



## SURVIVING TOUGH TIMES

HACE E-23-04

### TALKING WITH CREDITORS

When your income drops and you realize you can't pay all your bills, it's important to face your debts and know how to talk with your creditors.

Your past experiences with creditors count. If you have consistently paid bills when due, most creditors will be more cooperative than if you were late or didn't make regular payments. Creditors are in the business of lending money. They want to keep your business, but they also want to get paid.

Contact your creditors before they contact you. Explain your current situation. Tell them that circumstances have reduced your income and you are not able to keep up with your complete payment. Frankly discuss your future income prospects so you and your creditors can figure out solutions to the problem. Most creditors would prefer to receive smaller payments on a regular basis than to begin expensive collection procedures.

#### Where to Begin

Before you and your creditors agree on a reduced payment or some other solution, determine how much money you have to pay off debts. Figure out how much income you can count on each month and how much to pay for essential monthly living expenses. You'll need to know who and how much you owe, as well as how you plan to pay them.



#### Contacting Your Creditors

Once you gather information you need, contact each creditor. Be prepared to explain the following:

- The reason you fell behind in your payments.
- Your current income and prospects for future income.
- Other financial obligations.
- Your plans to bring this debt up to date, including the amount you plan to pay each month.

Visit local creditors in person. Visit the loan officer at your bank or credit union, the credit manager of local stores, or the budget counselor at the utility company. Don't forget creditors like your dentist, physician, clinic or hospital.

Contact out-of-town creditors by phone or letter. If you phone, write down the name and title of the person to whom you talked. Follow up the conversation with a letter summarizing what you and the creditor agreed to. Keep copies of your correspondence as well as any replies.

Use the sample letter included in this pamphlet as a guide when writing to creditors. You can also use it as an outline of what to say when talking to a creditor.

As you negotiate with each of your creditors, don't agree to any plan simply to get off the hook. Be sure you will be able to follow through on the agreement. This is why it is important to do your homework first. Establish a payment rate that is acceptable to both you and the creditor.

### **Alternatives to Consider**

- Reduce the monthly payment. Make smaller payments for a longer period of time. This plan may result in additional finance charges.
- Refinance the loan. It may be possible to reduce the interest rate, lengthen the time to repay, or both for lower payments.
- Defer a payment. If you expect to receive your regular income again soon, your creditor may allow you to miss a payment or two. Usually, finance charges will still be added each month.
- Reduce or drop late charges. Some creditors may agree to stop charging late fees during your time of financial hardship.
- Pay only the interest on the loan until you can resume making monthly payments. This will not help you to reduce the debt, but it may make it possible for you to avoid other actions by the creditor.
- Voluntarily surrendering or giving back the item purchased on credit. This may not satisfy the entire obligation.
- Sell the item and use the cash to satisfy, or partially satisfy, the debt.

Not all creditors will be willing to accept alternatives. However, they will be more willing to work with you if you contact them before they contact you. They want all their money and would rather get some money on a regular basis than have to begin collection procedures.

If you fail to follow the plan that you and your creditor

have agreed upon, you hurt your chances of getting future credit. Be sure to keep your creditors informed about any changes that may affect your payment agreement. If you owe a large amount of money and your creditors won't accept reduced payments, you may have to consider more extreme alternatives such as bankruptcy.

### **If You Don't Pay Your Bills**

If you miss a payment, you will face increasing pressure to pay. First, you may receive a nice letter reminding you that you have missed a payment and asking you to pay promptly. Later, you may receive a more direct letter demanding payment, or get phone calls. If bills are more than 90 days late, there's a good chance they will be turned over to an independent collection agency. While the agency tries to get you to pay, the law protects you from certain actions.

**The Fair Debt Collection Practices Act** prohibits third-party debt collectors from harassing, oppressing and abusing you. They may also not threaten to sue you (unless they intend to do so), threaten to take your property without the right to do so or threaten to throw you in jail. Using false statements, such as implying that they are attorneys or that they work for a credit bureau, is also prohibited. The law further specifies that collection agencies may only contact you between the hours of 8:00 a.m. and 9:00 p.m. The collector may not contact you at work if your employer disapproves. You may even ask them not to call you at all if you notify the debt collector of this in writing. Realize, however, that if you cease contact with the collector, they may take legal action against you. Finally, while they may call a neighbor or family member to determine your whereabouts, they may not tell them that you are behind on your debts.

### **Federal Trade Commission**

If you have a complaint concerning a collection agency that has violated the law, contact the **Federal Trade Commission**, 225 Peachtree Street, NE, Suite 1500, Atlanta, GA 30303 (404) 656-1390, or **FTC**

**Headquarters**, 600 Pennsylvania Avenue, NW,  
Washington, D.C., 20580  
(877) 382-4357 (toll free).

When you receive a call from a creditor or a collection agency, take the following steps:

- **Identify the caller.** Ask for the name of the caller. Get the name of the company you owe and the name, address and telephone number of the collection agency. Get the exact amount that is claimed to be due. Write down the date and time of each call.
- **Remain calm.** Don't get angry. Arguments don't settle anything. When you become angry, you may forget to obtain important information. Remember, creditors accused of being angry or abusive may say it was the customer who was angry and abusive.
- **Dispute debts in writing.** If you believe you do not owe the amount claimed or disagree in other ways, make your reasons known promptly in writing to both the creditor and the collection agency. Request a written statement of your account. Always keep copies of your correspondence for future reference.

### **Creditors' Options**

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

If you fail to pay your bills, a creditor can take the following steps:

- ***Accelerate the Loan***  
The entire debt is payable at once if you miss a payment. The courts can force you to pay by seizing your property and selling it.
- ***Repossess the Financed Item***  
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, you still must pay the difference.

- ***Garnish Your Wages***  
The creditor may obtain a court order requiring your employer to withhold part of your wages to pay your creditor.

- ***Foreclosure***  
If you do not make your mortgage payments for at least three months, your lender can take possession of your home and sell it to pay off the loan. You are responsible for the legal fees and for the difference between the selling price and the amount owed.

Any of these actions are very serious and could jeopardize your ability to get credit in the future. You can reduce your chances of being harassed by creditors or collection agencies by working out solutions before you fall behind.

## Sample Letter to Creditors

Use this example as a guide when writing or talking to creditors. Make this letter personal by completing the information in parenthesis.

Date  
Your Address  
Your City, State, Zip

Company Name  
Street Address  
City, State, Zip  
Attention: Delinquent Account Representative  
Subject:       Your Name  
                  Your Account Number

This letter is to inform you that I am having problems paying my bills as a result of (a recent job loss or seasonal unemployment, etc.). I hope we can agree upon a debt repayment plan acceptable to both of us.

After examining my financial situation, I have set up a realistic minimum budget for my living expenses and have developed a budget for repaying my debts. I hope you will accept a reduced payment. I would like you to accept a partial payment of (\$50) per month to repay my obligation. You may expect the first payment on (July 1, 2001).

I hope you find this acceptable and I look forward to hearing from you. Thank You.

Sincerely,

Your Name

# SURVIVING TOUGH TIMES

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