

When You Can't Pay Your Debts FAQ

Strategies to help you get out of debt.

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I feel completely overwhelmed by my debts and don't know where to begin. What should I do?

Whether you're already behind on your bills or worried you might fall behind soon, call your creditors. Let them know what's going on -- job loss, divorce, medical problems, or other troubles -- and ask for help. Suggest possible solutions such as a temporary reduction of your payments, skipping a few payments and tacking them on at the end of a loan, skipping a few payments and paying them off over a few months, dropping late fees and other charges, or even rewriting a loan.

If you need help negotiating with your creditors, consider contacting a nonprofit debt counseling organization. You can find a list of counseling agencies by location at the website of the U.S. Trustee, www.usdoj.gov/ust (select "Credit Counseling and Debtor Education.") The federal government has authorized the agencies on this list to provide counseling to debtors considering bankruptcy. However, don't pay anyone to "fix" your credit.

I might have to miss a car payment. Should I let the lender repossess?

No. Before your car payment is due, call the lender and ask for extra time. If you're at least six months into the loan and haven't missed any payments, the lender might let you miss one or two months' payments and tack them on at the end. If you don't pay or make arrangements with the lender, the lender can repossess without warning.

If your car is repossessed, you can get it back by paying the entire loan balance and the cost of repossession, or, in some cases, by paying the cost of the repossession and the missed payments, and then continuing to make payments under your contract. If you don't get the car back, the lender will sell it at an auction -- usually for far less than it's worth. In most cases, you'll owe the lender the difference between the balance of your loan and what the sale brings in.

If you are far behind on your car payments and can't catch up, you may not be able to afford the car. Think about voluntarily "surrendering" your car before the dealer repossesses it. This saves you from paying repossession costs and attorneys' fees. Ask for concessions from the dealer before giving up the car. A dealer might waive its right to collect the amount left owing on the loan or promise not to report the default or repossession to credit bureaus.

How soon after I miss a house payment will the bank begin foreclosure proceedings?

This varies from state to state and lender to lender, but most lenders don't start foreclosure proceedings until you've missed four or five payments. Before taking back your house, most lenders would rather:

- rewrite the loan
- suspend principal payments for a while (that is, you pay interest only)
- reduce your payments, or
- let you miss a few payments and spread them out over time.

If your loan is owned by one of the giant U.S. government mortgage holders, Fannie Mae or Freddie Mac, foreclosure can be slower. Fannie Mae and Freddie Mac often work with homeowners to avoid foreclosure when a loan is delinquent.

If your loan is insured by a federal agency, such as the Department of Housing and Urban Development (HUD) or the Federal Housing Administration (FHA), the lender may be required to try to assist you in preventing foreclosure

If foreclosure is looming, might I be better off just selling my house?

Yes. It's better to sell the house than lose it to foreclosure. If you can sell the house and have enough leftover to pay your lender in full, seriously consider the offer. If the offer is for less than

the amount you owe, your lender can block the sale. But many lenders will agree to a "short sale" -- the sale brings in less than you owe the lender but the lender agrees to forego the rest. Some lenders require documentation of financial or medical hardship before agreeing to a short sale.

My utility bill was huge because of a very cold winter. Do I have to pay it all at once?

Maybe not. Many utility companies allow customers to participate in an amortization program. This means that if your costs are higher in certain months than others, the company averages your yearly bills so you can spread out the larger payments. Also, if you are elderly, disabled, or have a low income, you may be eligible for reduced rates. Ask your utility company.

When can a creditor garnish my wages?

Usually wage garnishment works like this: The creditor sues you, obtains a court judgment, and then solicits the help of a sheriff or other law enforcement officer to garnish your wages. The maximum the creditor can take is 25% of your net pay. If you can't live on only 75% of your wages, you can challenge that amount in court.

There are a couple of exceptions:

- If you owe back child support, expect to lose a much larger percentage of your wages -- 50% or more, depending on whether you are supporting others.
- If you own back taxes, the IRS can take a large chunk of your pay without suing you or obtaining a court order.