

# Financial First Aid

Many circumstances in life can derail even the best money management plans and leave us with less money than we need to meet monthly obligations. What can you do if you are in this situation? This course covers a five-step plan for handling a financial crisis and getting back on your feet:

- Step 1: Take Inventory of Income and Assets
- Step 2: Review Expenses
- Step 3: Take Inventory of Debt and Review Financial Position
- Step 4: Prioritize Bills and Communicate With Creditors
- Step 5: Rebuild Credit and Start Saving

## Step 1: Take Inventory of Income and Assets

If your expenses exceed your income, you will not 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 will be receiving soon.

- [Complete Monthly Income Worksheet, page 6](#)

Think about ways that you may be able to increase your income. Some suggestions:

- If you own your 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 is available. Ask family members who are able to work but currently aren't working to look for employment.
- If you regularly get a large tax refund, consider increasing the number of exemptions you claim on your federal W-4 form. This will increase your take-home pay. (However, be careful to not take so many exemptions that you have a large tax liability at the end of the year. It is a good idea to consult with a tax advisor or use the withholdings calculator on the IRS's website, [www.irs.gov](http://www.irs.gov), 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 TANF (Temporary Assistance for Needy Families).

Next, record the value of all assets.

- [Complete Assets Worksheet, page 7](#)

You may be weighing whether to liquidate some assets to pay for immediate expenses. That is

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 For example, withdrawing money from a retirement plan can result in taxes and penalties of up to 45% of the amount withdrawn. You are 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. The important thing is that you not make these decisions lightly. Consider consulting with a financial professional who can help you look objectively at your options.

Liquidation is not necessarily the only way to utilize assets. Some retirement plans and cash value life insurance policies let you borrow against their value. You do not have to pay penalties or taxes when you borrow against a retirement plan, as long as you do not 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 line or loan or cash-out refinance. However, keep in mind that if you cannot afford the payments, you could lose your home.

## Step 2: Review Expenses

In the “Current” column of the Monthly Expenses worksheet, list what you are currently spending your money on. Do not include expenses that are directly deducted from your paycheck.

- [Complete Monthly Expenses Worksheet, page 8](#)

Getting a part-time job or renting out a room is not a practical option for many people. However, almost everyone can reduce their spending in some way. Look over your worksheet 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, can you cancel your land-line, or at least extra features like call waiting and caller ID? Can you carpool, walk, or take public transportation more often to save money on gasoline? Can you reduce energy consumption (by turning off lights when you are not in the room, wearing a sweater instead of turning on the heater, etc.) to lower your utility bills? Do you have any club memberships, newspaper or magazine subscriptions, or cable services that you can cancel? Write what you think you can spend in the future in the “Proposed” column.

## Step 3: Take Inventory of Debt and Review Financial Position

When you are experiencing a bill-paying crisis, it can be depressing to think about how much or how many people you owe, but it is essential that you 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. Once you have up-to-date information, fill out the Debt Worksheet.

- [Complete Debt Worksheet, page 9](#)

### Cash Flow Summary

If you have found ways to increase your income and/or reduce your expenses, you should be in a better position to pay all of your bills. But how do you know if you have done enough? Subtract your monthly expenses and debt payments from your income, reflecting what changes you think you can

realistically make in the near future. (E.g., if you are currently spending \$3,000 a month, but are fairly confident that you can bring it down to \$2,500 a month, use \$2,500.)

|                              |   |
|------------------------------|---|
| Total monthly net income     |   |
| Total monthly expenses       | – |
| Total monthly debt payments  | – |
| Monthly surplus or shortfall | = |

If you have a surplus, you are in good shape. If you have a deficit, look over your budget again and see if there is anything else you can change.

#### Step 4: Prioritize Bills and Communicate With Creditors

Changes cannot always be made instantaneously. For example, if you plan to get a second job, it could take a month or two of resume submitting and interviewing before you land one. What should you do in the meantime? Unfortunately, you may have no choice but to pay some bills and not pay others (or pay less than the full amount due). Think about what bills are most important and pay those first. Every person can have a different definition of what is important, but in general, you should prioritize bills which enable you to take care of the essential needs of your family (such as the rent or mortgage, basic utilities, and medical insurance) and for which the penalties for not paying can be severe (such as child support and back taxes).

For any bill that you cannot pay in full or feel you will not be able to pay in the future, you should contact the creditor or service provider immediately. You may be scared that they will be unsympathetic and demand payment – and they may – but many creditors and service providers are willing to work with consumers experiencing hardships. The worst thing to do is nothing. When communicating, keep the following tips in mind:

- **Be specific and honest.** Creditors generally like to know what the cause of your hardship was. Be specific and don't lie. True, creditors tend to be more likely to work with customers whose difficulties are due to circumstances beyond their control (like a job loss or illness), but if you are less than honest, they may be less willing to help.
- **Have a plan for the future.** If a creditor feels that you are making little effort to pay your bills, they probably will be hesitant to do anything for you. However, if they know that you are looking for a second job, trying to rent out your spare bedroom, canceling your cable, etc., it will be easier to convince them to provide concessions for a few months.
- **Remain calm and polite.** When you are facing a financial crisis, it is 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 to your cause. In fact, it may have the opposite effect.

