MAKING ENDS MEET

PART 1:

Adjusting to Financial Problems

Many circumstances may lead to sudden reductions in income. These include factory layoffs or cutbacks, the loss of a job, reduced farm income, loss of support from a spouse, or other reasons. These situations are serious blows to individuals and families struggling to survive economically.

If economic misfortune strikes you and your family in the form of reduced income, there are a number of steps you can take to lessen the hardship. This series, Making Ends Meet, provides ideas for maintaining family financial control. The fact sheets in this series are:

Part 1 Adjusting to Financial Problems

Part 2 Coping with Stress

Part 3 Using Community and Family Resources

Part 4 Sharpening Survival Skills

Unemployment, a reduction in wages, termination of support payments, and other emergencies can be traumatic experiences that leave you wondering how you can make it through such critical times. However, you can direct your financial affairs by taking a close look at your obligations and making informed decisions about what to do.

When your income decreases, but the bills don't, remember the five "Cs" to survival.

- **Control** as much of the situation as you can. Don't panic or waste energy blaming yourself or others. Remember, you and your family can take charge of your actions.
- **Claim** benefits due you. Check eligibility requirements for unemployment benefits and other assistance programs as soon as possible.
- **Communicate** with family members about the new limitations on your resources. Analyze your situation as a family unit and plan accordingly.
- **Confer** with creditors. Don't ignore the problem and simply default on payments to creditors. Make every effort to work out a mutually acceptable repayment schedule.
- **Change** your lifestyle. Be prepared to change your level of living, at least temporarily, so you don't give up basic essentials.

Control

Give yourself time to get over the initial shock, and then start making plans. Don't blame yourself or anyone else. One way to cut down anxiety is to assure yourself you are doing the best you can with your family resources. Just set your mind to dealing with the situation. Recognize that your life will be different for a time. But, you and your family can still manage financial affairs rather than have them manage you.

Claim

If the decrease in your income is from unemployment, you can start by going to your local Job Service Center and applying for benefits. Kansas unemployment benefits are based on salary earned prior to unemployment. These weekly benefits currently range from $76 to $306 and can be received for up to 26 weeks. If the decrease in income is from a layoff, check with your employer to see if the company provides any unemployment compensation. Other

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Communicate

No matter why your income is reduced, you will need to know how much money you will have to work with. Be realistic. Include other family members in the discussion. Consider all your options. Is there another earner already contributing to the family's income? Can the contribution be increased? Can a nonemployed family member get a temporary job? Can you use a hobby or skill as a source of income?

Once you know how much income will be coming in, make a list of your expected expenses. Be sure all family members participate in discussions about expenditures. Decide what the family needs next week, next month, and during the next two to three months. Delay buying items the family would like to have but are not an absolute necessity.

Discuss with family members the types of expenses you have. Expenses can be "fixed" or "flexible." Flexible expenses are those which vary in amount and/or timing. Flexible expenses are the first areas to look at when you begin cutting costs. For example, most clothing purchases can be postponed, at least for a while. Be creative and use your imagination on how to cut expenditures and survive.

Fixed expenses are those that have a set amount and must be paid by a set date. These expenses, such as rent, mortgage payments, some utilities, installment debts, taxes, and insurance premiums, are difficult to adjust. However, you may be able to rearrange or renegotiate some fixed expenses by communicating with the creditor.

Confer

After communicating with family members, you will need to confer with your creditors. Be sure to read all of your credit contracts. Find out what happens if you miss a payment. Is there a grace period, a penalty for late payment, a repossession clause, or an accelerated payment clause (full amount is due immediately)? With this knowledge, contact creditors *before* they contact you. Whenever possible, confer with the person in charge. Creditors will be more likely to believe you and to help you if you make this contact early.

When conferring with creditors, know how much money you can count on, what your fixed and flexible expenses will be, and how long you expect your income to be reduced. Present a reasonable plan for paying your debts. Then work out an agreement with each creditor that is acceptable to both of you. You might find that you can make smaller payments for a period of time. When your income increases, go back to the regular payment schedule. Although this may increase the length and total amount of your debt, it will help ease the burden of a decreased income. Above all, don't ignore bills and past due notices.

In some instances, you may not be able to reach an agreement with all your creditors. It's usually wise to pay creditors first who:

- are likely to attach your wages,
- impose a high finance charge,
- will repossess items,
- will cut off a basic service, such as utilities, or
- are owed a large amount.

Other options to consider are refinancing an existing loan, getting a consolidation loan, or bankruptcy.

Refinancing An Old Loan: An alternative to the problem of more debt than income might be to refinance one loan—make another contract for smaller payments over a longer period of time. Remember, while the new payments will be smaller in size, the overall cost will be higher.

Consolidation Loan: A consolidation loan is a new loan to pay off existing debts with one monthly payment. However, these loans involve higher overall costs, with smaller payments for a much longer period of time.

Bankruptcy: Bankruptcy is often a last recourse. It is designed to help persons with overwhelming debts and spare them undue harassment by creditors. While there is no hard-and-fast rule, bankruptcy might be a consideration if: (1) your creditors are unwilling to renegotiate debts; (2) you cannot obtain a consolidation loan; (3) no other source of help is available.

There are several choices in bankruptcy. Chapter 13 is designed for persons with a source of regular income who wish to pay their bills. They must have less than $100,000 of unsecured debts and less than $350,000 of secured debts. Chapter 13 allows the debtor, acting through a bankruptcy trustee, to work out a whole or partial repayment plan if half of all creditors agree. Payments are made to the court, and interest charges stop on the date of filing. The payment schedule initially stretches for a period of 36 months. A Chapter 13 will remain on your credit history for 7 years. Successful completion of the payment schedule will appear more favorable on a credit history than a Chapter 7 bankruptcy.

Chapter 7 bankruptcy is called "voluntary" or "straight" bankruptcy. A petition that includes a list of all assets and liabilities is filed. The court liquidates major assets, with the exception of certain personal possessions, and distributes funds to creditors. A Chapter 7 remains on your credit history for 10 years. The potential stigma of bankruptcy should be considered very carefully.

Change

Survival in hard times often requires many changes and adjustments. Reducing expenses is a major change. Pay particular attention to transportation, food, household expenses, entertainment, recreation, and clothing.

Look for ways that you and family members can use time, energy, talents, and knowledge to reduce other expenses. Take better care of the things you already possess. Recycle clothing. Swap items and services with a friend or neighbor. Plant a garden or produce items normally purchased. Use community resources available to you such as food stamps, utility assistance, and health clinics. These suggestions will decrease the amount of money that must be spent on necessary items. They will not help you continue your normal level of living, but they will help you through the hard times.

To make it through hard times, your family will need to make informed decisions and work together to carry out these decisions. A family commitment to the five "Cs"—control, claim, communicate, confer, and change—will help handle tough financial situations better.

References

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Kansas State University Agricultural Experiment Station and Cooperative Extension Service

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