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When Your Income Drops

Liz Gorham, Extension family resource management specialist

Income loss is traumatic, whether it's your entire family income or a second income and no matter how it happens—a bad year in your business or farm/ranch operation, company layoffs, downsizing, divorce, illness, or death.

Take heart; there are immediate and positive steps to take. You can get back on top.

Right now you need to cut back on spending and develop a spending plan to help you pay your bills. If your income will be affected for more than a month, adjust your spending habits to maintain control of family finances over an extended period of time.

Financial affairs are still in the family's control. It will take work, but you can survive the initial financial crisis and come out stronger when it's over.

Remember ...

- You can control your financial situation if you plan carefully.
- Communicate with your family. Together, analyze what is important and decide on a plan of action.
- Don't default on payments. Go to your creditors, explain your situation, and work with them to make adjustments. Some may have hardship programs for those under financial duress for which you can apply.
- Be prepared to change your standard of living, at least temporarily, so you don't have to give up essentials.
- Begin to make plans for the future, whether it is finding a new employment or adjusting to a reduced standard of living.

When your income drops, don't panic. Don't blame yourself. Don't blame others. Don't stop credit payments, or

ignore the fact you are facing financial difficulties. The world really hasn't come to an end. You are going through emotional shock; it is predictable. Now make an action plan as soon as possible.

Communication is a family affair. Many people try to hide financial problems from themselves or family members. It is very nearly impossible to hide financial difficulties from the rest of the family, and it's not emotionally healthy for you to try. Not facing up to problems is a form of action, an undesirable one, and it's called worrying and "spinning your wheels."

Because financial decisions affect the whole family, talk with the others about your situation. Let them know the need to change spending priorities. Involve all the family members, no matter their ages. Include your family in the decisions that must be made. As a family, discuss how income is spent, what is important, and what is not so important. What must the family have in the next week, the next month, the next two months?

Communication is **sharing**. You don't want to unnecessarily burden family members with worry, and some suggestions they might make will be totally unhelpful. But you might discover, in the conversation, an option you hadn't thought of.

Communication is **listening**. This is not easy, yet it is a skill that can be learned. Active listening includes giving full attention to understanding the feelings of another person. Remember your whole family probably is upset. Accusing one another of being responsible for the problem won't help anyone.

My income has dropped. What do I do first?

Review your finances

Begin a review of your budget by listing all sources of income on Worksheet #1 (next page). Fill in all your sources

of income. Subtract your spending from your income. This final figure will tell you whether you're in the hole or not and where to trim expenses.

You may find that your family doesn't have a clear picture of where the money is going. In that case, try to write down every item on which money is spent for two or three weeks. Also note your mood or that of any other family member when making a purchase. Look at all the check stubs and receipts and estimate what you spend on flexible expenses—those expenses you have after you pay for fixed expenses such as housing, installments, insurance, taxes, and other bills of known dollar amounts.

If your income gap is negative, you'll have to start cutting expenses and get your payments reduced to balance your budget.

Determine where to cut corners

To balance your budget and reduce spending, you have to know exactly how much money you have coming in and going out.

- Stop spending leaks. Leave credit cards at home and pay in cash. Using a credit card to maintain current living standard is incurring high interest debt and is adding to, not resolving, your problems.

Worksheet 1. Income and expenses, your monthly spending plan

1. Tally your income:

Because most bills are monthly, it's easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and biweekly income by 2.17 to convert to monthly amounts.

List the monthly sum of all sources of income:

Unemployment benefit	\$ _____
Spouse/partner's paycheck	\$ _____
Interest on savings	\$ _____
Other income	\$ _____
	\$ _____
Total monthly income:	\$ _____

Worksheet 1. (continued)

2. List your expenses:

Look through your checkbook and credit card statements. What do you spend monthly for each of the following? On credit cards, list your current minimum monthly payment due.

