Financial First Aid Podcast

[Music plays]

Nikki:

You're listening to 'Financial first aid'. Hi. I'm Nicky, your host for today's podcast. Many circumstances in life can derail even the best plans and leave us with less money than we need to meet our obligations. What can you do if you're in this situation?

In this podcast, we're going to discuss five important topics for handling financial crisis and getting back on your feet. Taking inventory of income and assets, reviewing expenses, taking inventory of debt and reviewing your financial position, prioritizing bills and communicating with creditors and rebuilding credit and start saving.

Taking inventory of income and assets. If your expenses are more than your income, you won't be able to gain control of your financial situation until you make changes. Start by recording all of your sources of income including realistic expectations of income that you'll be receiving soon.

Think about ways you may be able to increase your income. Here are some suggestions. If you own your own home and have a spare bedroom, rent it out. A good place to advertise is nearby college campuses. Get a part-time job or work overtime if it's available. Ask family members who are able to work but currently aren't working to look for employment and contribute.

If you regularly get a large tax refund, consider increasing the number of exemptions you claim on your federal W4 form. This will increase your take-home pay. However, be careful not to take so many exemptions that you have a large tax liability at the end of the year. It's a good idea to consult with a tax advisor or use the withholdings calculator on the IRS's website before making adjustments.

Make sure to apply for all benefits for which you may be eligible such as unemployment insurance, food stamps, social security or temporary assistance for needy families. Next, record the value of all your assets. You may be weighing whether to liquidate some assets to pay for immediate expenses.

That's certainly one option, but be aware that it may come at a cost. For example, withdrawing money from a retirement plan can result in taxes and penalties of up to 45 percent of the amount withdrawn. You're also leaving yourself less money for the future. Still, the consequences of liquidating assets may be reasonable when compared with the possibility of losing your home or car.

Liquidation is not necessarily the only way to utilize assets. Some retirement plans let you borrow against their value. You don't have to pay penalties or taxes when you borrow against a retirement plan as long as you don't default on the loan. If you own a home that has equity in it, you may be able to get money to pay the bills from a home equity loan or a cash-out refinance. However, keep in mind if you cannot afford the payments, you could lose your home.

Reviewing expenses. The next step in handling a financial crisis and getting back on your feet is reviewing your expenses. Getting a part-time job or renting out a room is not a practical option for many people, but most everyone can reduce their spending in some way.

When reviewing your expenses, be sure to list every expense you have. These include housing costs, insurance, food, transportation and personal care. Don't forget about the expenses you may have once in a while such as clothing. For food, utilities and other expenses that may vary from month to month, take the average. Look over your list carefully and consider what you can cut.

Discretionary expenses such as luxury clothing, dining out and vacations are often the easiest to trim, but you may be able to cut spending in other places too. For example, if you have a cell phone, you may be able to cancel your home phone or cut extra features. Consider carpooling, walking or taking public transportation to save money on gas. Also, cancel club memberships, newspaper or magazine subscriptions or cable services if possible. These are just a few ideas for cutting expenses.

Taking inventory of debt and review financial position. When you're experiencing a bill-paying crisis, it can be depressing to think about how much money you owe, but it's important to take an accurate inventory of your debt. Now is the time to open that stack of bills sitting on the kitchen table and, if you need to, call your creditors to verify your current balances. Make a list of all your creditors, how much you owe and how much your monthly payments are.

If you found ways to increase your income and/or reduce your expenses, you should be in a better position to pay all your bills. How do you know if you've done enough? Simple, subtract your monthly expenses and debt payments from your income, reflecting what changes you think you can realistically make in the near future. If you have a surplus, you're in good shape. If you have a deficit, look over your budget and see if there's anything else you can change.

Prioritize bills and communicate with creditors. Changes can't always happen overnight. For example, if you plan to get a second job, it could take a month or two before you land one. What should you do in the meantime? You may have no choice but to pay some bills and not pay others or pay less than the full amount due.

In general, prioritize bills which enable you to take care of the needs of your family first such as the rent or mortgage, basic utilities and medical insurance. Also important are bills that have heavy penalties for not paying them such as child support and back taxes. If you can't pay a bill in full, contact the creditor or service provider immediately.

