



Family Financial Management -- Interventions Following a Disaster

Promoting the Health and Well-Being of Families During Difficult Times

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The purpose of this fact sheet is to present some ways to deal with a financial crisis if it occurs. It will explain how to develop a financial plan, how to talk to creditors, and ways to make extra income. Financial hardship is difficult on families, so it is important to deal with financial stress. Financial difficulties can cause marital distress and poorer outcomes for children (Conger, et al., 1993; Cutrona et al., 2003). The best way to deal with financial stress is to take control and get help when needed.

Financial Challenge and Financial Stress

You may be experiencing a financial crisis if a reduced household income results in not being able to cover basic living expenses and credit debt. This is a disturbing situation for families. It is easy to feel overwhelmed and to let the stress affect you and your family. Only by getting control of your financial problems will you be able to ease the stress. Taking control and obtaining outside help when needed is absolutely necessary when you are in financial crisis. This fact sheet will help you take the first step towards financial stability by developing a plan of action. Next, it will provide tips on how to talk to creditors. Finally, you will also be provided with ideas on how to make extra income.

Develop a Plan

1) Learn about your situation. Acquaint yourself with your monthly income and expenses by completing a budget (as described in the fact sheet, *Family Financial Management –Planning for the Future*). Find out how much debt is owed and to which creditors it is owed. Pay special attention to the amount of debt and how many payments are left for each loan.

2) Create a balance sheet. From your budget, figure out how much money is needed to pay your family's basic expenses. Next, total up how much debt is owed, and how much money you can put towards debt payments each month. It is considered a "financial crisis" if a family (or a business) does not have enough income to pay for expected monthly expenses.

3) Decide what bills are the most important to pay first.

- What are your creditors' options?

It is an option to split your available money among your creditors, but some creditors may not be satisfied with anything less than the full payment. In this case you will need to make important decisions about which creditors need to be paid first.

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- Which bills are not for basic necessities? The most important bills to pay are for housing, food, and transportation. You may lose other properties (e.g., furniture, appliances), but the items are less important. Thus, those bills may take a lower priority. You may want to think about returning a newly bought item, or sell off items you do not need in order to pay off your debts. In some cases, you may be able to take action to relieve your debt.
- What are some short-term options? If you have student loans, you may temporarily defer your student loan. If you owe back taxes or child support, you can contact the IRS to reduce your payment of back taxes, or you can get a court order to reduce your child support payment if you have a reduced income. If you have substantial credit card debt, a short-term solution is to pay the minimum balance on the cards, but this is not a long-term solution because interest and finance charges will build up and extend the time it will take to pay off the credit card balance. In a time of financial crisis, you should not use any more credit than you have to, and cutting up your credit cards is a good idea.

4) Consider debt consolidation. You can contact a debt consolidation service agency to collapse all of your debts into one large loan. This may make it easier to manage your debt, since it will be only one payment. Make sure that the finance charges and/or annual percentage rates are not higher than those of the original loans. If they are, consolidation loans will not save you money and may keep you perpetually in debt (Lee & Zelenak, 1987; USA Today Magazine, 2003).

How to Talk to Creditors

Very often, speaking to a creditor can help improve your financial situation. Here are some tips about how to deal with your creditors:

Step 1: Prepare yourself. Use the information from your financial plan and be prepared to explain the following:

- the reason you cannot make payments
- your current income and future prospects for income
- your other current financial obligations
- the financial plan that you created.

Step 2: Consider your alternatives when negotiating with your creditors:

- Reduce the monthly payment
- Refinance the loan
- Defer a payment
- Reduce or drop late charges
- Pay only interest on the loan temporarily
- Return an item purchased on credit
- Sell the item and use the profits to satisfy debts

Step 3: Decide which alternatives would work best with each debt within your budget. Negotiating with creditors may be unpleasant, but work hard to settle on the best option possible. Visit your local creditors in person, such as the bank loan officer or the utilities company. Contact your out-of-town creditors by phone or mail. When corresponding by telephone, keep track of whom you talked to and the agreement settled on.

Step 4: After talking to creditors and negotiating new payment plans, stick to your payment schedule. If you do not follow newly negotiated payment plans, the creditors will be less willing to work with you in the future, and may hurt your chances of obtaining credit in the future. If you fail to pay your bills, your creditors may hire a collection agency to obtain your payments and have the right to take legal action against you. The creditors may require all of your debt paid at once if you miss a payment (acceleration), repossess the item you are in debt for or used as security, garnish your wages until the debt is paid off, or force the foreclosure of your house or business. These legal actions are very serious and can hurt your chances of obtaining future credit. If you owe a large amount of money and have no way to make the payments, you may have to consider bankruptcy.

How to Make Extra Income

Do you have a reduced income that causes you to be in a financial crisis? If so, you may wish to find ways to make extra money. A small supplemental income may come in handy to pay some bills, or allow you to make an extra monthly debt payment. This would help you return to financial stability as soon as possible. Think about what skills, talents, and interests you have. Next, think of how to meet the needs of your community with those skills. Everyone in your family can share their talents with the community in order to help out.

The following are some ideas many families have used to make extra money:

- Repair/Maintenance (home, appliances, car)
- Carpentry
- Moving and Hauling (furniture, wood, trash)
- Yardwork and Gardening
- Housework
- Arts and Crafts/Sewing
- Photography/Videography
- Food Preparation (catering, canning)
- Child Care/Elder Care/ Companionship
- Pet Care
- Hair Care
- House Sitting
- Lessons/Tutoring
- Shopping/Errands
- Transportation
- Office Work (typing, bookkeeping)

Here are a few important things to remember when approaching someone to ask or negotiate for work:

Clarity. Be clear on the details of the expected service. Negotiate a price ahead of time, and *make sure any supplies needed are paid for before you provide the service.*

Compatibility. Do not promise anything you cannot perform. Clarify the details of the receiver's expectations. In some cases, it may be a good idea to use a signed contract.

Communication. Decide on a time when the service is to be provided and finished. Keep the receivers well informed of your progress on the job, and tell them about any problems or delays.

Resources

AMMEND On-line Credit Counseling: Services for free, confidential debt repayment assistance for people who want quick, convenient access to help with their financial concerns. <http://www.non-profit-credit-counseling.org/>

Consumer Credit Counseling Service: Provides information and services at no or low cost. <http://www.cccs.org/>

Farm Bureau Financial Services: Information about financial planning, tax information, insurance and investments. <http://www.fbfs.com>

Oklahoma Cooperative Extension Service: Information on taxes specifically for farmers and ranchers. <http://pearl.agcomm.okstate.edu/fci/econ/>

United States Department of Agriculture – Business Programs: Information on rural business grants and loans. <http://www.rurdev.usda.gov/rbs/buspb/bprogs.htm>

Farm Service Agency – Emergency Loan Assistance: Information and eligibility for emergency loans. <http://disaster.fsa.usda.gov/emloan.htm>

Farm Service Agency – Farm Loan Programs: Information on guaranteed and direct loans. <http://www.fsa.usda.gov/dafl/default.htm>

Farm Service Agency – Disaster Assistance: Links to FSA programs that will assist in times of natural disasters. <http://disaster.fsa.usda.gov/fsa.asp>

Living Resourcefully with Reduced Income: Provides links to information about paying bills, personal bankruptcy, and community resources. <http://www.extension.umn.edu/distribution/resourcesandtourism/DB2475.html>

Supporting Families Following a Disaster: The University of Arizona College of Agriculture and Life Sciences Cooperative Extension has designed this series of fact sheets covering special needs of families during difficult times. http://ag.arizona.edu/fcs/supporting_families/

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