	<i>Before income drop</i>	<i>After income drop</i>
Rent or mortgage	\$ _____	\$ _____
Utilities (gas, water, electricity, garbage collection, fees)	\$ _____	\$ _____
Phone/s	\$ _____	\$ _____
Cable TV	\$ _____	\$ _____
Food (groceries)	\$ _____	\$ _____
Food (eating out)	\$ _____	\$ _____
Gas and maintenance	\$ _____	\$ _____
Clothing/care	\$ _____	\$ _____
Personal care	\$ _____	\$ _____
Household items	\$ _____	\$ _____
Insurance	\$ _____	\$ _____
Taxes	\$ _____	\$ _____
Auto loan	\$ _____	\$ _____
Student loan	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Other loan	\$ _____	\$ _____
Medical	\$ _____	\$ _____
Entertainment	\$ _____	\$ _____
Education	\$ _____	\$ _____
Contributions/Donations	\$ _____	\$ _____
Child care	\$ _____	\$ _____
Alimony/Child Support	\$ _____	\$ _____
*Miscellaneous	\$ _____	\$ _____
Savings and/or funds set aside each month for occasional expenses	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total monthly expenses:	\$ _____	\$ _____

- Change eating habits. We spend 14% of our income on food, and more than a third of that in restaurants, on fast food, and vending machine snacks. Eating at home or bringing your own homemade lunch or snacks is a lot cheaper.
- Conserve utilities. Turn off the lights and the television when not in use. Run the dishwasher, clothes washer, and dryer with full loads and less frequently. Lower house thermostats in winter and use fans instead of air conditioning in summer.
- Communicate. Agree with your family that every purchase over a certain amount will be brought to the family for discussion prior to purchase.
- Plan. Prepare for upcoming bills, such as an insurance payment due twice a year.
- Make lists. Weigh the importance of each item on your shopping list. Reduce the number of shopping trips.
- Explore entertainment alternatives. Disconnect cable TV; play board games or visit the library. Walk more.

Worksheet 1. (continued)

* **Miscellaneous expenses:** To calculate your monthly miscellaneous expenses, make a list of all other things on which you spend your money. The list may include birthdays, Christmas, anniversaries, other gifts, sports, school supplies, postage, hobbies, magazines, newspapers, bowling, darts, vacations, pet supplies, movies, video rentals, allowances, etc. Determine how much you will pay for them each time and how often they are purchased. When you have a total dollar amount for all miscellaneous items, divide that number by 11 or 12 and set aside that amount each month to pay for these items. Any money not needed to pay these expenses in any one month should be saved to meet the expenses coming up in the next few months. You will likely spend less in the months when no one has a birthday but more when buying gifts or decorations for the holidays.

3. Establish the gap:

Subtract your total expenses from your total income to see whether you have a positive or negative cash flow.

Total monthly income	\$ _____	\$ _____
Total monthly expenses	\$ _____	\$ _____
Income gap:	\$ _____	\$ _____

Take an inventory of your resources

How much does the family own? Take a few minutes to add up your family’s assets—the result just might boost your spirit. Add up the total value of all your belongings on Worksheet #2 (next page). Remember to calculate everything owned at current market prices, not the original price.

Cash—those things that either are or can be easily converted to cash. Remember: Cashing in certificates of deposit (CDs) before they mature results in an interest penalty.

Marketable assets—financial assets that can be cashed in or sold for their current market value. Prices will fluctuate with market conditions.

Other assets—real estate and personal property that can be sold but usually not as quickly as the assets above. Assets such as vehicles, furniture, and appliances usually depreciate in value, so they are worth less now than when you purchased them, even though they are still in good condition.

Non-marketable assets—assets that cannot be sold or are more difficult to turn into cash. Withdrawing money from your retirement plan, pension, or Individual Retirement Account (IRA) before age 59 1/2 usually involves a substantial penalty.

Use savings

If cash is required, use emergency savings or take out a loan if you can get one. This will depend on your individual circumstances, but there are some disadvantages either way. When you take money from your savings account it will no longer earn interest. If you take out a loan, you pay interest for the privilege of using someone else’s money.

Check into a secured loan based upon money you have on deposit in a savings or a certificate of deposit account. You will pay interest on the loan, but the total cost might be less than the interest on another type of loan. If your family decides to withdraw money from a savings account, take money from a regular account first and leave any certificates of deposit untouched. You’ll lose interest and may have to pay a penalty on the certificates if you cash them in before they mature. If any case, think carefully about taking on any additional debt until you get back on your feet.

Should you use retirement savings?

Don’t be tempted to start spending what you put away to use in retirement for everyday living expenses without some careful consideration of the long-term consequences.