- **Don't make promises you can't keep.** It can be tempting to jump at any concessions the creditor is willing to provide, but remember, you may only get one chance at help. It is 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.** Most people prefer to first contact their creditors on the phone. There is nothing wrong with that, but it is a good idea to keep a record of what was discussed. After every conversation, record the time and date you called, who you spoke with, any actions you said you would take, and any promises the creditor made.
- **Be persistent.** As the saying goes, If at first you don't succeed, try, try again. If you call on the phone and the customer service representative says he or she cannot do anything, ask to speak to a supervisor. If that is not effective, send a letter. (You should send it to the address for billing inquiries and concerns, which is not necessarily the same as the payment address.) Ultimately, the creditor may not agree to do anything, but at least you will know that you gave it your best shot.
- [View Sample Hardship Letter, page 10](#)

### **Fair Debt Collection Practices Act (FDCPA)**

If you are skipping payments on some bills, it is unlikely that 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 is generally in your best interest to communicate with your creditors, you do not need to put up with abuse.

The federal Fair Debt Collection Practices Act (FDCPA) regulates collection agencies' conduct toward consumers. (State law regulates the conduct of creditors' internal collection departments. Many states have adopted the same or broader standards than the FDCPA.) The FDCPA prohibits bill collectors from engaging in the following activities:

- Calling you multiple times a day. They are also not allowed to contact you before 8:00 AM or after 9:00 PM unless you give them explicit permission to do so.
- Contacting you at work if you tell them that your employer disapproves.
- Letting a third party know they are trying to collect a debt from you. However, they are allowed to ask for your contact information.
- Contacting you directly if they know you are represented by an attorney.
- Using false threats, such as saying they will 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 are 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.

- [View Sample Cease and Desist Letter, page 11](#)

If a collection agency violates the FDCPA, you can report them to the Federal Trade Commission at 877-382-4357. Violations committed by internal collection departments can be reported to your state's attorney general's office.

## Step 5: Rebuild Credit and Start Saving

If you cannot pay a bill and are unable to make arrangements with the creditor, it is possible that your credit report and score will suffer. Creditors typically will report delinquencies in excess of 30 days to the credit bureaus. (Utilities and other non-credit bills tend to not get reported until they are sent to a collection agency.) 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. No one does, but think about where your credit report fits among all of your other priorities. In other words, given a limited income that does not enable you to pay all of your expenses and bills, what is more important: keeping a roof over your head and food in your stomach or having immaculate credit?

Once you have gotten through your financial crisis, you will be in a better position to work on rebuilding your credit. Resume making your payments on time, and keep your balances on revolving debt (e.g. credit cards, lines of credit) low. Time is your friend. 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, especially if your recent payment history is positive. If all of your accounts were closed, look into opening a new account. With a low credit score, you may need a co-signer 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, and are usually the easiest type of credit to get.

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 cannot be prevented, you can at least prepare for them. One of the best ways to prepare for a financial crisis is to 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 of money may seem like an impossible task, but it is not. Once your financial situation stabilizes, start setting aside whatever you can, be it \$30 a month or \$100. Make it an automatic process by having some of your paycheck directly deposited into your savings account or setting up a weekly or monthly automatic transfer from your checking account to your savings account. Pretty soon, you will find yourself with a tidy sum, and if another financial storm comes your way, you'll be covered.

# Monthly Income Worksheet

Enter your gross and net (after taxes) income from all sources. For income received infrequently, such as bonuses or tax returns, calculate the annual income, then divide by 12 to find the monthly amount.

| Source                       | Gross | Net |
|------------------------------|-------|-----|
| Job                          |       |     |
| Spouse's job                 |       |     |
| Part-time job                |       |     |
| Rental/room & board received |       |     |
| Commissions/bonuses          |       |     |
| Tax refunds                  |       |     |
| Investment income            |       |     |
| Government benefits          |       |     |
| Unemployment insurance       |       |     |
| Child support/alimony        |       |     |
| Support from family/friends  |       |     |
| Other                        |       |     |
| <b>Total</b>                 |       |     |

# Assets Worksheet

| Source  | Value |
|---|-------|
| Checking/savings accounts                       |       |
| Money market accounts/CDs                       |       |
| Stocks/bonds/mutual funds                       |       |
| Retirement plans                                |       |
| Equity in house (market value – loan amount(s)) |       |
| Equity in cars                                  |       |
| Cash value of life insurance policies           |       |
| Furniture/collectibles                          |       |
| Other   |       |
| <b>Total</b>                                    |       |

