

University of Nebraska - Lincoln

## DigitalCommons@University of Nebraska - Lincoln

---

Historical Materials from University of  
Nebraska-Lincoln Extension

Extension

---

1991

### NF91-6 Solving Financial Problems

Kathy Prochaska-Cue

University of Nebraska--Lincoln, [kprochaska-cue1@unl.edu](mailto:kprochaska-cue1@unl.edu)

Follow this and additional works at: <https://digitalcommons.unl.edu/extensionhist>



Part of the [Agriculture Commons](#), and the [Curriculum and Instruction Commons](#)

---

Prochaska-Cue, Kathy, "NF91-6 Solving Financial Problems" (1991). *Historical Materials from University of Nebraska-Lincoln Extension*. 609.

<https://digitalcommons.unl.edu/extensionhist/609>

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.



# NebFact



Published by Cooperative Extension, Institute of Agriculture and Natural Resources,  
University of Nebraska-Lincoln

## Solving Financial Problems

---

*Adapted by Kathy Prochaska-Cue, Family Economics and Management Specialist*

---

Many people ignore debts when they experience financial difficulty. Some fear contacting their creditors. They do not understand the consequences of not paying bills.

Ignoring debts will affect your credit rating. In addition, creditors may take action against you in an effort to get payment. Or, your bill can be turned over to a debt collector. Your property can be repossessed. Wages may be assigned or garnished. You may be forced into bankruptcy.

However, several options may help you manage financial difficulties when bills stack up and you cannot pay them. You may set up a debt payment plan and discipline yourself to follow it. If that does not work, seek the assistance of a nonprofit credit counseling service, or choose a court provision to handle your credit obligations.

The most desirable of these options is to set up a debt payment plan. If you need assistance in preparing the plan, contact a credit counseling service. The court provisions, which include bankruptcy, should be your last resort.

### **Solving Financial Problems**

There are basically only three ways to solve financial problems: increase income, decrease expenses, or adjust credit debt payments.

Several options exist for increasing income but all may not be alternatives for a particular situation. These possibilities include upgrading a present job to one that pays more; switching jobs to a better-paying one; working overtime; having someone additional in the household seek and find employment where more money is made than spent; qualifying for assistance, either public or private such as food stamps, child support, grants or subsidies; and renting or selling assets that are no longer needed and/or used.

Temporary adjustments in expenses may provide temporary income increases. Stop payroll deductions for retirement, savings, or education funds. Adjust tax withholding so that enough is being withheld but a large tax refund will not be coming next spring. Do more home production; garden or sew if you

already have the skill and equipment needed. Use community resources for recreation. Pay insurance premiums monthly instead.

To decrease expenses either CUT DOWN or CUT OUT. For most people going "cold turkey" or cutting out entirely may not be possible. Above all, to cut expenses, go to a cash-only basis; put all credit cards out of reach.

Certain expenses cannot be cut out entirely because of health or safety concerns such as utilities, food, health, recreation, and insurance.

## **Developing a Debt Payment Plan**

If you find yourself with more bills than your monthly income can cover, set up a debt payment plan. Completing this plan will take patience. You will have to stick with it until all your debts are paid. A debt payment plan will work if you really want to get out of debt. You need to start getting out of debt right now. Paying a little back is better than doing nothing or just worrying about the problem. Paying back a small amount will give you a sense of control. It will start you on your way to solving your financial problems.

To set up a debt payment plan, follow these steps:

1. Find out who you owe and how much you owe.
2. Decide how much you can pay back and when you can pay it back.
3. Set up a plan for paying back your debts.
4. Discuss your plan with your creditors.
5. Control your spending by sticking with your debt payment plan until debts are paid.
6. Occasionally, look over your plan to see if you are keeping up with your debts and your daily living expenses. If there is a change in your income, you need to raise or lower your monthly payments accordingly.