Worksheet 2. Assets

<i>Assets</i>	<i>Current Value (\$)</i>
Cash	
Cash on hand	\$ _____
Checking account	\$ _____
Savings account	\$ _____
Certificate of deposit	\$ _____
Cash value life insurance	\$ _____
Marketable Assets	
Government bonds	\$ _____
Corporate stock	\$ _____
Mutual funds	\$ _____
Other Assets	
Real estate	
Owner-occupied	\$ _____
Rental property	\$ _____
Personal property	
Automobiles	\$ _____
Furniture	\$ _____
Clothes	\$ _____
Jewelry	\$ _____
Collectibles	\$ _____
Equipment	\$ _____
Non-Marketable Assets	
Retirement plans	
IRA	\$ _____
401(k)	\$ _____
KEOGH	\$ _____
Total Assets	\$ _____

Maybe you received a sizable lump sum from your tax-deferred 401(k) retirement-savings plan if you were forced to leave your job. If you spend that money, you will pay income taxes and a penalty if you're under age 59 1/2, and you will lose the tax shelter that allows the earnings to compound while tax deferred. To preserve the tax-deferred benefit and avoid the penalties, roll the money into an Individual Retirement Account (IRA).

And remember, under the tax rules, you must have your company deposit the money directly into your IRA rollover account at your new custodian—a bank, brokerage firm, or mutual fund. If you take possession of the check—even for a few days—the company must withhold a sizable amount for income taxes.

But perhaps you truly need some of this retirement savings in order to meet some current bills. Prepare for this by rolling your 401(k) into an IRA invested in a money-market mutual fund or a bank money-market deposit account. Use this money only if your other savings run out. You'll pay taxes and penalties on the money withdrawn. But as soon as you find work, you can stop your withdrawals and protect any remaining IRA money left.

Some 401(k) plans let you borrow from retirement savings. There are rules about how much you can borrow, the interest you will pay, and the deadline for repaying the loan. For a short-term financial need this can be one way to borrow money quickly and without a lot of paperwork.

My income has dropped. Is there anybody in the community who can help my family in the short term?

File for unemployment benefits

Applying for unemployment benefits is done by simply dialing 1-800-309-4232 for the Department of Labor's "Unemployment Insurance Claim Center." Call or contact them online (www.sd.uicclaims.com) the first business day (Monday – Friday from 8 a.m. to 4:30 p.m., CST) after you become unemployed or as soon as possible. Have the following ready for the claim center representative:

- Social Security Number
- Driver's license number or other identification number
- Names and addresses of all your employers for the last 18 months
- Dates of employment
- Reasons you left each job
- If you were employed in the military the last 18 months, you'll be asked to mail or take a copy of your DD214 to your local One-Stop Career Center
- If you are not a U.S. citizen, you'll be asked for your alien registration number.

It is best to file your unemployment claim over the phone rather than visiting the nearest One-Stop Career Center. However, if you have a disability that prevents you from using the phone or cannot use the TTY 1-800-877-1113 number, do visit the One-Stop Career Center. Locations of all One-Stop Career Centers are found on the Department of Labor homepage at <http://www.sdjobs.org> or in the phone directory in the business section.

In addition to filing an unemployment insurance claim, the South Dakota One-Stop Career Centers provide re-employment services to help get you back to work quickly. **Free** career resources (such as internet access to the job bank; use of computer equipment for making resumes; educational materials and sessions for resume preparation and sharpening your interview skills; and information and training to increase job skills) are offered through your local One-Stop Career Center resource room.

There are many other resources in the community

Many communities have food pantries. Local church congregations or ministerial associations may be able to assist you in paying for basic living expenses for short periods of time. Assistance in payment of past medical bills is available in catastrophic cases through County Welfare or the local Veteran's Benefits Office (if applicable). Clothing and household goods can be obtained from thrift stores such as Goodwill or the Salvation Army, and sometimes they are able to provide vouchers for free goods.

