Getting Out of Debt

Authored by: Travis P. Mountain, Ph.D., Financial and Economic Well-being Extension specialist, Agricultural and Applied Economics, Virginia Tech; William P. Jones, staff research assistant, Agricultural and Applied Economics, Virginia Tech; and members of the Family and Community Economics Program Team.

Prior editions by: Celia Hayhoe, Ph.D., Certified Financial Planner, Virginia Cooperative Extension Family Resource Management specialist, Apparel, Housing, and Resource Management, Virginia Tech, 2003; Irene Leech, Ph.D., associate professor, Department of Apparel, Housing, and Resource Management, Virginia Tech; and Elaine D. Scott, former Virginia Tech faculty member.

Would you like to have more control over your debt? Paying down debt can be difficult, but proven strategies and steps can help you improve your situation.

Debt Tends to Increase When Ignored

It is natural to feel overwhelmed and stressed when you experience financial difficulty. You might also be reluctant to contact your creditors. However, there are many reasons to start tackling your debt now rather than waiting. The longer it takes for you to get started, the more your debt will grow, and the harder it will be to deal with later.

If you act now, you can reduce the negative impacts any ignored debt will have on your credit score. In addition, being proactive will reduce the likelihood that creditors will seek a judgment to collect on overdue payments and getting a debt collector involved. Additionally, it will help protect you from serious consequences, including repossession of your property, potential wage garnishment, or declaring bankruptcy. (See Virginia Cooperative Extension publication 354-045, “Deciding if Bankruptcy Is an Option for You,” for help on this decision.)

Getting out of debt begins by managing your credit use. To get started, consider these steps:

- Avoid asking for credit limit increases, which is a quick fix for a spending issue but may create a deeper debt disaster in the long run. You should also avoid using credit for consumable products that will be used up or wear out before you finish paying for them. Consider: Do you really want to pay interest on these purchases? You will have to if you are not paying your monthly bill in full.
- Some experts advise you to freeze your credit to make it more difficult for you to open new lines of credit. VCE Extension Publication AAEC-162NP, “Economic Growth, Regulatory Relief, and Consumer Protection Act,” has instructions and information on credit freezes.
- Stop carrying credit cards with you. Leaving the cards at home will give you time to think about how important a purchase is as you go home to get your credit card and return to the store.

Debt Payment: What Are Your Options?

There are several ways you can approach financial difficulties when bills stack up. One step is to set up a personal debt payment plan. This takes discipline to follow but is also the most desirable option. If this fails, seek the assistance of a nonprofit financial counseling service. Many no-cost services are available. Check out http://www.hud.gov/ and search for “Contact a Housing Counseling Agency.” After you select your state, you can narrow your search for “Financial Management/Budget Counseling” services.

You may also choose a court provision such as bankruptcy to handle your credit obligations. Before you do, you should know there are other options. Bankruptcy will affect your credit for years and is best saved for a last resort.

Develop a Personalized Debt Payment Plan

If you have more monthly expenses than your monthly income, you need to set up a debt payment plan that works for you. The first step is to admit to yourself that you have financial problems; then you can make the decision to solve those problems and give yourself a timeline. Reducing debt is not easy or quick. It takes time and patience. If you commit to make paying debt a priority, you will succeed.

One key to success — start immediately! Paying a little back is better than doing nothing. Paying down some of the debt will help you feel better and reduce stress and worrying. Taking steps toward paying down debt gives you a sense of control as you work toward solving your financial problems.

The following steps will guide your debt payment plan. Detailed information is below, but here are the basics:

1. Make a list of who you owe and how much you owe (see Worksheet A, Appendix A). In addition, VCE publication AAEC-186NP, "Your Financial Health – Balance Sheets," may be helpful.

2. Decide how much you will pay back and by when (see Worksheet B, Appendix B).

3. Set up a plan for paying back debt (see Worksheet C, Appendix C).

4. Discuss your plan with your creditors or, if debts have been turned over for collection, the collection agency or lawyer (see Sample Letter, Appendix D).