You have to admit that you have financial problems and really want to solve those problems. Getting out of financial trouble is not easy. You have to make up your mind that you will pay your debts within a specified length of time. You have to be willing to discipline yourself to pay back the money you borrowed.

## **Find Out Who You Owe**

The first step in getting out of debt is to find out who you owe and how much you owe. So get out all of your credit statements and find the following information:

- Name of creditor
- Creditor's address
- Creditor's telephone number
- Your account number
- Collateral (property such as your home, car, land, jewelry or other assets that secures any debt)
- Outstanding balance owed
- Remaining number of payments
- Monthly payment
- Payment due date
- Amount last paid

- Date last paid
- Type of legal action taken (such as garnishment or repossession)
- Collection agency or attorney

## Decide How Much You Can Pay Back

Now you know who you owe. Figure out how much you can pay each creditor, and decide how long it will take to pay back each debt.

Develop a bare-bones budget for living expenses. Find extra income if possible. Cut or eliminate expenses, at least for a short time until debts are paid.

## Develop a Plan for Paying Back All Debts

From your list of debts eliminate all debts which cannot be adjusted such as any secured by collateral or court-ordered payments like child support or taxes.

Your actual plan for debt repayment may take one of several forms. You may choose to pay each creditor the same amount.

---

**Method A. Pay each creditor equal amounts**

---

<i>Debts</i>	<i>Amount Owed</i>	<i>Amount Required</i>	<i>Amount To Pay</i>
Car loan	\$1,145.39	\$180.00	\$60.00
Bank card	680.30	35.00	60.00
Bank loan	525.00	170.00	60.00
Bank loan	755.00	190.00	60.00
Jewelry	275.00	25.00	60.00
	<u>\$3,380.00</u>	<u>\$600.00</u>	<u>\$300.00</u>

---

Or you may choose to pay different amounts to your creditors. One way this is done is to base payments on what percentage of the total debt each individual debt represents. To determine the percentage, divide the amount owed by the total debt amount. Then multiply the decimal equivalent of the percentage by the amount of money available for repayment.

---

**Method B. Percent of total debt each debt represents**

---

<i>Debts</i>	<i>Amount owed</i>	<i>Percent of total</i>	<i>Amount required</i>	<i>Amount to pay</i>
--------------	--------------------	-------------------------	------------------------	----------------------

---

Car loan	\$1,145.39	34%	\$180.00	\$300.00
Bank card	680.30	20%	35.00	60.00
Bank loan	525.00	16%	170.00	48.00
Bank loan	755.00	22%	190.00	66.00
Jewelry	275.00	8%	25.00	24.00
	<u>\$3,380.69</u>	<u>100%</u>	<u>\$600.00</u>	<u>\$300.00</u>

To get these amounts use the following formula:

$$\frac{\text{AMOUNT OWED}}{\text{TOTAL DEBT}} = \text{PERCENTAGE OF TOTAL DEBT}$$

$$\frac{\text{Debt 1}}{\text{Total Debt}} = \frac{\$1,145.39}{\$3,380.69} = 0.34 \text{ or } 34\%$$

$$\$300 \times .34 = \$102.00$$

A final way to decide how much to offer each creditor is to give each creditor the percent of their monthly payment based on what percent of the total required is represented by the amount available by the total amount required. Then multiply each monthly amount by the decimal equivalent of the percentage.

---

**Method C. Percent of total monthly payments based on repayment amount**

<i>Debts</i>	<i>Amount owed</i>	<i>Amount required</i>	<i>Percent of monthly total</i>	<i>Amount to pay</i>
Car loan	\$1,145.39	\$180.00	50%	\$90.00
Bank card	680.30	35.00	50%	17.00
Bank loan	525.00	170.00	50%	85.00
Bank loan	755.00	00	50%	95.00