# Monthly Expenses Worksheet

Since many expenses are variable, such as utilities and groceries, it is important to average these expenses. Other expenses are periodic (such as insurance or vehicle registration). Again, calculate the annual amount and divide by 12.

| Expense                        | Current | Proposed |
|--------------------------------|---------|----------|
| Rent/mortgage                  |         |          |
| 2nd mortgage                   |         |          |
| Hoa dues                       |         |          |
| Property taxes                 |         |          |
| Homeowner's/renter's insurance |         |          |
| Gas/electric                   |         |          |
| Water/sewer/garbage            |         |          |
| Telephone                      |         |          |
| Internet access                |         |          |
| Cable/satellite                |         |          |
| Cell phone/pager               |         |          |
| Groceries                      |         |          |
| Household items                |         |          |
| Dining out/snacks              |         |          |
| Health insurance               |         |          |
| Co-pays (medical)              |         |          |
| Car payment #1                 |         |          |
| Car payment #2                 |         |          |
| Gasoline                       |         |          |
| Repairs (house)                |         |          |
| Repairs (cars)                 |         |          |
| Auto insurance                 |         |          |
| Auto registration              |         |          |
| Tolls/parking                  |         |          |
| Public transportation          |         |          |
| Daycare/babysitting            |         |          |
| Alimony/child support          |         |          |

| Expense              | Current | Proposed |
|----------------------|---------|----------|
| Tuition/lessons      |         |          |
| Life insurance       |         |          |
| Union dues           |         |          |
| Storage fees         |         |          |
| Beauty/barber        |         |          |
| Movies/videos        |         |          |
| Sports/hobbies       |         |          |
| Gym membership       |         |          |
| Vacation/travel      |         |          |
| Books/music          |         |          |
| Clothing purchases   |         |          |
| Laundry/dry cleaning |         |          |
| Pool/hot tub service |         |          |
| Gardening            |         |          |
| Alarm system         |         |          |
| Gifts/cards          |         |          |
| Pet care             |         |          |
| Banking fees         |         |          |
| Postage              |         |          |
| Cigarettes/alcohol   |         |          |
| Donations            |         |          |
| Savings              |         |          |
| Other                |         |          |
| Other                |         |          |
| Other                |         |          |
| Other                |         |          |
| <b>Total</b>         |         |          |

## Debt Worksheet

| Creditor     | Account Number | Interest Rate | Monthly Payment | Balance | Months Late |
|--------------|----------------|---------------|-----------------|---------|-------------|
| 1            |                | %             | \$              | \$      |             |
| 2            |                | %             | \$              | \$      |             |
| 3            |                | %             | \$              | \$      |             |
| 4            |                | %             | \$              | \$      |             |
| 5            |                | %             | \$              | \$      |             |
| 6            |                | %             | \$              | \$      |             |
| 7            |                | %             | \$              | \$      |             |
| 8            |                | %             | \$              | \$      |             |
| 9            |                | %             | \$              | \$      |             |
| 10           |                | %             | \$              | \$      |             |
| 11           |                | %             | \$              | \$      |             |
| 12           |                | %             | \$              | \$      |             |
| 13           |                | %             | \$              | \$      |             |
| 14           |                | %             | \$              | \$      |             |
| 15           |                | %             | \$              | \$      |             |
| 16           |                | %             | \$              | \$      |             |
| 17           |                | %             | \$              | \$      |             |
| 18           |                | %             | \$              | \$      |             |
| 19           |                | %             | \$              | \$      |             |
| 20           |                | %             | \$              | \$      |             |
| <b>Total</b> |                |               | \$              | \$      |             |

# Sample Hardship Letter

John Consumer  
1234 Main St  
Anytown, CA 99999  
Account number 111111111  
January 18, 20X0

ABC Credit Company  
5 Main St  
Central City, DE 17171

Dear ABC Credit Company:

I am writing to inform you that I was recently laid off from my job and am currently unemployed. I am looking for a new job but anticipate that it will take time for me to get one. The amount that I am receiving from unemployment insurance is less than half of my previous salary, and after making a strict budget for my expenses, I find it necessary to seek assistance from my creditors. In place of the regular payment of \$80 per month, I request that you accept payment of \$30 per month for the next three months.

I thank you for your consideration and would appreciate your cooperation during this difficult time. If there are any further changes in my situation, I will notify you of them promptly.

Sincerely,

John Consumer

## Sample Cease and Desist Letter

John Consumer  
1234 Main St  
Anytown, CA 99999  
Account number 111111111  
January 18, 20X0

XYZ Collection Agency  
211 Grand Ave  
Northtown, NV 55555

Dear XYZ Collection Agency:

For approximately three months, I have received multiple phone calls and letters from your company concerning my account. Under the rights granted to me by the Fair Debt Collection Practices Act, 15 USC 1692c(c), I am asking you to cease all forms of communication with me, except for the reasons specifically set forth by federal law. If you fail to comply with this request, I will report your company to the Federal Trade Commission.

Sincerely,

John Consumer