5. Remember to stick with your debt payment plan on a daily basis. Only you can make it happen.

6. Review your plan weekly at first and then monthly to keep yourself on track. If there is a change in your income, you may need to raise or lower your monthly payments accordingly. Be sure to discuss any changes — particularly lower payments — with creditors.

Step 1: Make a Written List

Getting out of debt includes knowing who you owe and how much. Review your credit and loan statements, and make a list of any other debts you owe, including those to family and friends. Using Worksheet A (in Appendix A), list the following information about each debt:

- Name, address, and phone number of creditor.
- The account number.
- Interest rate charged on the debt.
- Collateral (property such as your home, car, land, jewelry, or other assets that secure a particular debt).
- Balance owed.
- Remaining number of payments.
- Monthly minimum payment.
- Payment due date.

- Date and amount last paid.

- Type of legal action taken (if any), such as garnishment or repossession. Garnishment is a court order that requires your employer to pay up to 25% of your disposable income directly to the creditor. Repossession is when the creditor takes possession of the property you used as collateral for the loan — if you financed a car, it is likely that the car itself would be the collateral.

- Name and contact information of the collection agency/attorney, if applicable. Once a debt has been turned over for collection, all of your correspondence should be with the collection agency or lawyer handling the collection. Gather receipts or cancelled checks of all amounts paid. Check to ensure that the proper amounts were reported to the original creditor. This is especially important with student loans.

Step 2: How Much to Pay?

Now that you know who you owe, it's time to figure out how much you are able to pay each creditor and how long it will take to pay back each debt. Generally, it is recommended to limit the amount of credit and loan payments (excluding mortgage) to no more than 15% of your monthly take-home pay. So, if your family brings home $1,200 a month, try to keep your credit payments under $180 per month ($1,200 times 0.15 equals $180). However, if you already have a lot of debt, examine your income and expenses to see if you can put 25% of your monthly take-home pay towards debt reduction. Most people need 75% of their income to maintain daily living expenses, such as rent or mortgage, food, health care, insurance, utilities, and savings, particularly for an emergency fund. That means a person earning $1,200 a month will probably need to keep $900 ($1,200 times 0.75 equals $900) for basic living expenses, leaving $300 ($1,200 times 0.25 equals $300) for debt repayment.

Several approaches can help you tackle your debts:

- Keep a record of your current income and living expenses for a month. You can use Worksheet B in Appendix B or a similar instrument (see VCE AAEC-185NP, "Your Financial Health – Cash Flow Statements.") As you review your spending, look for ways to reduce expenses to use the extra money to pay down debt.

- Consider selling assets. If it is not a necessity, would you be better selling it? Do you have a television, furniture, stereo, car, jewelry, or antiques that would sell? Could you cash in or borrow against the cash value of a life insurance policy? Do you have a savings account or investments you can use to help pay off debt? If you have a retirement fund, you can make a withdrawal, but do so only as a last resort —there's usually a 10% penalty if you withdraw funds before age 59 1/2 in addition to income taxes on the withdrawal. You will also be putting your future retirement finances at risk.

- Increase household income. An extra paycheck will go a long way to help you pay down debt. Be aware, though: If the cause of your debt is poor money management habits, earning more money will not get at the root of the problem. Still, additional income will help if you develop and stick to a debt payment plan. Here are some ways to add extra dollars to your budget:

  - Take a second job or work overtime, at least temporarily to get you through your financial crisis.

  - Nonworking household members could find jobs to help increase family income.

  - If a household earner is disabled, disability insurance payments or worker's compensation may be a temporary solution for increasing income. Worker's compensation claims should be filed with your current employer. Short-term disability claims should be filed with either your current employer or your insurance company if you have a private policy. Long-term disability claims should be made through the Social Security Administration here: https://www.ssa.gov/benefits/disability/. Long-term disability benefits would not begin until the beginning of the sixth month after your disability onset date.

  - Use your personal skills to accomplish tasks you currently pay for but could do yourself. Think of it as your personal to-do list.

