

What To Do

When Your

Income Drops

Linda Kirk Fox

Income loss is traumatic, whether it's your entire family income or a second income. Reduced income may result from company layoffs, downsizing, a bad year in your business or farm operation, divorce, illness, or death.

If economic misfortune strikes you or your family there are immediate and positive steps to take. You'll need to cut back on spending and develop a spending plan to help you pay your bills. If your income will be affected for more than a month, adjust your spending habits to maintain control of family finances over an extended period of time.

Financial affairs are still in the family's control. The following guide will help you maintain and review current resources and survive the initial financial crisis.

Remember

- You can still control your financial situation, if you plan carefully.
- Communicate with your family. Analyze what is important and decide on a plan of action.
- Don't default on payments. Go to your creditors, explain your situation, and work with them to make adjustments.
- Be prepared to change your standard of living, at least temporarily so you don't have to give up essentials.
- Begin to make plans for the future, whether it is finding new employment or adjusting to a reduced standard of living.

Emotional Tips

Once you're over the initial shock—whether it is job loss, divorce, illness, or accident—don't panic. Don't blame yourself or think the world has come to an end. Don't blame others for what has happened or take out your frustrations on your family and friends. Don't stop credit payments, or ignore the fact you are facing financial difficulties.

Communication is a family affair

Many people try to hide financial problems from themselves or family members. Not facing problems can be very destructive because of the worry and stress caused by financial uncertainty.

Because spending decisions affect the whole family, talk with your family about your situation. Let them know the need to change spending priorities. Involve all the family members, no matter what their ages. Include your family in the decisions that must be made. As a family, discuss how income is spent, what is important and what is not so important. What must the family have in the next week, the next month, the next two months?

Communication helps the family share concerns and decide what alternatives are available and what actions are necessary. Communication also means listening. This is not easy for many people, yet it is a skill that can be learned.

Active listening includes giving full attention to understanding the feelings of another person. Remember your whole family probably is upset. Accusing one another of being responsible for the problem won't help anyone.

Financial Tips

File for unemployment benefits

If you have lost a job and are not working, go to the nearest job service office. Give them a call before you go (look in the telephone directory under Government Offices: State of Idaho). Ask what you need to bring to apply for benefits. They will give information on how, when, and where to file your claim. If you are eligible for benefits, your first check will be mailed to you in about three weeks. Need does not determine eligibility for benefits.

Don't be shy about applying for unemployment benefits. It's insurance, not a handout. The unemployment insurance program is financed by employers to pay benefits to workers who are unemployed because of conditions beyond their control (weather or economy, for example). You can usually collect benefits for 26 weeks. During a recession, however, the US Congress sometimes extends the limit to 52 weeks.

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If for any reason you are denied benefits, you may want to check with the appropriate social agency for information on possible financial assistance under some other type of program.

In addition to unemployment insurance, the Idaho Department of Labor job service office provides free placement services. Seek out these services, whether or not you are eligible for benefits. Find out the telephone number for the Job Hotline.

You will have to look for a job while collecting benefits. You can decline jobs that do not fit your training and experience.

Help from social service agencies*

If you are not eligible for unemployment benefits or benefits are insufficient, contact the Adult and Family Services Department or the Human Resources Department. (Look in the telephone directory under Idaho, State of.) Several programs such as Food Stamps and Medicaid are available for families needing financial aid.

If you want to find out if you are eligible for food stamps, apply to your county food stamp program. Eligibility is determined by your family's financial resources and family income.

When you apply for the Food Stamp program, take this information along:

- Rent receipts
- House payment book
- Utility bills
- Proof of income for all working members of household, including all benefits such as Social Security, public assistance, and unemployment benefits
- Bank books or any papers showing what you have in savings
- Proof of medical bills (doctor, hospital, etc.)
- Proof of income

*Note: These are general guidelines. Particular details may be subject to changes based on new state and/or federal regulations.

Review your finances

Begin a review of your budget by listing all sources of income using Worksheet #1. Fill in all your sources of income. Subtract your spending from your income. This final figure will tell you whether you're in the hole.