Check with Volunteer Service banks in communities for other possible services offered, i.e., transportation for dialysis and other health needs, tutors, and older mentors of young learners. For a more complete listing of key services and resources go online to <http://dss.sd.gov>

Help is also available from social service agencies

If you are not eligible for unemployment benefits or if benefits are insufficient, contact the South Dakota Department of Social Services. Look in the telephone directory in the business pages under South Dakota Department of Social Services for economic assistance or find a computer and go online at http://sw2.salary.com/salarywizard/layouthtml/swzl_unemployment_SD.html

Look at <http://dss.sd.gov> for Temporary Assistance to Needy Families (TANF), Food Stamps, Child Care Services, and Medical Services. If you want to find out if you are eligible

for food stamps, apply at your county food stamp program. Eligibility is determined by your family's financial resources and family income. When you apply for the Food Stamp program, take this information along:

- Proof of identity (driver's license, etc.), alien status
- Social Security numbers for all household members
- If employed, proof of income (wage stubs, earning statements, etc.) for the past 30 days
- If self-employed proof of income (income tax return, self-employment ledgers, etc.)
- Proof of all other income (Social Security, SSI, workmen's compensation, unemployment benefits, BIA general assistance, child support, rental income, VA benefits, interest income for last year, etc.)
- Bank statements for checking accounts, savings accounts, certificates of deposit, credit union accounts, retirement accounts, stocks, bonds, dividends, etc.
- Proof of shelter costs (rent or mortgage payment, lot rent, household real estate taxes, utility bills—heat, electricity, water/sewage/garbage, telephone, etc.)
- Proof of dependent care expenses (statement from provider, signed receipts, etc.)
- If anyone is age 60 or older or permanently disabled, proof of medical expenses not paid by another source (health insurance, doctor bills, hospital bills, drug receipts, pharmacy statement, etc.)
- If paying child support, proof of obligation and payment (divorce decree/administrative order, canceled checks, clerk of courts receipt, etc.)

(Note: These are general guidelines. Particular details may be subject to changes based on new state and/or federal regulations.)

Adult Services and Aging offices are located throughout South Dakota to provide services to the elderly and disabled. They provide meals at central sites and home delivery of meals, adult day care, respite care, elderly companions, assistive technology, chore maintenance, information and referral, low-cost access to prescription medications, abuse prevention, health insurance consultation, transportation, and legal, home health, and home-maker services.

For more information, go online to <http://dss.sd.gov> and click on Elderly Services.

Community Action Agencies, with projects located in Rapid City, Sisseton, Madison, and Lake Andes, vary in the services offered at each site but often include financial

assistance and direct services to those needing meals for the elderly, transportation, home weatherization and housing development, nutrition, economic development, and emergency food and shelter.

The purpose is to assist people in improving their lives and becoming more self-sufficient. For more information, go online at <http://www.state.sd.us/social/econasst/index.htm>

My income has dropped and I have debts. How do I pay my bills?

First off, don't ignore your bills

Immediately contact your childcare provider, utilities companies, finance company, bank, credit union, and department stores about revolving charge accounts and installment loans, and make an appointment to explain your problem.

Here are some solutions your family and your creditors might use:

- Work out smaller payments for a short period of time until you can get back to your regular payment amount.
- Refinance the loan; that is, make another contract for smaller payments over a longer period of time. The new payments will be smaller in size but the overall costs for the loan will be larger.

By using PowerPay[®] (see below), you can calculate a lower payment plan that will cover all of the interest and some of the principle on every debt owed.

Extension's debt analysis service is free, confidential

South Dakota Cooperative Extension is pleased to help you analyze your debts using the PowerPay[®] computer program.

This easy-to-use program shows the impact of power payments on individualized consumer debt situations. It summarizes interest saved and reduction in time to get out of debt by using power payments for a specific set of creditors. You will receive a printed debt reduction calendar outlining month by month how much to pay each creditor. You will be able to explore the possible savings from consolidating some or all debts.

To take advantage of this powerful tool and **free, confidential service**, you can either work through your local county Extension educator or send your personal debt information

to the Extension family resource management specialist, SDSU, NFA 301/2275A, Brookings SD 57007; phone: 605-688-4035. Please provide the following information for analysis of your debts: your name, address, and phone number along with a completed copy of Worksheet 3 (next page). Look for the information requested on your monthly billings. Another option is to go online at <http://powerpay.org> for your own private analysis.

Be wary about quick cash loans

It is not advisable for you to seek out loans from the sub-prime lending market for quick cash to meet your immediate needs. Such lenders charge high fees that, when calculated, would require you to pay very high interest rates. This becomes serious if you should fail to make a payment and are forced to borrow additional funds (at the same or higher rate of interest) to pay off the original loan. The amount you owe can become several times the original amount you borrowed.

