

Managing Between Jobs

Deciding Which Bills to Pay First

When you're between jobs, the paychecks stop but the bills keep coming. When you don't have enough money to cover basic living expenses and to pay all your creditors, you face difficult financial decisions.

When income is reduced, spending habits must change. The sooner you change, the more likely your financial problems can be lessened. Your family should be part of the decision-making process, since their cooperation is essential to carry out your plans.

Sizing Up Your Situation

When your bills exceed the money to pay them, contact the people to whom you owe money—your creditors—and explain your situation. Creditors will usually work with you to adjust your payments because they want their money.

Before you can talk to creditors, you need to look at your situation and make decisions about how much and when you can pay. First, answer the following questions:

- How much income can you count on each month?
- How much money is needed to cover your essential monthly living expenses?
- How many creditors do you owe and what is the total amount you owe? Completing the worksheet "Debts Owed" on the next two pages will help you get a clearer picture of what and how much you owe.
- How long is your present financial situation likely to last?
- What assets (savings, items that could be sold) do you have that could be used to pay off your debt?

- What debts are the most important to repay first?
- What debts could be satisfied by voluntarily surrendering, or giving back, the item?

Who Gets Paid First?

You are legally obligated to pay all of your creditors. If you can't pay all your bills, you must decide how much to pay to which creditors. One way is to divide available money and pay every creditor a share of what you owe. This is probably the fairest way, but it doesn't always work because each creditor must agree to reduce the amount they receive and extend the payment period.

A second method is to prioritize which creditors receive the most money. Decide which debts would result in the worst consequences for your family if they weren't paid or were paid less than the amount due. Ask yourself the questions below:

- *What will affect my family's health and security the most?* Usually the house, utilities, food, transportation, and medical insurance take priority. Don't let medical insurance lapse when money is tight. If anyone in your family becomes ill, uninsured medical costs could be devastating. Pay high-priority bills or contact the creditors at once to work out smaller payments.
- *What will you lose if the bills aren't paid?* You can lose your purchases if the creditor holds the title of the property as security for the loan: a home mortgage or car loan, for example. Sometimes furniture and large appliance loans are secured loans. If you aren't sure which loans are secured, check the credit contract. Unsecured debts may have to take lower priority, although you are obligated to pay them too.

- *How much do you still owe on the loan?* Determine how much you have paid on each loan and how much you owe. If you have only one or two payments to make on a loan, it's probably a good idea to finish paying it, getting that debt out of the way. You may be able to return newer items or sell them to pay off the debt. If you choose to voluntarily surrender an item, you'll still be required to pay the difference between the market value of the item and the amount remaining on the loan. But getting you out from under some of your debts can reduce the pressure you feel.
- *What interest rate are you paying?* Pay off a higher-interest credit card balance first, to reduce the amount of finance charges you are paying. Until your financial situation improves, destroying your credit cards and closing your accounts may be a good idea. At least put credit cards away in a safe place so you are not tempted to use them.
- *Is a consolidation loan a good idea?* Personal finance companies want you to think so, but generally a consolidation loan charges a high interest rate, often 20 percent or more. And, refinancing to smaller monthly payments will extend the number of payments you must make, adding to the total cost. While a single loan may make payment easier, that's a small benefit considering the additional costs involved.
- *What about your credit record?* Nonpayment of bills is recorded on your credit record and can damage your ability to get credit in the future. That's why contacting all of your creditors immediately if you cannot pay your bills is important. If you can pay something on each debt, it's less likely that your problems will be reported on your credit record.

Worksheet—Debts Owed

Creditor's name, address and phone number	Account number	Interest rate	Is debt secured? If so, by what?	Total balance owed
Total				

Your Repayment Plan

Once you have calculated how much money you have for monthly living expenses and for paying your debts, decide how much you can pay to each creditor, based on priorities you determined while answering the questions on pages 1 and 2. Work out a repayment plan that shows how much you plan to pay each creditor. Put this plan in writing.

If there is a consumer credit counseling service in your area, make an appointment and take this information with you (see EC 1394-E, *Talking with Creditors*, for a list of consumer credit counseling services in Oregon). If there is no consumer credit counseling service in your area, contact each of your creditors to explain your situation, and tell them how much you are able to pay and when you will be able to pay it.

Some businesses, such as utility companies, have special counselors for customers who can't pay their bills. These counselors can help you set up a budget plan to even out your payments during the

year. They can also tell you if you qualify for fuel assistance or any available programs.

Making It Work

Remember—no matter how bad your situation may be, don't ignore your bills and creditors. Prompt action is very important; let your creditors know you are having trouble before you miss payments and the situation becomes worse.

Once you have worked out a repayment plan, follow through with it to make the payments you promised. If you fall behind on your new commitments, creditors will be less understanding. If you fail to make the payments, creditors may hire a collection agency to make you pay.

Pretending you have no money problems won't make the problems go away. You and your family must face the situation honestly. Openly discuss spending decisions with all family members. This will help everyone realize that changes and sacrifices must be made for your plan to be successful.

Payment due date	Number of payments left	Original monthly payment	Date of last payment	Amount of last payment	Has legal action been taken?
Total					

For More Information

This publication is one of several in the *Managing Between Jobs* set available from the OSU Extension Service. Other titles:

- EC 1391-E, *Setting Spending Priorities*
- EC 1392-E, *Strategies for Spending Less*
- EC 1393-E, *Deciding Which Bills to Pay First*
- EC 1394-E, *Talking With Creditors*
- EC 1395-E, *Keeping a Roof Overhead*
- EC 1396-E, *Bartering*
- EC 1397-E, *Making the Most of What You Have*
- EC 1398-E, *Accepting Your Feelings*
- EC 1399-E, *Living Better With Stress*
- EC 1400-E, *Identifying Sources of Support and Friendship*
- EC 1401-E, *How You Can Help When Your Mom or Dad is Unemployed*
- EC 1402-E, *Deciding If Teens Should Work*
- EC 1403-E, *Helping Children Cope*

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Adapted for use in Oregon from a University of Wisconsin-Extension publication.

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Published March 1992; reprinted August 2004.