You may find that your family doesn't have a clear picture of where the money is going. In that case try to write down every item on which money is spent for two or three weeks. Also, note your mood or that of any other family member when making a purchase. Look at all the check stubs and receipts and estimate what you spend on flexible expenses—those expenses incurred after you pay for housing, installments, insurance, taxes, and other bills.

If your income gap is negative, you'll have to start cutting expenses and get your payments reduced to balance your budget.

Worksheet 1.

Review your monthly spending plan

1. Tally your income:

*List the monthly sum of all sources of income:

Unemployment benefit	\$ _____
Spouse/partner's paycheck	\$ _____
Interest on savings	\$ _____
Other income	\$ _____
	\$ _____
Total monthly income:	\$ _____

2. List your expenses:

Look through your checkbook and credit-card statements. Figure what you spend monthly for each of the following items. On credit cards, list your current minimum monthly payment due:

	<u>Before income drop</u>	<u>After income drop</u>
Rent or mortgage	\$ _____	\$ _____
Heat, lights	\$ _____	\$ _____
Phone	\$ _____	\$ _____
Cable TV	\$ _____	\$ _____
Food	\$ _____	\$ _____
Clothing	\$ _____	\$ _____
Insurance	\$ _____	\$ _____
Taxes	\$ _____	\$ _____
Auto loan	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Credit card	\$ _____	\$ _____
Other loan	\$ _____	\$ _____
Medical	\$ _____	\$ _____
Entertainment	\$ _____	\$ _____
Education	\$ _____	\$ _____
Child care	\$ _____	\$ _____
Savings and/or funds set aside each month for occasional expenses	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total monthly expenses:	\$ _____	\$ _____

3. Establish the gap:

Subtract our total expenses from your total income to see whether you have a positive or negative cash flow.

Total monthly income	\$ _____	\$ _____
Total monthly expenses -	\$ _____	\$ _____

Income gap: \$ _____ \$ _____

* Because most bills are monthly, it's easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and biweekly income by 2.17 to convert them to monthly amounts.

Determine where to cut corners

To balance your budget and reduce spending, you have to know exactly how much money you have coming in and going out.

- Stop carrying credit cards.* Pay in cash. Using a credit card to maintain current living standard is incurring high interest debt and is adding to, not resolving your problems.
- Eat at home.* We spend 16 percent of our income on food, and more than a third of that amount is spent in restaurants, on fast food, and vending machine snacks. Eating at home or bringing your own homemade lunch or snacks is a lot cheaper.
- Conserve utilities.* Turn off the lights and the television when not in use. Run the dishwasher, clothes washer and dryer with full loads and less frequently. Lower the house thermostats in the winter and use fans instead of air conditioning in the summer.
- Communicate.* Agree within your family that every purchase over a certain amount will be brought to the family for discussion prior to purchase.
- Plan.* Look for upcoming bills, such as an insurance payment due twice a year.
- Make lists.* Weigh the importance of each item on your shopping list. Reduce the number of shopping trips.
- Disconnect the cable.* Play board games. Go to the library. Walk more.

Take an inventory of your resources

How much does the family own? Take a few minutes to add up your family's assets—the result just might boost your spirit. Add up the total value of all your belongings on Worksheet #2. Remember to calculate everything owned at current market prices, not the original price.

Cash—those things that either are or can be easily converted to cash. Keep in mind that cashing in certificates of deposit (CD's) before they mature results in an interest penalty.

Marketable assets—financial assets that can be cashed in or sold for their current market value. Prices will fluctuate with market conditions.

Other assets—real estate and personal property that can be sold but usually not as quickly as the assets above. Assets such as vehicles, furniture, and appliances usually depreciate in value, so they are worth less now than when you purchased them, even though they are still in good condition.

Non-marketable assets—assets that cannot be sold or are more difficult to turn into cash. Withdrawing money from your retirement plan, pension, or Individual Retirement Account (IRS) before age 59½ usually involves a substantial penalty.

Worksheet 2.