Jewelry	275.00	25.00	50%	13.00
	\$3,380.69	\$600.00	50%	\$300.00

To get these amounts use the following formula:

$$\frac{\text{MONEY AVAILABLE}}{\text{AMOUNT REQUIRED}} = \text{PERCENTAGE OF MONTHLY REQUIRED}$$

$$\frac{\$300}{\$600} = .50 \text{ or } 50\%$$

$$\text{Debt 1 payment} \times .50 = \$180 \times .50 = \$90$$

### Tips for successful Repayment Plans

Try to pay off small debts quickly so there are fewer debts to deal with. Each creditor should be paid a minimum of probably \$10 monthly. To determine which creditors to pay first, ask what is most important for health and safety? Is there collateral likely to be repossessed? How long will repossession take?

### Inform Your Creditors

Now that you have worked out a plan, destroy all your credit cards, do not take out any more loans except in extreme emergencies, and contact each creditor and explain your plan. Go visit each creditor. If you cannot visit your creditor, call or write a letter. Do not send the letter unless you intend to follow through with the repayment plan. Remember, creditors would rather receive a small payment than nothing at all. They also prefer to have the money than the items you purchased.

Explain to each creditor that you do not have the money to pay back the minimum payment that he or she has specified on the monthly statement. Be prepared to provide the following information to each creditor:

- Why you fell behind in your payments; loss of a job, illness, divorce, death in the family, and/or poor money management skills
- Your current income
- Your other obligations
- How you plan to bring this debt up to date and keep it
- The exact amount you will be able to pay back each month
- Always request that all payments go to principal

If you fail to follow the plan that you and your creditors have agreed upon, you will harm your chances of getting future credit. Tell your creditor about any changes that may affect your payment agreement.

Do not wait for creditors to contact you. Call the creditors before bills are due. They will be much more

likely to work with you.

If you owe a large amount of money and your creditors will not accept reduced payments, then you may have to consider bankruptcy or loan consolidation.

## **Review and Revise Repayment Plan**

When one debt is paid off, put the extra money back into the plan; adjust payments accordingly. Keep in touch with creditors.

## **Credit Counseling Services**

Sometimes it does not seem possible to manage the problem of being overextended financially. If you are unable to solve your financial problems alone, counseling services can help you set up a budget and a debt payment plan. Nonprofit financial counseling agencies charge little, if anything, for their services. Military bases and industries often hire people that can help you manage your debts. Housing authorities, credit unions and universities sometimes provide financial counseling.

## **Work With Creditors**

You may also be able to work with creditors in other ways. Creditors may allow you to refinance a debt. Refinancing lowers monthly payments by extending the length of the debt. In addition, interest already paid on the debt may be lost; consequently the total finance charge increases. Refinancing can also require additional collateral or a co-maker. Another way to work with creditors is to consolidate debts. As with refinancing, the monthly commitment is less because the length of the debt has been extended. One advantage is that there is just one payment.

A danger with both refinancing and consolidation is that the debtor will think there is more to spend, and will take on additional debt defeating the purpose of working with the creditor in the first place.

Whether refinancing or consolidation is available will depend upon the creditor and upon the debtor's history with the creditor as well as how credit has been handled in the past.

## **Court Provisions**

The Federal Bankruptcy Code provides consumers with two forms of debtor relief. Chapter 7 of the code is the straight bankruptcy provision and provides for liquidation (convert into cash) of the debtor's assets. With Chapter 13 you promise to pay existing debts with part of the income you will earn in the next few years. [\*Bankruptcy: Debtor's Last Resort, NF 91-1\*](#), gives more information about bankruptcy.

*Adapted from: Getting Out of Debt, How to Get Out of Debt, and How Others Can Help You Get Out of Debt.*

---

***File NF6 under HOME MANAGEMENT  
B-1e, Budgeting  
Issued February 1991***

---

*Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Elbert C. Dickey, Director of Cooperative Extension, University of Nebraska, Institute of Agriculture and Natural Resources.*

*University of Nebraska Cooperative Extension educational programs abide with the non-discrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.*