

Department of Family and Consumer Sciences

TRIAGING YOUR DEBT DURING A MONEY CRUNCH

March 2020

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A money crisis can happen to anyone as a result of a layoff, illness, death of a family member, divorce or overspending. If you're in crisis, you may be tempted to postpone making hard financial decisions until creditors begin calling. It's easy to feel overwhelmed when a number of creditors are making demands or threats. Setting clear priorities about who gets paid first can help you overcome "debt paralysis" and deal with your finances in a positive way.



LEVEL I: First Priority Expenses

Rent/Mortgage. Try to avoid homelessness at all costs. Keep mortgage and rent current. There are practically no government resources to assist and the need is too large for most faith-based and help organizations to pay. Landlords will often send an eviction letter if rent is two to four weeks late and tack on late charges. You can also try to negotiate with your lender/landlord, explaining your current situation.

Utilities. Use government resources first if eligible. Often there are help agencies that will assist one time if there is a cutoff notice. Obtain a free cell phone if eligible. Drop cable and Internet and reduce energy usage as much as possible.

Food. Immediately check eligibility for SNAP (food stamps) and start going to faith-based groups or other food banks two times a month. Reduce your normal budgeted amount right away — no eating out.

Medical. Pay for necessary prescriptions if you cannot get them free from a physician. Check with the pharmaceutical company to see if they have programs for limited income individuals

Transportation. Make auto payments and insurance payments. If your car payment is high, trade down quickly. Sell extra cars (such as teenagers' vehicles) if they're not used for work. Use public transportation or car pool if possible. Teenagers can ride a school bus. Drive only to get to work and the grocery store or pharmacy.

Child Care. Try to find family or friends to help if possible.

Non-food Items. Try to get the basics at food pantries. Borrow from family. Shop dollar stores.

Payroll Deductions. Determine if benefit deductions can be temporarily reduced to increase pay.

LEVEL II: Second Priority Expenses

Cell Phone. Decrease your plan, use very limited minutes, or change to a pre-paid card.

Homeowner's Insurance. If not paid through mortgage escrow.

Child Support and Other Legal Judgments.

Taxes.

Car Maintenance. Do only the repairs necessary to keep the car running.

Minimum Payments on Credit Cards and Loans. Make only minimum payments on credit cards and loans. Call your creditors and explain your financial situation to see if you can arrange a different or reduced payment plan.

Medical Bills. Defer medical bills until all Level I and Level II expenses are current. Be sure you contact those you owe to inform them of your situation. Most medical facilities are willing to work with you.

IMPORTANT

You cannot choose to **not** pay your bills. You must reach out to those you owe money to inform them of your circumstances and set up a payment plan. You may do this over the phone first. However, be sure to follow up in writing so you have a record of your conversation and their agreement to your payment plan.

Level III: Optional Spending

School Expenses. Ask if children are eligible for free or reduced lunch, waivers for field trips, sports and other activities.

Clothing. Purchase no clothing at all until essential expenses and debt are caught up and a small emergency fund is established.

Note ... Payday loans and other quick credit options may seem like a good alternative when you are in a money crunch. However, these options are deceptively easy and can become financially costly for you over the long term. Before choosing to take out a payday loan or other form of quick credit, think about the costs you will pay, whether you want to borrow, and how you will pay back the loan.

Adapted and revised by Christopher T. Sneed, PhD, and Ann A. Berry, PhD, from "Who gets paid first when you're in a financial crisis" by Carolyn Hansen, Knoxville Compassion Coalition, 2011.



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