

Families Taking Charge: Deciding Which Bills to Pay First

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What do you do if your current income just isn't enough to pay monthly expenses and debts? Putting your bills in a stack and paying them until the money runs out won't work. You have a legal obligation to pay all of your creditors. Not paying bills will affect your credit report and credit score. It can even involve court action. Not paying some bills may have greater consequences than not paying other bills.

When your income is reduced, your spending habits must change. The sooner you change, the more likely your financial problems can be lessened.

Take charge by setting priorities to make sure the basic needs of your family are met. Thinking ahead can minimize the legal and economic risks when you can't pay all your bills.

Who Gets Paid First

First, you need to know what your debts and monthly expenses are. Use the *Setting Spending Priorities* Fact Sheet in this series to determine this information. Then use the Bill Payment Worksheet on the next page to summarize what you owe.



Leave columns blank that don't apply. "Balance Due" is for things like car loans which you are paying off over a period of time. It is the amount left to pay on the loan. Annual Percentage Rate (APR) is the rate of interest you pay on loans and credit card accounts. Look for the APR on monthly billing statements or in the papers you signed to get the loan. The higher the APR, the more interest you are paying on your debt.

Don't forget payments made quarterly, semi-annually or annually. This includes things like insurance and taxes. Use your Monthly Spending Plan and Occasional and Seasonal Expense Worksheet from "Setting Spending Priorities" to be sure you've included all payments.

The total for the "Amount Due Per Month" on the Bill Payment Worksheet will not be the same as the expenses on the Monthly Spending Plan because things like food and gifts are not bills. You may find that you need to make more adjustments on your spending plan.

Bill Payment Worksheet

Who You Owe/Name and address to send payment	Amount Due Per Month	Date Due	Amount Overdue	Balance Due	APR (Interest Rate)	What will happen if you don't pay
Example Credit Card 000 Street Anytown, USA	\$50	3 rd of each month	\$100	\$2,500	25.99%	Not secured, creditor calls, may lower credit score, creditor may close account, turn over for collection, or file a lien.
Total						

Decide which debts would result in the worst consequences for your family if they weren't paid or were paid less than the amount due. Ask yourself the questions below.

What will affect my family's health and security the most? Usually the house, utilities, food, transportation and medical insurance take priority. Food and gas may not be on this worksheet but they are on your spending plan. Don't forget to leave enough money to cover them. Your car payment will be on your bill worksheet but the amount for gas and car maintenance may not be. Don't be tempted to let medical insurance slide when money is tight. If anyone in your family becomes ill, uninsured medical costs could be devastating. Pay high-priority bills or contact the creditors at once to work out smaller payments. (See Virginia Cooperative Extension publication on "How to Prevent Foreclosure on Your Home" if you are behind on your house payment.)

What will you lose if the bills aren't paid? You can lose your purchases if the creditor holds the title of the property as security for the loan: a home mortgage or car loan, for example. Sometimes furniture and large appliance loans are secured loans. If you aren't sure which loans are secured, check the credit contract. Unsecured debts may have to take lower priority, although you are obligated to pay them too.

How much do you still owe on the loan? Determine how much you have paid on each loan and how much you owe. If you have only one or two payments left to make on a loan, it's probably a good idea to finish paying it, getting that debt out of the way. You may be able to return newer items or sell them to pay off the debt. If you choose to voluntarily surrender the item, you'll still be required to pay the difference between the market value of the item and the amount remaining on the loan. But getting out from under some of your debts can reduce the pressure you feel.



What interest rate are you paying? If you have a loan with a lower interest rate, you may decide to pay off a higher-interest credit card balance first, to reduce the amount of finance charges you are paying. Put credit cards away in a safe place so you are not tempted to use them. Closing the accounts will hurt your credit score and the information about the card will still stay on your credit report even if you close the account.



Is a consolidation loan a good idea? Personal finance companies want you to think so, but generally a consolidation loan charges a higher interest rate, often 36 percent or more. If you can qualify for one from a bank or credit union, you will pay less interest. Refinancing to smaller monthly payments will also extend the number of payments you must make, adding to the total cost. While a single loan may make payment easier, that's a small benefit considering the additional costs involved. If you do get a consolidation loan use the extra money to pay the loan off faster. Watch out for prepayment penalties. A prepayment penalty would cause you to pay more if you make extra payments. Also, don't be tempted to go out and make more purchases on credit cards with no balance.

What about your credit report? Nonpayment of bills is recorded on your credit report. Your credit score will be lower and this can damage your ability to get credit in the future. That's why contacting all of your creditors immediately if you cannot pay your bills is important. If you can pay something on each debt, it's less likely that your problems will be reported on your credit report.

Your Repayment Plan

Once you have calculated how much money you have for monthly living expenses and for paying off your debts, decide how much you can pay to each creditor, based on priorities you determined while answering the questions above. Work out a repayment plan that shows how much you plan to pay each creditor. Put this plan in writing.



Now you are ready to contact each of your creditors to explain your situation. You'll need to tell them how much you are able to pay and when you will be able to pay it. The fact sheet *Talking with Creditors* that is part of this series can help. Some businesses, such as utility companies, have special counselors for customers who can't pay their bills. These counselors can help you set up a budget plan to even out your payments during the year. They can also tell you if you qualify for fuel assistance or any available programs.

Look to the Future

Remember—no matter how bad your situation may be, don't ignore your bills and creditors. Prompt action is very important; let your creditors know you are having trouble BEFORE you miss payments and the situation becomes worse.

Once you have a plan for paying bills, stick to it. Contact any creditors you cannot pay. Offer to pay only the interest, arrange for a longer period of financing or make minimum payments. Avoid taking on any new debt for family living expenses. When you have reduced debts to a manageable level, start a regular savings account. Build an emergency fund to help pay unexpected expenses.

References

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Families Taking Charge is a multi-part series for individuals and families experiencing financial stress as a result of difficult economic times. Contact your local Extension Office for copies of other publications in this series.