Many creditors and service providers are willing to work with consumers experiencing hardships. The worst thing you can do is nothing. When communicating, keep the following tips in mind. Be specific and honest. Creditors generally like to know the cause of your hardship.

Have a plan for the future. If a creditor knows you're looking for a second job, trying to rent out your spare bedroom or canceling your cable, it'll be easier to convince them to give you a break for a few months.

Remain calm and polite. When you're facing a financial crisis, it's easy to get upset, especially if the person on the other end of the line is unfriendly or unhelpful. However, yelling at a customer service representative won't make the creditor more sympathetic. In fact, it may have the opposite effect.

Don't make promises you can't keep. It can be tempting to jump at any payment plan the creditor is willing to provide, but remember you may only get one chance at help. It's better to be honest and tell the creditor that you cannot make any payment or can only pay so much than to promise to send money you don't have.

Keep a record. After every conversation, record the time and date you called, who you spoke with and any actions you said you would take and any promises the creditor made. Be persistent. If you call and the customer service representative says he or she cannot do anything, ask to speak to a supervisor. If that's not effective, send a letter. Ultimately, the creditor may not agree to do anything, but at least you'll know you tried.

If you're skipping payments on some bills, it's unlikely those creditors will sit around waiting for you to call them. Many, if not all, will likely call you a lot and probably send letters as well. While it's generally in your best interest to communicate with your creditors, you don't need to put up with abuse.

The Federal Fair Debt Collection Practices Act regulates collection agencies' conduct toward consumers. The act prohibits bill collectors from engaging in the following activities. Contacting you at work if you tell them your employer disapproves, letting a third-party know they're trying to collect debt from you. However, they are allowed to ask for your contact information.

Contacting you directly if they know you're represented by an attorney, using false threats such as saying they'll sue you when they have no intention of doing so, using obscenities, racial slurs or insults. Additionally, the law gives you the right to stop all communication from a collection agency. You should make the request to cease contact in writing and send your letter certified mail.

Once the collection agency receives the letter from you, they're only allowed to communicate with you once more to let you know the action they plan to take with the debt. Keep in mind that while sending a cease-and-desist letter will stop collection calls and letters, it may cause the collection agency to take legal action against you.

If a collection agency violates the Fair Debt Collection Practices Act, you can report them to the Federal Trade Commission. Violations committed by the internal collection departments can be reported to your state's attorney general's office.

Rebuilding credit and start saving. If you can't pay a bill and are unable to make arrangements with the creditor, it's possible that your credit report and score will suffer. Creditors typically will report delinquencies in excess of 30 days to the credit bureaus. Late payments and most other negative information can stay on your credit report for seven years.

Of course you don't want to have bad credit, but given a limited income that does not enable you to pay all your expenses and bills, what is more important? Keeping a roof over your head and food in your stomach or having a high credit score? Once you've gotten through your financial crisis, you'll be in a better position to work on rebuilding your credit.

BALANCE
Financially Empowering You

Resume making all your payments on time and keep your credit card debt low. Although late payments can stay on your credit report for seven years, the older a delinquent payment is the less of an effect it has on your credit score. If all your accounts were closed, look into opening a new account. With a low credit score, you may need a cosigner to get approved.

A secured credit card is another option. Secured credit cards require you to make a deposit, which the creditor gets to keep if you do not make payments. While we all hope to never encounter financial problems again, the unfortunate truth is that many families face hardships multiple times in the course of their lives. However, even though many problems can't be prevented, you can at least prepare for them.

One of the best ways to prepare for financial crises is have emergency savings. Most financial experts recommend that you set aside at least three to six months worth of essential living expenses. If your account is currently running on empty, saving that amount may seem like an impossible task, but it's not.

Once your financial situation stabilizes, start setting aside whatever you can. Make it an automatic process by having some of your paycheck directly deposited into your savings account or setting up an automatic transfer from your checking account to your savings account. Pretty soon you'll find yourself with a tidy sum, and if another financial storm comes your way, you'll be covered. That's all for this podcast. This is Nicky saying goodbye.

[END OF TRANSCRIPTION]

Revised 0118