Assets Worksheet

Assets	Current Value (\$)
Cash	
Cash on hand	\$ _____
Checking account	\$ _____
Savings account	\$ _____
Certificate of deposit	\$ _____
Cash value life insurance	\$ _____
Marketable Assets	
Government bonds	\$ _____
Corporate stock	\$ _____
Mutual funds	\$ _____
Other Assets	
Real estate	
• Owner-occupied	\$ _____
• Rental property	\$ _____
Personal property	
• Automobiles	\$ _____
• Furniture	\$ _____
• Clothes	\$ _____
• Jewelry	\$ _____
• Collectibles	\$ _____
• Equipment	\$ _____
Non-Marketable Assets	
Retirement plans	
• IRA	\$ _____
• 401(k)	\$ _____
• KEOGH	\$ _____
Total assets	\$ _____

Use savings

If cash is required, use emergency savings or take out a loan if you can get one. This will depend on your individual circumstances, but there are some disadvantages either way.

When you take money from your savings account it will no longer earn interest. If you take out a loan, you pay interest for the privilege of using someone else's money.

Another solution might be a passbook loan. You'll lose interest on the savings account and pay interest in addition, but the total cost might be less than the interest on another type of loan. If your family decides to with-

What about real estate taxes?

If you are unable to pay taxes, contact your local county treasurer to learn about procedures used when property taxes are delinquent. Interest accumulates on unpaid taxes.

You'll receive notice of any actions. Take these notices seriously. Eventually, unpaid taxes will result in the sale of your property through auction.

Should you consider loan consolidation?

If all else fails, a consolidation loan may be considered. You take out one loan, pay off all bills at once, and then have one debt to pay off to just one creditor (usually extending over a longer period of time). Again, each payment will be smaller, but you will commit yourself for a longer period of time, usually at a higher total cost. Shop around, as you would for any type of credit, to find the lowest interest rate.

Some of your smaller debts may carry no interest and may be unsecured (meaning the creditors don't hold any collateral). Some bill consolidation loans may require you to put up your household goods, auto, and sometimes your house as security. Be advised that non payment of this type loan could result in loss of the collateral!

Credit payment priorities

Before you talk to your creditors, you need to look at your situation and make decisions about how much and when you can pay.

Use the Worksheet #3 to help you get a clearer picture of what and how much you owe.

Not all of your debts impact your family equally. Figure 1 below contains a list of priorities to establish in dealing with debts. Your priorities may differ. Establish your own list and verify that you have contacted all of your creditors.

Figure 1.

Checklist: Creditors to pay first

First priority:

- Mortgage or rent
- Tax liabilities
- Second mortgages
- Auto loans
- Utility companies
- Child support payments

Second priority:

- Finance companies (secured loans)

Third priority:

- Credit cards, retailers
 - Doctors and dentists
 - Hospitals
 - Finance companies (unsecured loans)
-

Credit cards—Visa and MasterCard are the most valuable references on your credit report, so pay them on time, even if you only make the minimum monthly payment.

Car loans—You don't want to get behind on a car loan. Be sure to read your auto loan agreement because it may stipulate your car can be repossessed after you've missed only one payment. If your car is worth more than you owe on it, you may be able to refinance your loan with lower monthly payments. If not, your lender may agree to a temporary schedule of reduced payments.

Child support—Delinquent child support can really hurt your credit record. All child support payments \$1,000 or more owed must be reported to credit bureaus. In Idaho, being behind more than 90 days or \$2,000 in child support payments can mean loss of licenses including drivers license, hunting/fishing, and business and professional licenses.

Taxes—The IRS can be extremely tough if you don't pay your taxes on time. If you are notified by the IRS that you owe past-due taxes, make every effort to pay them as quickly as possible. If you can't pay, contact the IRS to arrange a payment schedule.

Medical bills—Most medical bills are not reported to credit bureaus until they are sent to collection agencies. You can often work out a modified payment schedule with a doctor or hospital.

Student loans—You can ask to defer payments on federal student loans if you are having financial problems. You will not be required to make any payments during the deferment period and no interest will accrue. But you cannot qualify for deferment if your student loan is in default.