The South Dakota legislature in 2002 felt this was such a prevalent problem that it passed a law limiting the amount of the post-dated check the lender could accept to \$500 and the number of times the borrower could extend the payday loan to four. Too many people could not repay their loans in the time specified by the lender and then became hopelessly in debt.

Your mortgage is your most important bill

It is a secured debt. Try to pay it first.

A late payment might be reported to credit bureaus after 30 days. If you are 90 days or more overdue, that will almost certainly appear on your credit record; it is also when procedures to foreclose on the house are put in process.

Are the mortgage payments too high right now? Go to your lender and ask the mortgage officer in the lending department that you be permitted to pay only interest for a certain time period or that you postpone one or two payments until you have pulled yourself out of your financial crisis.

You can also ask for what is called a "forbearance agreement." This is a legal agreement with the lender that allows you to pay a fraction of your monthly mortgage payments until you get on your feet again. The lender must approve any reduction in your mortgage payment; making partial payments without this approval can cause your home to go into foreclosure.

Worksheet 3: Liabilities

<i>Creditor's name address and phone</i>	<i>Account or number</i>	<i>Annual interest rate (APR)</i>	<i>Secured debt? Yes or No</i>	<i>Total balance owed (\$)</i>	<i>Payment due date</i>	<i>Original monthly payment</i>	<i>Date of last payment</i>	<i>Amount of last payment</i>

A forbearance agreement could work something like this: for six months you pay half (50%) of your regular monthly payment. After six months, when you're back at work, you resume paying the full (100%) regular monthly payment. Six months after that, you make payments equal to your full payments plus the half you missed during your unemployment (150%).

Can you and the landlord strike a deal about the rent?

Write your landlord about your situation immediately. The landlord may accept partial payment for one or two months. If you and your family members are able, you may ask the landlord if you can do some maintenance work, such as painting, in place of part of your rental costs. You may want to look for less expensive housing, but be realistic and remember to include moving expense, deposits, hook-up fees for utilities, and family adjustments as you consider the costs of moving.

Don't skip your insurance premiums

During times of reduced income, it's important to continue insurance coverage.

There may be a grace period in making payments from 10 to 30 days. Check with your insurance company. If you allow insurance to lapse, you may not be able to renew.

Write your insurers and ask what payment options are available. Check to see if smaller premiums are possible through:

- changing to a monthly, quarterly, semi-annual payment plan with the same coverage
- changing to a more basic coverage
- changing the deductible
- checking for additional discounts for which you qualify

Car insurance: You must keep liability coverage; it is state law. You may reduce premium costs by increasing the deductible on collision and comprehensive, or, if there is no lien, eliminating the collision and comprehensive coverage.

Life insurance: Check your existing permanent life insurance policy or call your agent. In many life insurance contracts there is a so-called automatic premium loan clause. This clause says the company will deduct from the cash value of your policy or use your dividends to pay premiums.

Health/Disability insurance: Chances are that you were insured under your employer's group health, accident, and life insurance plan. In most cases, your group policy will allow a 30-day grace period after you leave the company. You may be permitted to reapply for insurance within this period of time. You may not be asked to undergo a medical

examination, but the premiums for your individual policy may be higher. The premium will be adjusted according to your age and type of policy.

You may qualify for an 18-month COBRA health coverage extension in which you pay for the insurance. It will be more expensive since your former employer is not contributing, but it will be less costly than individual insurance.

Remember to pay your real estate taxes

South Dakota real estate taxes are due on April 30 and October 31. As a real estate owner, you receive an annual notice of the taxes assessed to your property. When you are unable to pay taxes, interest accumulates on the unpaid amount. Delinquent tax payment notices are published in a December issue of the local newspaper.

Eventually (4 years for urban and 5 years for rural property owners), unpaid taxes will result in the sale of your property through auction.

If all else fails, consider loan consolidation

Under this plan, you take out one loan, pay off all bills at once, and then have one debt to pay off to just one creditor (usually over a longer period of time). Each payment will be smaller, but you will commit yourself for a longer period of time, usually at a higher total cost. Shop around, as you would for any type of credit, to find the lowest interest rate.

Some of your smaller debts may carry no interest and may be unsecured (meaning the creditors don't hold any collateral). Some bill consolidation loans may require you to put up your household goods, auto, and sometimes your house as security. Be advised that non-payment of this type of loan could result in loss of the collateral!

