Facing a Financial Crisis

Are you living paycheck to paycheck? Unemployed? Unable to pay your medical bills? When you are faced with a financial crisis, the first step is to evaluate your situation and consider all the options. Written by financial experts, this crisis guide gives you the information you need to make smart decisions that will help you recover from financial uncertainty.

Step 1: Evaluate the situation

Consider the answers to the following questions in order to gain a complete understanding of your situation:

- Exactly how much do you owe right now?
- Who do you owe it to?
- When do you have to pay?
- Does the lender or creditor offer a payment plan?
- Have you talked to the creditor or lender about options?
- What are the consequences of not paying?
- How soon will this crisis be over?

Step 2: Investigate your options

Credit.com's financial experts have outlined your options for most common types of financial crises:

- **Unable to pay small bills –** If you are unable to pay small bills such as utilities and credit cards, contact the businesses directly to see if you can work out an agreement. In the case of a utility bill, it may be okay to skip a payment in a crisis. Utility bills do not report to the credit bureaus and they only charge a small late fee. It is not usually a good idea to use a payday lender to pay these small bills. Instead, see if you can negotiate to pay in a few weeks or borrow from a family member.

- **Unable to pay large bills –** In the event that you cannot pay your mortgage or loan payment, contact the lender immediately. Most lenders have forbearance and modification programs set up to help borrowers who are dealing with a temporary financial crisis. You should make every effort to pay a mortgage or loan payment on time during a financial crisis. Not paying on time can result in damage to your credit report and possible foreclosure of the vehicle or property. Consider using savings, borrowing from a family member, or reducing your expenses in order to pay your loans. If the problem continues, you may want to contact a HUD-approved housing counselor for assistance.

- **Deep in debt –** If you have a steady income but are facing a large amount of credit card debt, you should develop a plan for paying off the debt over time. Calculate exactly how much you can afford to pay toward your debts each month. Subtract all your minimum payments from this amount and put the rest towards the debt with the highest interest rate and the highest balance. This is the fastest way to reduce your debts. Do not charge additional expenses to your credit cards during this process. You can read more about debt management ideas online at Credit.com.

- **Debts in collections –** Unpaid debts such as medical bills, library charges, video store charges, and credit card bills are often sold to collections agencies. These agencies call and send letters in attempt to recover the debts they have purchased for pennies on the dollar. If you have debts in collection, your first move should be to request that the collectors only contact you by mail (instead of phone). They have to comply with this request by law. Then work with the original creditor or the collections agency to negotiate a settlement.

- **Job loss –** In the event of a job loss it can be difficult to make ends meet. If you were laid off, you should see if you qualify for unemployment. You can also contact your creditors to explain that you are temporarily unemployed and to see what sort of payment options they offer. Start looking for a job right away to minimize the amount of time you are unemployed. You may want to reduce your expenses and borrow a small amount of money to get by until you find a new job.

- **Illness –** When you or a family member falls ill, you may be faced with thousands of dollars in medical expenses. Communicate frequently with the hospital's billing office and your insurance company about your case. If you meet certain requirements, you may be able to have your medical bills reduced or scheduled into a payment plan. Keep in mind that you are ultimately liable for medical bills even if your insurance should cover the expense. This means that an overdue bill could be sent to collections in your name and could damage your credit report.

Step 3: Take action

There are several options available to help you manage a financial crisis:

- **Credit cards –** Credit cards are one of the easiest and cheapest ways to borrow money in a financial crisis. Credit cards work best for a short term problem that you know you can repay in a few months. You can keep your credit score healthy by keeping your balances below 35% of each of your credit limits.

- **Savings –** Deciding to access savings during a financial emergency may seem like a bad idea, but it is actually a smart move in some situations. You will not have to pay interest or fees on the money you borrow from a savings account. You may even be able to access your 401(k) funds under a "hardship distribution" policy. Depending upon the situation, you may have to pay a 10% penalty on the amount you withdraw, however.

- **Debt help –** Credit.com has an entire section of our website dedicated to debt assistance and services. Read articles about taking control of your debts and compare debt reduction solutions online at Credit.com.

- **Emergency payday lenders –** If you cannot withdraw from your savings, don't have access to credit cards, and can't borrow from a relative, you may need to turn to an emergency payday lender. You can borrow from $200 to $1,000 with these 14-30 day loans. The fees for these loans range between 8-25% of the amount you borrow. If you do choose to take out a payday loan, be sure that you can pay it back with your next paycheck to avoid adding extra fees and costs.

- **Personal loans –** You can borrow $1,000 to $15,000 with a personal loan. These loans have a 1-4 year term and work best if you have a stable income and need a large amount of cash for a financial emergency. The annual percentage rate for a personal loan ranges from 5-20%.

- **Home equity loans –** If you are a homeowner and you have equity in your property, you may be able to cash out some of your equity by refinancing. These loans can also work for consolidating your debts. Be very careful about using a home equity loan, however. The loan is tied to your home. If you cannot make the payments, you could risk loosing your home.

If you take a step back and consider all the options available to you, you can take control of your financial crisis. Don't let a short-term money problem turn into a long-term nightmare. If you have questions about your situation and what services are right for you, contact our customer service team at 877-273-4273 for assistance.