportation. Try some of these ideas:

- Car pool with friends, neighbors or co-workers.
- Combine errands to make one trip.
- Do routine maintenance on your car yourself.
- Use public transportation if available.
- Trade down your car for a less expensive, lower maintenance one.

- Buy a good used car instead of a new model.
- Shop around for auto financing.
- Keep your car properly tuned to cut down on gas usage.
- Don't buy higher grade gas unless your vehicle absolutely requires it.
- Put money aside each month for car repairs and maintenance so you don't have to use a credit line or credit cards to pay for these items. You won't have to pay the interest on the credit if you pay it off at the end of the month.
- If you use public transportation, buy a monthly pass instead of paying daily.
- If you drive toll roads every day, buy a FAST PASS to reduce your average daily expenses.

Utilities

Find a few ways you can save money on utilities with this list:

- During the winter, set your thermostat to 64 and turn it down to 60 at night.
- During the summer, set your thermostat to 72 and turn it up at night.
- Hang your clothes out to dry instead of using the dryer.
- Have the water company do an audit so you are not charged sewage fees for water used in your garden.
- Use low flush toilets or water saving devices in the tank.
- Turn the hot water heater down and wrap it with insulation.
- Caulk windows and doors.
- Don't use your dishwasher dry cycle. Open the door and let them air dry.
- If your income is low, contact utility companies about reduced rates.
- Clean the lint filter after every load to help your dryer perform more cost effectively.
- Use your dryer and dishwasher late at night or early in the morning to avoid heating your house and adding additional energy expense.
- Clean your refrigerator's condenser coils twice a year to improve efficiency and cut energy costs. Dusty coils make the motor run longer and work harder.
- Plant fast-growing shrubs and trees in front of you home's west side to help shade it and lower cooling costs. Three mature trees on the west and southwest sides of your house could save you $50 to $100 on your annual cooling costs.
- Replace standard incandescent light bulbs with fluorescent bulbs in areas where the lights are used often. Fluorescent bulbs can be more expensive to buy, but they provide more light for the dollar, last longer and give off less heat.
- Keep refrigerators and freezers indoors. Refrigerators and freezers kept outside can cost almost twice as much to operate as their indoor counterparts.
- Service your air conditioning unit or heat pump at least once a year. A faulty A/C can be VERY expensive to use, and a maintenance expense is less costly than a major repair expense.

- Turn off your air conditioner if you leave your home for more than three days. If you have heat-sensitive electronic equipment like computers, furnishings, or plants, leave the air conditioner on and turn up the thermostat six degrees.
- Install cover plates on all electrical outlets in your home to improve insulation.
- Make sure there's room on the sides and top of your refrigerator to ensure efficient air circulation.
- Don't use the top of the refrigerator as a storage shelf. Doing so traps heat and makes your refrigerator work harder.
- Install water flow reduction devices in the kitchen and bathroom.
- Run only full loads in your dishwasher, washer and dryer.
- Clean warm air registers, baseboard heaters and/or radiators. Make sure that carpeting, furniture or draperies are not blocking them.
- Have your ductwork checked for leaks. If you've got split or leaky ductwork, it can cost you a bundle. You should keep all the warm air you're paying for.
- Change your return air filters once each month.
- Consider storm windows or more efficient windows. Although sometimes expensive, these can pay for themselves.
- Lower your dishwasher and washing machine temperatures. They use hot water from your house supply and drain in a hurry. That's much more costly in cold weather.
- Avoid frozen pipes by disconnecting all garden hoses outside of your home, even the ones attached to anti-freeze hydrants.
- Avoid frozen pipes by covering water pipes that are exposed to freezing temperatures or drafts with insulation. Small water pipes will freeze quicker than will waste or sewer pipes.
- If there is plumbing in the garage, never keep the door open in severely cold weather.
- Pipes laid underground should be below the frost line to prevent freezing.
- Make calls when rates are lower in the evenings and weekends.
- Compare rates at long distance companies.
- Use the phone book instead of directory assistance.
- Text or email instead.
- Cancel long-distance service if you don't make a lot of calls. In its place, use a pre-paid phone card with no expiration date.
- Don't choose a long-distance service based on the cost per minute or per month. Phone companies advertise low rates, and then hit you with fees. Before buying, get a list of all costs and check every bill to see what else turns up.

- Look at "bundled" deals if you use your phone a lot. One flat monthly fee includes local and long distance, plus your choice of services such as high-speed internet, wireless, caller ID, call-waiting and so on.
- Make sure your most-called numbers get the cheapest rate in your local service plan.
- Cut the cord. Wireless service offers many free minutes every month plus extras for "feature junkies," so they're often cheaper than a land line. Beware though: cell phones don't work during electrical blackouts and lack conventional 911 services.
- Use free directory service on the Internet. Calls to 411 or other directory numbers usually cost $1 or more. Say no if the operator offers to connect you automatically "at no extra fee." You'll be charged at the higher per-minute rate.
- If you are on a contract with the cell phone, do a cost-benefit analysis of shutting off the phone. For example, if your bill runs $100 a month and you have 10 months remaining on your contract, you will incur $1,000 in future charges. Even if canceling the contract will result in a $175 early termination fee, you will still save over $800.

