



Tools for Money Management

Who Gets Paid First

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At a glance...

This money management tool can help you set priorities for paying bills and repaying debt when you don't have enough money to pay everything in full.



What this money management tool can do for you...

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 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.

Step 1. Stop all unnecessary spending. If you have pre-authorized monthly direct payments or money transfers, decide which you must keep and discontinue the others.

Step 2. Make a new spending plan based on your new financial realities. Use "Saving-Spending Plan Worksheet and Instructions" (UT Extension publications SP613-A and SP613-B) to determine your household income and necessary spending.

Step 3. Determine priorities for the money you have available. If you can't pay everything, use the following guidelines to set priorities:

Level 1 Priorities – Household essentials.

Food

- Food expenses can be reduced by smart shopping and not eating out, but you must continue to include money for food in your budget.

Medical essentials

- Medication necessary to control health issues is a top priority.
- Keeping health insurance coverage is especially important if you or someone in your household has a chronic health problem.

Housing and utilities

- If you are a renter, you'll need to stay current with your rent.
- If you are a homeowner, in addition to making mortgage payments, you'll need to stay current on any home equity loans.
- Condo membership fees and mobile home lot fees are necessary if they apply.
- Make homeowner's insurance a priority if it's not included in your mortgage payment.
- Basic utilities are a top priority, but drop cable TV, Internet service and extra phone service.
- Reduce home energy use to lower costs.

Transportation

- Continue payments and insurance on vehicles that you must have to get to work or take care of your household.
- If you can, reduce auto loan and insurance payments by trading for a less expensive vehicle.
- Use lower-cost transportation such as bikes, buses or walking when you can.
- Sell all vehicles you don't absolutely need.
- Save gasoline costs by driving only when necessary.

Level 2 Priorities – Legal obligations.

- Child support
- Student loans
- Taxes
- Legal judgments

Level 3 Priorities – Consumer debt.

- Installment loans for appliances, furniture or electronics
- Credit card accounts
- Bills for medical or personal services

Step 4. Communicate with creditors. After you've determined your payment priorities, contact your creditors to let them know of your situation. If you can't pay their debt as agreed, propose an alternative. Ask to skip payments and have them added to the end of your payment schedule or reduce payment amounts.

Tip: Contact creditors in writing!

There are several advantages to contacting creditors by letter rather than by phone.

- A letter can show that you are making good-faith efforts to pay off the debt.
- Written notice is required for legal protection under the Fair Debt Collections Practices Act. The act allows you to request that creditors not contact you further regarding an account.
- Communicating by letter helps you avoid feeling threatened by a collector's verbal threats.
- Writing provides time to think more carefully before making promises to pay and helps you avoid agreeing to a repayment plan that is not feasible.
- When things are in writing, there is less chance of miscommunication or misunderstanding.

About E-mail...

Although e-mail is convenient and does record what has been discussed, it does not substitute for postal mail when you are claiming your rights under Federal Fair Debt Collection laws.

What if you can't find the address?

If you don't have the name or address of a representative of the creditor or collection agency, it may be necessary to do Internet or phone research to determine who should receive a letter. Computerized phone menus and automated customer service systems may make this difficult. These suggestions may help:

Hint

If you do make contact by phone to discuss repayment, ask for the name and address of the person representing the creditor and follow up with a letter outlining the repayment plan that has been agreed upon.

- Look on any correspondence you received regarding the account for a customer service or collections mailing address.
- If a collector calls, ask for his/her name and address. Tell the collector that you will be writing the company immediately regarding your account and end the phone conversation as soon as possible.
- Look on the company's Internet site or on Internet business listing sites for addresses that may be appropriate.

Visit the UT Extension Web site at
<http://utextension.tennessee.edu>

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