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**credit**

# Handling Credit Problems

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# Handling Credit Problems

Financial problems occur when your debts and expenses become greater than your income and ability to repay.

The questions below can help you to become aware of possible credit problems. If you say "Yes" to many of these questions, you may be using too much credit.

## Early Warning Signals of Credit Problems

- Are you not sure how much you owe?
- Are you usually late in paying your bills?
- Are you working overtime just to make ends meet?
- Are you paying bills with money you need for necessities, such as food, clothing or shelter?
- Can you only make the minimum payments on your debts?
- Do past-due notices come often in the mail?
- Are you always "short of money" before payday?
- Do you put off medical or dental visits because you cannot afford them now?
- Have you been threatened with repossession or other legal action?

You can handle your money problems in many ways, depending on how serious they are. **Whatever the problem, it is important to know what to do about it and to act quickly.**

If your family's debts, bills and expenses are more than your income or other sources of money, you are not alone. Many people experience such problems at some time in their life. To help you, here are some basic steps to handling credit problems.

- Try not to use any more credit. Cut up your credit cards if you need to.
- Make a list of everything you owe each month for the next 12 months. Subtract what you owe each month from your monthly income and see if you will have enough to live on each month after making all your payments. Make a workable family budget, if you don't already have one.
- If you can't make all of your credit payments, contact each of your creditors and explain your situation. If they are sure that you intend to pay, they may be understanding. They may defer your payments for awhile or refinance the debt to reduce your monthly payments. In other cases, you might be able to return some merchandise bought on credit before repossession is necessary. **If you are not able to make your payments, the worst thing you can do is to avoid your creditors.**
- Try to find professional credit counseling or other financial counseling to help you work out your problems. There are many qualified people who could help you.

### **Where To Get Financial Help**

Some creditors may be unwilling to reduce your monthly payments or to wait for them. If you have talked to your creditors and still need help, there are places you can go.

Your **bank, credit union, savings and loan or another financial business** may have a credit counselor or other person qualified to discuss your problems and give you suggestions about what you can do. These can be good sources for credit counseling, but they do represent a business. Because they work for the business, they may suggest only services that they offer. For example, they may suggest a loan from them to help you pay other creditors.

Many cities and towns have a non-profit **credit-counseling service** to help people with credit problems. The service may be free or based on your

ability to pay. The agency works with the individual or family to work out a repayment plan. Advice on handling finances is available from some local welfare organizations, legal-aid societies and charitable or religious organizations.

Some finance companies or other lenders advertise “**debt-consolidation loans.**” This is a loan to pay all your other bills. You then make one lower monthly payment over a longer period of time.

This can be a way to pay all your bills, but the cost is high. The lender may charge as high as 100 percent Annual Percentage Rate. If your other loans have 12, 18, or 24 percent Annual Percentage Rates, then you can be paying **more** in interest charges with a debt-consolidation loan. If you do use this kind of loan, try not to use any other credit until the loan is totally repaid.

There are also businesses that exist to give debtors help with their credit problems. They are called “debt-consolidators,” “debt-poolers” or “debt-adjusters.” Do not confuse these **debt consolidators**, in business to make a profit, with the credit-counseling services that require little or no fee. A debt consolidator will work out a repayment schedule with your creditors, but they may charge 10, 20, or up to 100 percent of your debt as their “service fee.” The major disadvantage of this method is that it is usually costly.

If your financial burdens and debts cannot be handled by any of these methods, you may wish to see a lawyer or a local Legal Aid Society. They may suggest legal proceedings to help you repay your debts. One such process is called **Chapter 13**, which is a modified form of bankruptcy proceedings. A Chapter 13, which is called an “Adjustment of Debts of an Individual with Regular Income,” can be filed by a consumer who is in debt but has a regular income. Consumers give the court a budget that says they will use a portion of their future income, and will sell some of their property if they want to, to repay their debts. Usually, the plan is to be paid over a period of three years.

**These are some of the ways you can get help when you have used too much credit or need other financial counseling:**

- **Determine if you have a credit problem.**
- **Contact your creditors if you cannot make your payments. Try to agree on a new plan.**
- **Seek help from professionals if your credit problems still exist. Admitting that you need counseling may be the first step to finding a solution to your problems.**

Other publications in this series include:

L-1881 Understanding Credit Costs

L-1882 Deciding When to Use Credit

L-1883 When You Apply for Credit

L-1884 What Is Credit?

L-1885 Using Credit Cards

L-1886 Borrowing Money

L-1888 Buying on the Installment Plan

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