Some creditors should be paid first

Before talking to your creditors, you need to look at your situation and make decisions about how much and when you can pay. Use Worksheet #3 (found on page 7) to help you get a clearer picture of what and how much you owe.

Not all of your debts affect your family equally. Figure 1 contains a list of priorities to establish in dealing with debts. Your priorities may differ. Establish your own list and verify that you have contacted all of your creditors.

Credit cards. Visa and MasterCard are the most valuable

Figure 1. Checklist of creditors to pay first

First priority

- Mortgage or rent
- Tax liabilities
- Second mortgages
- Auto loans
- Utility companies
- Child support payments

Second priority

- Finance companies (secured loans)

Third priority

- Credit cards, retailers
- Doctors and dentists
- Hospitals
- Finance companies (unsecured loans)

references on your credit report, so pay them on time, even if you only make the minimum monthly payment.

Car loans. You don't want to get behind on a car loan. Be sure to read your auto loan agreement because it may stipulate your car can be repossessed after you've missed only one payment. If your car is worth more than you owe on it, you may be able to refinance your loan with lower monthly payments. If not, your lender may agree to a temporary schedule of reduced payments.

Child support. Delinquent child support can really hurt your credit record. All child support payments owed that are \$1,000 or more must be reported to credit bureaus. In South Dakota, failure to make child support payments can mean loss of licenses (driver's license, business and professional licenses), garnishment of wages, and withholding of tax returns.

Taxes. The Internal Revenue Service (IRS) can be extremely tough if you don't pay your taxes on time. If you are notified by the IRS that you owe past-due taxes, make every effort to pay them as quickly as possible. If you can't pay, contact the IRS to arrange a payment schedule.

Medical bills. Most medical bills are not reported to credit bureaus until they are sent to collection agencies. You can often work out a modified payment schedule with a doctor or hospital.

Student loans. You can ask to defer payments on federal student loans if you are having financial problems. You will

not be required to make any payments during the deferment period and no interest will accrue. But you cannot qualify for deferment if your student loan is in default.

My income has dropped, how do I talk to my creditors?

Contact creditors in writing

A sample letter is shown in Figure 2. A letter is better than a phone call because:

- you have had a chance to think through your circumstances and plan your budget for paying your bills.
- you won't get upset or confused if the creditor tries to intimidate you.
- you both have a record of your proposal.

Be realistic before you write the letter. Don't say you'll be back to full-time work if you have no idea at this time when that will happen. Mail a letter to each creditor and keep a copy for yourself. Write a summary list of your spending plan and repayment plans and keep it by the telephone. If creditors call with additional questions, refer to your plan and don't promise higher payments than you can make. Be honest and courteous.

If you don't pay your bills

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

If the bills are still not paid, they will probably be turned over to an independent collection agency. While the agency will try to get you to pay, the law protects you from certain actions.

Your rights under the Fair Debt Collection Practices Act

Debt collectors are prohibited from harassing, oppressing, or abusing you; threatening to take your property without the right to do so; or using false statements (such as implying that they are attorneys or work for a credit bureau or Social Security). The Fair Debt Collection Practices Act applies to any personal, family, or household debt and covers debt collectors who regularly collect debts for others but does not cover the creditors themselves or their lawyers.

Figure 2: Sample letter

Date

*Payus First Corp.
Delinquent Account Representative
119 First Street
Anytown, SD 57999*

Dear Creditor:

The purpose of this letter is to inform you that I am having some budgeting and repayment problems. Due to (a recent layoff or seasonal unemployment, accident, etc.), I am temporarily out of work and as a result, am experiencing financial difficulty. I have analyzed my current situation and, in order to provide for necessary household expenses plus credit payments, I am asking each creditor to accept a reduced payment (for the next three months or another period of time). By (date), I anticipate being back to my regular repayment schedule.

I would appreciate your cooperation in making the payment plan work. In place of the regular payment of \$xx.xx, I request that you accept payments of \$yy.yy per month during this emergency.

You can be sure that I will resume normal payments as soon as possible. If there are any changes in my situation, I will notify you of them as soon as possible.

I hope you find this plan acceptable. I look forward to your letter of acknowledgment. Thank you.

