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When your income is suddenly cut and you are faced with bills you cannot pay, you need a face to face talk with your creditors.

The most important action to take when you have bills but no money is to confront the problem and contact the people you owe money to — your creditors. Don't try to avoid them.

Facing the Problem

Creditors will usually be reasonable because they want their money. They have an interest in helping you work out a plan for payment. Explain honestly why you are having trouble paying. Tell them when you think you will be able to pay and how much. Some companies, such as utilities, have special payment schemes and financial counselors for customers who can't pay their bills. Work with the counselors to set up a plan.

Don't agree to just any plan, however, to get off the hook. You have to be sure you can follow the plan. Creditors are not so understanding if you fall behind again!

Who Gets Paid First?

You are legally obligated to pay all of your creditors. But, if you can't pay all your bills, you must decide how much to pay to which creditors. There are two ways you can make this decision. The first is *debt adjustment*. You divide up your available money and pay every creditor a fair share of what you owe. This is probably the fairest way, but it doesn't always work, since each creditor must agree to reduce the amount paid or extend the time for payment.

Another way to decide which creditors to pay is to *set priorities*. First, decide which debts will have the worst consequences for your family if you don't pay the bills. Usually these are the house, utilities, food, medical insurance, and car (if you need an automobile for work or to look for a job). It is tempting to let medical insurance slip when money is tight, but it is very important to keep up your payments. If anyone in your family becomes ill, uninsured medical costs would be devastating. Pay these high priority bills, or contact the creditors at once to work out smaller payments.

Next, ask yourself *what you will lose* if bills aren't paid. You can lose your purchases if the creditor holds the title of the property as security, as with a home mortgage or car loan. If you aren't sure which loans are "secured," check the credit contract. Unsecured debts, like doctors' bills, may have to take lower priority, although you are obligated to pay them, too.

Another step to take is to *determine your debt*. When deciding which bills are most important, ask yourself how much you have already paid and how little you still owe. If you have only one or two payments to make on a bill, it is probably a good idea to finish them and get that debt out of the way. You may be able to return newer items or sell them and pay off the debt.

Finally, *check what interest rate you are paying* on each outstanding bill. Credit card interest can exceed 22%. Finance companies in Alaska can charge as high as a 36% interest rate annually. If you have a loan with a lower rate of interest, it is probably best to pay off the credit card loan first to reduce the finance charges you are paying.

Making It Work

Remember, even after you have contacted your creditors, you still have the responsibility to pay all of the bills. Once you have set your priorities for paying the bills, stick to your decision. Try to keep up with the plan you have made, since creditors will be less likely to give you a break the second time around. Until you get back on your feet, don't use any more credit.

People who get help from credit counseling services are usually asked to cut up their credit cards and give them to the counselor who mails the pieces back to the issuer. You might try cutting up your own cards or locking them up for a while. It's tough to give up things you want, but your whole family must understand they cannot spend as much as they did.

Pretending to yourself and others that you have no money problems will not make it easier. Open discussions among the family about spending will help everyone realize that cutting down is a must until your debts are paid.

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