Stretching Out or Reducing Debt Payments. If you cannot pay all your debts, try to reduce your monthly debt payments. Even if you must pay the full amount eventually, delay can help, particularly if your financial problem is caused by unusual expenses or a short-term drop in income.

As described in Rule #1, low priority debts (such as medical, credit card, and private student loan debt) should be put off if payment endangers higher priority debts. This book sets out ways to spread out payment of higher priority debts, paying less each month, and even lowering your total obligation:

? Mortgage payments. You may be able to skip a few months mortgage payments, pay back-due amounts slowly over time, or otherwise reduce your monthly mortgage payment through programs offered for most mortgages. These are described at Chapter 17 [1].

? Federal student loans. Chapter 13 [2] outlines a number of ways to cancel your student loan, put off all payments for a year, or reduce your monthly payment to an affordable amount.


? Utility debt. Chapter 15 [4] describes options to lower your utility rate, spread payments out more, or skip payments without the threat of disconnection.

? Auto loans. Chapter 14 [5] provides advice on ways to reduce the size of your auto loan payments.

? Court judgment debt. A court judgment against you may lead to loss of wages, money in your bank account, and even your home or other property. Chapter 21 [6] provides advice to reduce your exposure to these losses.

? Criminal justice debt. Chapter 22 [7] explains that criminal justice debt can sometimes be stretched out through payment plans or even reduced if you can show financial hardship.

? Federal income taxes. Chapter 23 [8] describes how to pay your back-due federal income taxes in installments and when you may be entitled to reduce the amount owed.

Paying Debts by Taking on More Debt. Borrowing from friends and relatives often makes sense. Interest rates are likely to be low or nonexistent, and you typically need not put up collateral for the loan. Problems arise when a friend or relative faces financial difficulties and asks for repayment, or when you are counting on further loans from that person.

Another option is borrowing against your home equity to free up money to pay other debts. Chapter 5 [9] discusses the pitfalls and advantages of this approach. Interest rates are low, and you have years to repay. But non-payment can lead to loss of your home and the total cost of the loan—including closing costs and fees—can be much higher than you think. If you refinance your first mortgage and other debt into a new larger first mortgage, you may end up with larger monthly payments than you can afford and even larger than you expected because of prepayment penalties, hidden charges, and the like.

One way to pay off your debts and avoid home foreclosure is to take out a reverse mortgage, as explained in Chapter 6 [10]. If you are at least 62 years old you can draw on your home equity to obtain cash. You have no loan payments until you move out of the home or pass away. But you still face foreclosure if you cannot keep up property taxes, insurance, repairs and other home expenses. There also are other downsides to a reverse mortgage. It is a complicated decision. Read Chapter 6 [10], and then find expert help.

It is tempting to pay off debts using your credit cards or a cash advance through your credit card. Unless you can pay off the full card balance each month, this is a bad idea when dealing with medical debt (see Chapter 11 [11]), debts owed to the IRS (see Chapter 23 [8]), federal student loans (see Chapter 13 [2]), and other debts that you could spread out over time through working with the creditor. An advantage of adding charges to your credit card is that non-payment does not immediately lead to loss of your home, car, wages, or bank accounts. If you file bankruptcy, with certain exceptions, you can also get rid of the entire credit card debt. But interest rates and fees are high and if you are eventually sued on the credit card debt, you then face potential loss of wages, bank account assets, and other property.

Reducing Expenses. Pay family necessities first, such as food and unavoidable medical expenses if the medical provider requires pre-payment. (Do not pay old medical bills first.) But look to reduce these and other expenses, as discussed in Chapter 8 [12]. That chapter provides advice on lowering expenses for:

? Homeowner’s, auto, and other insurance premiums;
? Medical and dental care;
? Food;
? Appliances and furniture;
Rule #3: Stretch Your Dollars and Your Debt, but Also Think Long Term

The chapter also provides advice on reducing pressure-related shopping and reducing the winter holiday cycle of debt.

Other chapters in this book explain other ways to reduce expenses:

- Check cashing and banking;
- Automobile, tax preparation, and other expenses.
- Lowering your mortgage payments (Chapter 17 [1]);
- Lowering your student loan payments (Chapter 13 [2]);
- Lowering your real estate taxes (Chapter 19 [3]);
- Lowering your costs for heat, electricity, telephone and the internet (Chapter 15 [4]);
- Avoiding high cost loans and scams that prey on those in debt (Chapter 7 [13]);
- Reducing the size of fines, fees, and other criminal justice debt (Chapter 22 [7]);
- Reducing payment of delinquent income taxes (Chapter 23 [8]).

Increasing Income. Make sure you are not taking out excessive withholding from your paychecks. Also consider canceling voluntary disbursements from your paychecks. Chapter 9 [14] sets out a number of ways you can increase your income by making sure you are taking advantage of benefits to which you may be entitled, including:

- The earned income tax credit;
- Unemployment compensation;
- Workers’ compensation;
- Child support;
- Cash assistance for families with children;
- General assistance programs;
- Social Security based on age and disability;
- SSI benefits based on age and disability;
- SNAP (formerly food stamps);
- School lunch, school breakfast and summer meals;
- Woman Infant and Child Program (WIC);
- Other food programs;
- State and local emergency programs;
- Disaster relief;
- Veterans disability compensation and veterans pensions.

Long-Term Solutions for Long-Term Financial Problems. After stretching out debt payments, reducing expenses, and increasing income, you may find that you cannot in the long-term sustain your present living costs. To help determine this, write down for a few months your income, your expenses, and your debt payments, as discussed in Chapter 10 [15]. If you cannot sustain your living costs, you must consider steps such as moving to different housing or disposing of your car.

If you cannot afford your rent, consider moving to a less expensive unit. If you need to break your lease, Chapter 20 [16] provides advice on how best to do that. If you own your home, you may have to sell it or give it up and move to lower cost housing. If your home is worth less than the amount you owe on your mortgage, Chapter 17 [1] discusses how to work with your lender to best move to alternative housing. Chapter 14 [5] reviews your options to work with your lender to get out from your auto loan.

If you recently entered into a rent-to-own contract to purchase furniture, appliances, or electronics, you may be better off turning the goods back to the store. There will be no penalty and you may save a lot of money by finding a cheaper way to purchase what you need. See Chapter 7 [13].

These are difficult decisions. Once the choice is made, stop making payments on that debt in favor of other pressing items. It is not a good idea to continue paying a debt on property that you will eventually lose anyway. You can save the money to pay for alternative housing or transportation.
Rule #3: Stretch Your Dollars and Your Debt, but Also Think Long Term

Published on NCLC Digital Library (https://library.nclc.org)
Date downloaded: September 13, 2020 12:14 pm

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/0104

Links
[9] https://library.nclc.org/nclc/link/SD.05
[10] https://library.nclc.org/nclc/link/SD.06
[12] https://library.nclc.org/nclc/link/SD.08
[14] https://library.nclc.org/nclc/link/SD.09
[16] https://library.nclc.org/nclc/link/SD.20