Sincerely,

*Name
Address
Account number*

The law further prohibits debt collectors from contacting you at inconvenient times (defined as before 8:00 a.m. or after 9:00 p.m.) or places. The collector may not contact you at work if your employer disapproves and you notify the debt collector in writing that you do not want to be contacted at work. They also must not tell anyone else that you are behind in your debts and they cannot use obscene or abusive language. Find the text of the act online at www.ftc.gov/os/statutes/fdcpajump.htm

If a bill collector violates any of your rights under the Fair Debt Collection Practices Act, complain to the Federal Trade Commission, Washington, DC 20580, (1-877-FTC-HELP [382-4357]), www.ftc.gov, or call the South Dakota Division of Consumer Protection at 1-800-300-1986 or go online at <http://www.state.sd.us/attorney/index.htm>

Your creditor has options, too

Creditors can take several kinds of legal action against you. These actions are often written into the sales contract you signed. If you fail to make payments, you will receive letters from a creditor's attorney or a collection company warning you of the intended action. Here's a list of possible actions a creditor might take:

- **Acceleration.** The entire debt is payable at once if you miss a payment. The court can force you to pay by seizing your property and selling it.
- **Repossession.** The creditor can seize the item you bought or the property you used as collateral. If the sale of the property brings less than the amount you owe, usually you still must pay the difference.
- **Wage garnishment.** A court order may require your employer to withhold part of your wages and pay your creditor.
- **Foreclosure.** If you do not make your mortgage payments for at least 3 months, your lender takes possession of your home and sells it to pay off the loan. You are responsible for the legal fees and difference between the selling price and the amount owed.

All of these actions are very serious and could jeopardize your ability to get credit in the future.

Declaring bankruptcy is a last resort

Declaring bankruptcy, especially a certain type known as Chapter 7, appears very attractive. Bankruptcy is usually initiated by securing legal help in filling out a form and submitting it with a fee at a federal bankruptcy court.

(The filing fee charged varies by the type of bankruptcy; the cost to the consumer filing a Chapter 7 bankruptcy is about \$200 for the filing fee plus legal fees.)

At that point your creditors can't come after you; instead, they must wait for a judge's decision. If the judge permits your case to proceed, he or she will often discharge most of

your debt, meaning absolve you of responsibility for the money you own to creditors such as your landlord, doctors, and credit card companies.

Some of your assets can be seized to pay off these creditors by selling them off at public auction with the proceeds divided among your creditors. You may be able to work out a deal where you get to keep your car, home, and many of your household possessions.

The court cannot free you from the following debts: student loans, overdue taxes, alimony, or child support.

Chapter 13 is another form of bankruptcy in which you are allowed to keep all your property. The court acts as a credit counselor and orders your creditors to leave you alone while you pay them off.

It works this way: You submit a detailed budget, and once the near-subsistence level budget is approved, you will be ordered to make payments directly to the court. You are forced to take Chapter 13 over Chapter 7 bankruptcy if you are employed and earning enough money to meet your budgeted living expenses plus the repayment plan. You will also be required to take an educational course and receive counseling.

Chapter 12 is the form of bankruptcy, similar to Chapter 13, for farmers and ranchers to use in reorganizing their debt.

Although bankruptcy sounds like a great deal, it's **not** an option most of us should consider. Bankruptcy is noted on your credit report for ten years. You might be able to get a credit card with a \$500 spending limit—if you keep a full \$500 on deposit in the bank that issues the card. You might be able to get an auto loan if you have a cash down payment of 70%. Because prospective employers will learn from your credit report that you declared bankruptcy, you may have trouble changing jobs. Finally, plan on public embarrassment when your name appears in the newspapers.

Consumer Credit Counseling Services (CCCS) are helpful and confidential

If you'd like to have a confidential chat with an expert on personal debt, find the Consumer Credit Counseling Services office in your area. Call 1-888-258-2227 [<http://www.lsssd.org>] for East River locations and 1-800-568-6615 [<http://cccsbh.com>] for West River loca-

tions, or call 1-800-388-CCCS, national headquarters, which will connect you with the Consumer Credit Counseling Services office in your area.

Figure 3 lists the CCCS offices in South Dakota. They provide counseling to families with debt problems. If you want, they'll help you work out a family budget, they'll call your credit card companies and other lenders, and they'll help negotiate to get your payments reduced. For more information about CCCS and how they function, go online at <http://www.debtadvice.org>

There are other legitimate counselors that offer face-to-face, telephone, and/or online debt reduction services. Become familiar with their policies (such as set-up fees, monthly charges, confidentiality) before engaging their services.

