

Student Take Home Guide

# *Personal Finance*

**Financial Difficulty**



## **Personal Financial Education**

### Financial Difficulty

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# Sample Tough Times Letter to Creditors

If you are having financial difficulty and need a change to payment terms, use this letter to communicate with creditors.

**Your Address**

**Date letter was written**

**Creditor Name**

**Address**

**RE: Account Number**

Dear **(Creditor Name)**:

I am writing this letter to request a temporary change in the repayment terms of my account. Since I have become unemployed, I have had to make some financial adjustments.

I do have some income from (unemployment, spouse's employment, severance, etc.). However, when I carefully examined my financial situation and made a strict budget for my basic expenses, it also became necessary to ask each of my creditors to accept reduced payments for \_\_\_\_\_ number of months.

I would appreciate your cooperation in making this payment plan work. In place of my regular monthly payments of \$ \_\_\_\_\_ due on the \_\_\_\_\_, I am requesting that you accept payments of \$ \_\_\_\_\_ paid on the \_\_\_\_\_. I assure you that I will add no further debt until my financial situation improves.

I will begin making normal payments again as soon as possible. I regret that I have to ask for this consideration and hope that you will understand. When there is a change in my situation, I will notify you immediately and in any event, I will re-contact you in 60 days.

Your understanding during this difficult time is most appreciated.

**Sincerely,**

**(signature)**

**Name Printed**



**38505 Country Club Drive, Suite 210, Farmington Hills, MI 48331**

**1.877.33ACCEL**

**[www.accelservices.org](http://www.accelservices.org)**

# Do You Need To See a Credit Counselor?

If you are debating the need to see a credit counselor, you may want to consider the following questions:

- Are you behind on your house payments?
- Are you behind on your utility bills or threatened with shut off notices?
- Do you feel credit obligations are so high that it's difficult to have money for food, clothing, and children's expenses?
- Are creditors sending second reminders, collection notices or threatening court action?
- Do you and your spouse frequently disagree on how money should be spent?
- Do you feel you have lost control of the family spending?
- Do you only pay the minimum balances on your credit cards?
- Have you taken cash advances to pay on other bills more than once?

If the answer is yes to one or more of these questions, you will benefit from speaking to a financial counselor. You can take advantage of the *Accel* program, a **free** financial education and counseling program of your credit union. *Accel* counselors are available Monday through Thursday 8 a.m. to 9 p.m. (EST), Friday 8 a.m. to 7 p.m. and Saturday from 9 a.m. to 1 p.m. To use this new service, simply call 1-877-33ACCEL (332-2235) or visit them on the web at [www.accelservices.org](http://www.accelservices.org)



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# Dealing with Creditors During a Financial Emergency

If you are one of the thousands of people undergoing your first financial emergency caused by death, divorce, unemployment, illness or some other reason, what to do with outstanding bills may be keeping you awake at night.

If you find yourself letting bills sit unopened for days on end, you are not alone. There are many who face the same problems you do. Some are managing more successfully than others because they know how to deal with creditors and also how to determine what bills to pay and what happens when you do not pay.

## First Things First

The first concern to be addressed is that some very tough financial decisions will have to be made. The quicker you realize that when income is reduced and changes in spending must be made, the more likely it is that financial problems will be avoided. Try to keep a cool head and involve other family members in making decisions. The more cooperation, the more likely the plan will work.

Your past relationship with your creditors will probably be your best asset at this time. If you have been a good bill payer, making regular payments and on time, your creditors will be more cooperative than if you have not.

Creditors are in the business of lending money and/or providing services. They do not want their merchandise back. Therefore, creditors encourage consumers to contact them early and not wait until payments are past due.

If you were having trouble managing your credit cards before your financial emergency, get rid of them. If not, set them aside to use as emergency tools only!

## How Do You Decide What To Pay And To Whom?

It is important to recognize that you are obligated to pay all of your creditors. Not to do so will affect your credit record and possibly result in court action. Sometimes, decisions have to be made on who gets paid first. In order to establish priorities, ask yourself these questions:

**1. What will have the greatest consequences for the health and security of my family?**

For most people, the house, utilities, car, and insurances take preference in that order. For these payments, creditors should either be paid or contacted immediately to be sure suitable arrangements can be made for smaller monthly payments.

**2. Does the creditor have collateral?**

Can cars, appliances or other items be repossessed or seized to pay the debt? If you do not know, check your contract. Don't just take the word of the creditor. Debts without security may have less priority.

**3. How much equity have you built up?**

A refrigerator is essential but if you only have two payments left on your stereo set that may take preference. For items purchased shortly before the situation change, consider selling or returning them.

**4. How much interest do you have to pay?**

Some credit card firms are charging as high as 25 percent interest a year. If you have a small personal loan with a lower interest rate, you may want to consider paying off the outstanding balance on the credit card first. This will reduce the finance charges coming out of your pocket.

**5. Should you take out a consolidation loan?**

Generally speaking, NO, unless you can realistically prove to yourself that the loan will indeed improve your finances in the long run. For most consumers, putting all debts under the umbrella of one loan makes payment easier. However, many businesses charge more interest. A new loan adds new credit costs. Some financial institutions will not grant consolidation loans unless the consumer agrees to get rid of existing credit cards and not take on any additional installment debt during the time period of the loan.

**6. What will happen to my credit record?**

The nonpayment status of your bills will be recorded on your credit record. For this reason, it is important to contact your creditors right away--even doctors, lawyers, and other professionals. If you can manage to pay something on each debt, you will keep in the good graces of your creditors and forestall any reporting of late payments to the credit bureau.