Other

In the budget you prepared, the 'Other' category includes a number of different expense items:

- Donate time instead of money to religious organizations and charities.
- Put off vacations until the future.
- Open a vacation club to save for your vacation.
- Don't go deeper in debt for a vacation. Figure the cost of your last trip, divide by 12 and put that amount away each month.
- When planning travel, be careful of 'bargains' that have cancellation fees.
- Flexible travel schedules can get you big savings on airfares for last minute flights.
- Check out 'frequent flyer/travel' programs for savings on vacations.
- Camp instead of staying at a hotel.
- Check out restaurants that have 'early bird' dinner rates.
- Consider travel and vacation in the off-season.
- Check the travel section of the newspaper for coupons and travel deals.
- When renting a car, refill the tank on your own before returning it.
- Check your personal auto policy to see if you are covered when renting a car. If so, don't take out the insurance that the rental agency offers.
- If possible, drive instead of flying.
- Consider using a train instead of a plane if you have the time.
- Pack your own snacks to eat at the airport.

- Buy your airline tickets at least three weeks ahead of schedule to get a good rate.
- Buy groceries on vacation instead of eating at restaurants.
- Make cards and gifts for friends and family.
- Discuss a reduction in gift giving with family members.
- Make a gift list at the beginning of the year and stick to it.
- Open a holiday account at your financial institution.
- Recycle gifts.
- Comparison shop through catalogs or by using your Yellow Pages.
- Get hand-me-down toys and clothes for your kids from family and friends.
- Borrow items for your newborn from your friends and family.
- Buy old furniture at yard sales and refinish it yourself.
- Shop in thrift stores.
- Buy pre-owned toys and children's books at garage sales.
- Shop at auctions or pawn shops for jewelry and antiques.
- Trade in old books, records, and CDs at book and record exchanges.
- Don't go shopping when you're depressed, upset, or angry.
- Consider purchasing holiday decorations in bulk and splitting the costs with friends and family members.
- Buy quality durable goods like furniture and appliances for long-term savings.

Selecting a Credit Counseling or Debt Management Service

GreenPath recommends that consumers carefully consider credit counseling agencies and organizations before engaging one. Questions you should ask include:

- How long have you been in service?
  - Consumers should look for a long and positive history of helping people.

- How are your counselors trained, and what are their qualifications?
  - The training program should be rigorous and easy to describe and should also address accreditation.
  - Consumers would also do well to look for organizations whose counselors are degreed college graduates.

- Are your counselors certified?
  - If counselors are not certified, we recommend looking at the next service agency candidate.

- What is your accreditation process?
  - The accreditation process should be objective, like COA, Council on Accreditation, not subjective, like ISO, International Standards Organization.
- What services do you offer?
  - Reputable organizations offer money management, housing, and credit report education, not just debt consolidation — and the counseling is free of charge.
- How much do you charge?
  - Again, consumers should look for agencies that provide free counseling. This free counseling should include a detailed budget examination, a customized plan for balancing the budget and assurance that essential living expense will be covered before unsecured debt payment is arranged.
  - Consumers should also make certain that the monthly debt management plan administrative fees comply with state law. GreenPath's monthly debt management program fees average about $37, with the highest monthly fee capped at $50.
- What for-profit affiliations do you have?
  - Some credit counseling companies have acted without integrity, separating non-counseling operations — such as information technology, payment processing and client maintenance — into separate for-profit companies so that they can earn more money, distribute more generous salaries to directors and not report it on the non-profit's tax returns. Consumers should demand higher ethics from their potential credit counselors.

Finally, once satisfied and engaged with an organization's counselor, consumers should pay close attention to the quality of the service provided and look elsewhere **immediately** if they ever feel pressured to enroll in a debt management plan, debt settlement plan, or bankruptcy program.

“I’M AFRAID . . . AND THE COLLECTION CALLS NEVER STOP.” “I’M JUST SO TIRED OF THE STRESS.” “WHY IS MANAGING MONEY SO DIFFICULT?”

Financial challenges — whether sudden or long-in-the-making, self-inflicted or unavoidable — can seem debilitating. They create fear, stress and uncertainty, threatening to affect our health, careers, personal relationships and quality of life. While these are natural reactions to a very stressful situation, implementing a plan to address the hardship can create a positive, healthy and “can-do” outlook.

Financial counselors from GreenPath Debt Solutions bring you *Debt Free In Due Time*. We hope you can use the advice here to help manage your debt and set yourself up for a brighter financial future. By seeking counseling through GreenPath, you have already taken an important step.

GreenPath, Inc.

38505 Country Club Drive, Suite 210
Farmington Hills, MI 48331-3429
248-553-5400 • 248-553-8970 fax
www.greenpath.com