You can still maintain a good credit record

The thing that will hurt your credit record the most is to say nothing and start missing payments. Lenders won't know that you're suffering a financial setback unless you tell them. If you don't tell them and miss payments, they'll assume that you're not taking your responsibility seriously and that you've become a bad risk.

Debt consolidation could affect you negatively until the account is paid in full. Attitudes of lenders are slowly changing, however, as they recognize that consolidation does not equal default on debt accounts.

If you don't bother to work out an emergency repayment plan, your credit record will show that you were delinquent. This could result in a poor credit record that will stick with you for seven years.

"Fixing" your credit record is not possible. Don't fall prey to scams that claim to be able to do so. You can, however, write a 100-word statement explaining your hardship and have that statement permanently entered into your credit report. Call your bank and ask for the name of the credit agency to which it reports.

The three major credit agencies are Equifax, Experian, and Trans-Union (see contact information in Figure 4, next page). Then contact that agency, request a copy of your credit report (the fee is \$8 to \$10 per report), and write a 100-word statement explaining the reason(s) for your late, partial, or non-payments. Send that letter to all three of the major credit reporting agencies. By federal law, someone from the credit reporting agency must help you write the letter if you need help.

Figure 3: Consumer Credit Counseling Services (CCCS) near you:

Aberdeen, CCCS/Lutheran Social Services (S/51002-03)	1-888-258-2227
Brookings, CCCS/Lutheran Social Services (S/51002-04)	1-888-258-2227
Ellsworth AFB, CCCS of the Black Hills (S/51001-01)	(605) 348-4550
Huron, CCCS/Lutheran Social Services (S/51002-05)	1-888-258-2227
Mitchell, CCCS/Lutheran Social Services (S/51002-06)	1-888-258-2227
Pierre, CCCS of the Black Hills (S/51001-03)	1-800-568-6615
Rapid City, CCCS of the Black Hills (51001-00)	(605) 348-4550
Sioux Falls, CCCS/Lutheran Social Services (B/51002-07)	1-888-258-2227
Sioux Falls, CCCS/Lutheran Social Services (51002-00)	1-888-258-2227
Spearfish, CCCS of the Black Hills (S/51001-04)	1-800-568-6615
Sturgis, CCCS of the Black Hills (S/51001-05)	1-800-568-6615
Watertown, CCCS/Lutheran Social Services (S/51002-02)	1-888-258-2227
Yankton, CCCS/Lutheran Social Services (S/51002-01)	1-888-258-2227
National Foundation for Consumer Credit	(800) 388-CCCS
	or (800) 388-2227

Figure 4. National Credit Bureaus

Equifax

PO Box 105873
Atlanta GA 30348
1-800-685-111
www.equifax.com

TransUnion

PO Box 1000
Chester PA 19022
1-800-888-4213
www.transunion.com

Experian

PO Box 2002
Allen Texas 75013
1-888-397-3742
www.experian.com

Resources:

- Bureau of Labor Statistics. 2004. Consumer expenditures in 2004. U.S. Department of Labor, Washington, DC.. Accessed on 7/25/06 at www.bls.gov/news.release/cesan.nr0.htm
- Consumer Credit Counseling Services:
National Foundation for Credit Counseling, accessed on 7/25/06 at <http://www.debtadvice.org>
Consumer Credit Counseling Service/Lutheran Social Services, accessed on 7/25/06 at <http://www.lsssd.org>
Consumer Credit Counseling Service of the Black Hills, accessed on 7/25/06 at <http://www.cccsbh.com>
- Federal Trade Commission. 1996. Fair Debt Collection Practices Act (full text). Accessed on 7/25/06 at <http://www.ftc.gov/os/statutes/fdcpajump.htm>
- PowerPay[®] Debt Reduction Program. 1998. Utah State University Extension, Logan, UT. Accessed 7/25/06 at <http://powerpay.org>
- South Dakota Department of Labor. Dial to file: unemployment claims completed by phone, pamphlet for One-Stop Career Center System. Accessed on 7/25/06 at <http://www.sdjobs.org> and South Dakota Job Bank at <http://www.ajb.dni.us/sd/>
- South Dakota Department of Social Services. Accessed 7/25/06 at <http://dss.sd.gov>

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