**7. Should I take cash advances to pay my bills?**

Cash advances will only delay the inevitable and should not be taken to pay other bills. They merely transfer the debt load to another creditor and cost more because of higher interest rates and other fees. Eventually, the cash advance line will be depleted. You will be in worse shape than if you had faced your problems head on and contacted your creditors immediately.

Creditors are more willing to negotiate with someone who is honest in the beginning than with someone who continues to charge when they know they cannot pay their debt.

Credit is a valuable tool that can provide assistance in difficult times. Safeguard your credit by recognizing signs of trouble and by taking control of a troubled financial situation *before* creditors come calling.

## Contacting Your Creditors

When contacting creditors, ask if your payments can be temporarily lowered. Don't, however, be so relieved they will reduce monthly payments that you will agree to anything. If you have planned your spending, you would be able to come up with a payment plan that is fair to your creditor and realistic for you. Don't be talked into paying more than you can afford. Keep in mind that if the emergency continues, you may have to approach creditors again for a reduced payment.

It is important to keep the lines of communication open with your creditors--don't avoid them. When contacting a creditor by telephone, get the name and the position of the person with whom you are speaking if possible. If writing, keep copies of the letters sent and received. All correspondence by mail should be sent certified so you know your letter was received. It will save you time and energy in the future.

## Collection Practices

Although law restricts collection agencies, collectors can still add to your stress. Collectors are no longer allowed to contact you at all hours of the day and night. They are not to contact and discuss your financial situation with your employer or neighbors. Your best line of defense is to deal directly with your creditors. Let your creditors know when and where they can or cannot reach you and, above all, back this up in writing and send it certified mail.

## Alternatives

If you feel your financial situation has reached the point where you can no longer handle the pressure, you can take advantage of the *Accel* program, a **free** financial education and counseling program of your credit union. *Accel* counselors are available Monday through Thursday 8 a.m. to 9 p.m. (EST), Friday 8 a.m. to 7 p.m. and Saturday from 9 a.m. to 1 p.m. To use this new service, simply call 1-877-33ACCEL (332-2235) or visit them on the web at [www.accelservices.org](http://www.accelservices.org)

# 10 Indicators of Financial Trouble

**The following situations are apt to lead to financial trouble:**

1. Not knowing how much your monthly living expenses are.
2. More than 20% of your take home pay is committed to debt installment payments.
3. Taking out loans to pay for regular living expenses.
4. Getting behind in housing and utilities and receiving shut-off and collection notices regularly.
5. Impulsive or compulsive spending habits.
6. You have always been in a financial crisis situation.
7. You move or change jobs frequently.
8. You need a cosigner for a loan.
9. You seek a debt consolidation loan when your income changes.
10. Death, divorce, accident, drug addiction, alcoholism, gambling or physical abuse.

# Have You Been Laid Off? Time To Go To Work!

If your job has been eliminated, do some serious thinking and negotiating about your severance package.

The law says you must be paid for the hours you have worked, commissions you've earned, plus any accrued vacation time. If the entire plant is being closed, certain employers must give you two months' notice or two months' pay. In addition, most employers must offer to continue carrying your health benefits, albeit at your expense.

Bosses who say you must sign legal documents before you get that compensation are breaking the law. Be prepared to tell a boss that.

How much should you get? Severance pay is not dictated by law. So while you can't quote any legal code in your negotiations, there's flexibility, because it's up to the employer's whim. Know your industry's norm to get the best results, experts say.

Telling your boss that a competitor paid a higher amount for a worker like you could not hurt. And playing on emotions, such as the stress the job loss will put on your family, is fair game.

What leverage do you have? Show your boss how valuable you are to the company even after you leave. Do you have access to trade secrets or business plans that competitors might want? Would the boss be inclined to pay you extra for your not using those secrets or not working for competitors?

Seek an ongoing consultant agreement that will secure you some projects and cash.

Should you be concerned about signing documents? You might be asked to sign away your right to sue the employer for a bad-faith dismissal in exchange for added pay.

If you think you're being discriminated against in the layoff, seek some legal guidance before signing waivers.

Can you time your departure? Some employers need workers to wind down a project. The offer of more pay might sound tempting, especially if it is more money than a severance offer.

Do not forget, though, that finding a job -- especially a good one -- is a full-time job. Investing in the job hunt might prove more profitable.

How is severance paid? Some severance comes as a lump sum, some in installments, and

some bosses offer a choice between the two.

Lump sum sounds great, especially if new work lines up quickly. But do you gain extra pension or stock-option benefits with extended payment periods? Are benefits such as medical insurance carried longer with extended payments?

Finally, does the longer payment period push some income, and thus taxes, into the next year?

What kind of benefits should you expect? Find out how long you will remain on the medical insurance plan as an employee. Most employers subsidize insurance premiums for workers. The longer you remain an employee, before switching to pricier COBRA coverage for ex-employees, the more you save.

Also think about pension or stock-option benefits. Is credit for additional years toward vesting negotiable?

Plus, do you have a loan out against a workplace savings plan like a 401(k)? It might be due in full once you leave. See if a better payoff schedule can be negotiated.

Can you expect job-hunt help? If you don't expect to quickly line up other work, beg for serious outplacement benefits. Occupational coaching, especially after the shock of a layoff, is extremely valuable.

How will taxes affect you? Uncle Sam has no mercy on the soon to be jobless. Severance is taxable. Expect withholding payments to be exacted just like any other paycheck.

It might be such a large lump sum that taxes could run at higher rates. So bet on 40 percent or more of severance being withheld.