

# Top Tips for Dealing with Debt

With the federal reductions in workforce, many people are suddenly being faced with losing their primary income and with new financial stressors because of this. While this can feel overwhelming, there are some steps you can take to manage your debt, and we will talk about some of the more common steps below.

## Things you can do on your own:

- **Develop a budget.** Start by listing your income from all sources, then your fixed expenses, which are the ones that stay the same each month like mortgage, rent or car payments. Next list the expenses which vary, like entertainment, food, gifts, clothing and savings. Identify the necessities and prioritize the rest with the goal of making sure you can make ends meet.
- **Contact your creditors:** If you're having trouble making payments, explain why and try to work out a modified plan that reduces your payments to a more manageable level. Many creditors prefer partial payments over nonpayment. As stressful as this is, try not to wait until your accounts have been turned over to a debt collection agency!
- **Learn how to deal with debt collectors:** According to the [Consumer Financial Protection Bureau](#), The *Fair Debt Collection Practices Act* is the main federal law that puts limits on how a debt collector may contact you about a debt. A debt collector usually cannot call you before 8AM or after 9PM. If a debt collector knows you aren't allowed to receive personal communications at work, they are not allowed to contact you there. Collectors cannot harass you, lie, or use unfair practices when they try to collect a debt. If you are working with an attorney and a debt collector contacts you, give them your attorney's name and phone number, and tell them to contact the attorney directly, instead of you.
- **Manage your auto and home loans.** Secured debts are usually tied to an asset, like your car or home, so if you stop making payments, lenders can repossess your vehicle or foreclose on your house. According to the [FTC](#), If you see default approaching, you may be better off selling your car and paying off the debt that way. If you fall behind on your mortgage payments, contact your lender immediately to discuss ways to avoid foreclosure.
- **Manage your student loans.** If you have federal loans through the government, the Department of Education has different programs that could help. You should check out your options by going to [Studentaid.gov](#) or by contacting your federal student loan provider directly. If you have private student loans, you may have fewer options than with a federal student loan. To explore your options, you should contact your private student loan provider directly. You should also know that you never have to pay to get help with your student loans. Beware of student loan debt relief companies who say they might lower your monthly payment, but could leave you in a worse situation!

## Finding outside sources of help:

- **Credit counseling** organizations can work with you to give you advice about your financial problems, including helping you manage your money and debts, learn how to develop a budget, offer free resources and help you create a plan to repay your debt. To find a reputable credit counseling organization, you can check with local credit unions, universities, or [military personal financial managers](#). Your local financial institution or local consumer protection agency may also be able to help you find credit counseling.

- **Debt management plans (DMPs)** can help you repay your “unsecured” debts like credit cards, student loans or medical debts. These plans aren’t for debts that are “secured” like house or car loans. DMPs are complicated, and they aren’t right for some people. You should meet with a credit counselor first so they can carefully review your finances and help you decide if a DMP is right for you.
- **Debt settlement programs** are different from a DMP. Debt settlements are usually offered by for-profit companies to people with significant credit card debt. They can negotiate with your creditors to let you pay a “settlement” or a lump sum of money that is less than what you owe. These programs can be risky because if the company cannot come to an agreement with your creditors, you could owe even more money in the end. While taking part in a program like this, you may still get calls from debt collectors and your credit report and credit score will likely be damaged.
- **Debt consolidation loans** are a way of consolidating all of your debts into a single loan with one monthly payment. You do this by taking out a second mortgage on your home or a home equity line of credit. Some of these loans require you to put your home up as collateral, and if you can’t make the payments or your payments are late, you could lose the home.
- **Bankruptcy** Personal bankruptcy is considered the debt management option of last resort because the results are long-lasting and far-reaching. Those who follow the bankruptcy rules receive a discharge, which is a court order saying they no longer have to repay certain debts. However, bankruptcy information stays on your credit report for 10 years and can make it difficult to obtain credit, obtain life insurance, or get a job. Bankruptcy also does not erase all debts, including child support, alimony, fines, taxes and most student loans unless you can prove undue financial hardship. There are 2 types of bankruptcy, known as Chapter 13 and Chapter 7.
  - **Chapter 13** allows people with a steady income to keep property that they might otherwise lose through bankruptcy, like a home or a car.. In Chapter 13, the court approves a repayment plan that allows you to use future income to pay off your debts during a 3-5 year period.
  - **Chapter 7** is known as straight bankruptcy and involves liquidation of all assets that are not exempt. Exempt assets could include cars, work-related equipment and basic household furnishings.

If you’re thinking about getting help to stabilize your financial situation, do your homework first, because there are many scams out there! Find out what services a business provides and what it costs, and don’t rely on verbal promises. Get everything in writing, and read your contracts carefully.