Who to talk to about your financial situation

Your creditors

Contact creditors in writing. A sample letter is shown in Figure 2. A letter is better than a phone call because:

- You have had a chance to think through your circumstances and plan your budget for paying your bills.
- You won't get upset or confused if the creditor tries to intimidate you.
- You both have a record of your proposal.

Be realistic before you write the letter. Don't say you'll be back to full-time work if you have no idea at this time. Mail a letter to each creditor and keep a copy for yourself. Write a summary list of your spending plan and repayment plans and keep it by the telephone. If creditors call with additional questions, refer to your plan and don't promise increasing payments you cannot make. *Be honest and courteous.*

Figure 2.

Date

Payus First Corp.
Delinquent Account Representative
123 Regatta Row
Anytown, ID 83333

Dear Creditor:

The purpose of this letter is to inform you that I am having some budgeting and repayment problems. Due to (a recent layoff or seasonal unemployment, accident, etc.), I am temporarily out of work and as a result, am experiencing financial difficulty. I have analyzed my current situation, and in order to provide for necessary household expenses plus credit payments, I am asking each creditor to accept a reduced payment (for the next three months or another period of time). By (date), I anticipate being back to my regular repayment schedule.

I would appreciate your cooperation in making the payment plan work. In place of the regular payment of \$xx.xx, I request that you accept payments of \$yy.yy per month during this emergency.

You can be sure that I will resume normal payments as soon as possible. If there are any changes in my situation, I will notify you of them as soon as possible.

I hope you find this plan acceptable. I look forward to your letter of acknowledgment. Thank you.

Sincerely,

Name
address
account number

If you don't pay your bills

If you miss a payment, you will be faced with increasing pressure to pay. First you will receive a letter reminding you that you missed a payment and asking you to pay promptly. After that, you may receive a more direct letter demanding payment, or you may get a phone call.

If the bills are still not paid, they will probably be turned over to an independent collection agency. While the agency will try to get you to pay, the law protects you from certain actions.

Your rights under the Fair Debt Collection Practices Act

Debt collectors are prohibited from harassing, oppressing, abusing you, threatening to take your property without the right to do so, or from using false statements (such as implying that they are attorneys or work for a credit bureau or Social Security). The Fair Debt Collection Practices Act applies to any personal, family or household debt and covers debt collectors who

regularly collect debts for others, but not the creditors themselves or their lawyers.

The law further prohibits debt collectors from contacting you at inconvenient times (defined as before 8:00 a.m. or after 9:00 p.m.) or places. The collector may not contact you at work if your employer disapproves and you notify the debt collector *in writing* that you do not want to be contacted at work. They also must not tell anyone else that you are behind in your debts and they cannot use obscene or abusive language.

If a bill collector violates any of your rights under Fair Debt Collection Practices Act, complain to the Federal Trade Commission, Washington, DC 20580, (202)326-2222 or call the Idaho Attorney General's Office Consumer Protection Unit at (800)432-3545.

Creditor's options

Creditor's can take several kinds of legal action against you. These actions are often written into the sales contract you signed. If you fail to make payments, you will receive letters from a creditor's attorney or a collection company warning you of the intended action. Here's a list of possible actions a creditor might take.

- Acceleration**—The entire debt is payable at once if you miss a payment. The court can force you to pay by seizing your property and selling it.
- Repossession**—the creditor can seize the item you bought or the property you used as collateral. If the sale of the property brings less than the amount you owe, usually you still must pay the difference.
- Wage garnishment**—a court order that requires your employer to withhold part of your wages and pay your creditor.
- Foreclosure**—if you do not make your mortgage payments for at least 3 months, your lender takes possession of your home and sells it to pay off the loan. You are responsible for the legal fees and difference between the selling price and the amount owed.

All of these actions are very serious and could jeopardize your ability to get credit in the future.

Is bankruptcy an option?

Many individuals ask if it makes sense to declare bankruptcy. The fact is, declaring bankruptcy, especially a certain type known as Chapter 7, appears very attractive. You simply fill out a form and submit it with a fee (recently \$175) at a federal bankruptcy court. At that point your creditors can't come after you; instead, they must wait for a judge's decision. If the judge permits your case to proceed, he or she will often discharge most of your debt, meaning absolve you of responsibility for the money you owe to creditors such as your landlord, doctors, and credit card companies. Some of your assets can be seized to pay off these creditors by selling off everything at public auction and divide the proceeds among your creditors. But you may be able to work out a deal where you get to keep your car, home, and many of your

household possessions. The court cannot free you from the following debts: student loans, overdue taxes, alimony, or child support.

Chapter 13 is another form of bankruptcy where you are allowed to keep all your property. The court acts as a credit counselor and orders your creditors to leave you alone while you pay them off. You submit a detailed budget, and once the near subsistence level budget is approved, you will be ordered to make payments directly to the court. To qualify for Chapter 13, you must be employed and earn enough money to meet your budgeted living expenses plus the repayment plan.

Although bankruptcy sounds like a great deal, it's not an option most of us should consider. Bankruptcy is noted on your credit report for ten years. You might be able to get a credit card with a \$500 spending limit—if you keep a full \$500 on deposit in the bank that issues the card. You might be able to get an auto loan if you have a cash down payment of 70 percent. Because prospective employers will learn from your credit report that you declared bankruptcy, you may have trouble changing jobs. Finally, plan on the public embarrassment when your name appears in the newspapers.

Consumer Credit Counseling Service (CCCS)

If you'd like to have a confidential chat with an expert on personal debt, find the Consumer Credit Counseling Service in your area. Call (800)388-2227 (800-388-CCCS). That number will connect you to the National Foundation for Consumer Credit. They will give you the address and phone number for the CCCS in your area. They provide counseling to families on debt problems. If you want, they'll help you work out a family budget, they'll call your credit card companies and other lenders, and they'll help negotiate to get your payments reduced. Figure 3 lists the CCCS offices in Idaho.

How your credit may be affected

The thing that will hurt your credit record the most is to say nothing and start missing payments.

Lenders won't know that you're suffering a financial setback unless you tell them. If you don't tell them and miss payments they'll assume that you're not taking your responsibilities seriously, and that you've become a bad risk. If you don't bother to work out an emergency repayment plan, your credit record will show that you were delinquent. This could result in a poor credit record that will stick with you for seven years.

"Fixing" your credit record is not possible. Don't fall prey to scams that claim to be able to do so. You can, however, write a 100-word statement explaining your hardship and have that statement permanently entered into your credit report. Call your bank and ask for the name of the credit agency which they report to. The three

major agencies are TRW, Equifax, and Trans-Union. Then, contact that agency, request a copy of your credit report (the fee ranges between \$10-\$20), and write a 100-word statement explaining the reason(s) for your late, partial, or non-payments. Send that letter to all three of the major credit reporting agencies. By federal law, someone from the credit reporting agency must help you write the letter if you need help.

For more information on credit and getting a copy of your credit report, refer to Misc. Series #112 *Coming to Grips with Your Finances: Using Credit Wisely* available at an Extension Office near you.

Figure 3. **Consumer Credit Counseling Service (CCCS) near you:**

Call (800)388-2227 (800)388-CCCS for the National Foundation for Consumer Credit.

Idaho, Inc.
6110 Emerald St.
PO Box 9264
Boise, Idaho 83707
(208)375-8140

Nampa Branch
1305 3rd St.
Nampa, Idaho 83605
(208)375-8140

Spokane
N 1912 Division Suite 100
Spokane, Washington 99205
(509)327-3777
(800)892-6854

Coeur d'Alene Branch
1735 N. 15th Ave.
Coeur d'Alene, Idaho 83814
(208)769-1853

Northern Idaho, Inc.
302 Thain Suite A
Lewiston, Idaho 93501
(208)746-0127
(800)556-0127

To reach the Moscow Branch
call Lewiston Office
(800)556-0127

Magic Valley
800 Falls Ave. Suite 11
Twin Falls, Idaho 83303-0045
(208)733-2227

Idaho Falls Branch
1050 Memorial Drive
Idaho Falls, Idaho 83402
(208)524-1850
(800)982-8588

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