- Consider reducing expenses by canceling subscriptions, including newspapers, magazines, online movie or music services, or other nonessentials. Reduce your cable or internet packages and reduce other discretionary spending, such as eating out or morning stops for coffee or doughnuts.

- Trade your skills. For example, work with a neighbor or friend to provide child care in your home in exchange for automobile repairs.

- Loan consolidation, home equity loans, or refinancing your home can provide you with additional resources or reduce your monthly debt payments, but be aware that they come at a cost. If you're facing repossession or wage garnishment, they could be viable options, but be sure you fully understand the fees involved. Consolidate loans only if you can borrow at a much lower interest rate. Refinance your mortgage only if you can recoup the refinancing costs in a timely manner. Understand that a home equity loan uses your home as collateral, and if you default on payments you could lose your home. And again, these options generally do not help you improve money-management habits and may give you a false feeling that you have overcome a financial crisis. Importantly, never consolidate school loan debt into an equity loan. It may disqualify the student for school loan tax breaks or government school-loan refinance programs.

If you contribute to a retirement plan at work, you may be able to reduce your portion of the contribution. This will increase the amount you receive in each paycheck, but it may cost you part of any match your employer provides and reduce the amount you save over time. In addition, if your retirement plan contributions are tax deferred (as most are), understand that your paycheck will not increase by the full amount, as that money will now be subject to federal and state withholding taxes.

Talk to a tax professional to make sure you are taking full advantage of all available tax deductions and credits. Look for a local VITA (Volunteer Income Tax Assistance) program in your community. These are trained tax assistance volunteers willing to help you with your taxes for free. In addition, if you have a low to moderate income and are over the age of 59, the AARP Foundation Tax-Aide Program offers free tax assistance. Information about both programs may be found here: http://www.tax.virginia.gov/free-help-your-taxes.

Step 3: Set Up a Plan for Paying Back Your Debts

By now, you should have a clear picture of how much money you owe and how much you can put toward your debts every month. The next step is to decide how much you will pay each creditor per month.

You have several options:

- Method A: Pay each creditor an equal amount every month.
- Method B: Pay each creditor proportionally based on the total amounts owed to each.
- Method C: Pay each creditor proportionally based on the amount you have available each month for debt reduction.
- Method D: Pay more money each month on your smallest debts to erase those debts more quickly.
- Method E: Make the largest payment to the creditor charging you the highest interest rate. This method helps reduce the most costly debt as quickly as possible.

The amount you pay to each creditor is confidential: Creditors do not have to know the amount other creditors are being paid. However, it may be helpful to tell your creditors the total amount you owe and your total take-home income; you may be able to negotiate lower minimum payments if they understand your circumstances.

Method A: Pay each creditor equal amounts. This method has pros and cons. While it's simple to evenly divide whatever amount you have available to pay debts among all of your creditors, you could easily find yourself paying more than the minimum due on some debts and underpaying others, possibly incurring penalties and fees. If that's the case, this option is not recommended. See table 1 for an example of this method in action. In this case, you would overpay on two debts and underpay on four others.

Table 1. Hypothetical example of Method A

Debts	Amount Owed	Required Payment	Amount You Can Pay
Student loan	$1,145	$180	$60
Bank card	680	35	60
Bank loan	525	170	60
Bank loan	755	190	60
Jewelry	275	25	60
Totals	**$3,380**	**$600**	**$300**

Method B: Pay creditors proportionally based on the total amounts you owe and how much you can pay in total. In this method, you first add up the total amount you owe for each debt and list the monthly payments required. If you don't have enough money to make the full minimum payments, you determine to pay amounts proportionally according to the size of each debt. For example, table 2 assumes you have $3,380 in total debt with $600 per month in required payments. If you only have $300 a month to tackle these payments, this method recommends determining each payment based on the total amount owed: The largest debt, an $1,145 student loan, is 34% of the total amount owed (1,145 divided by 3,380 equals .34, or 34%), so you would pay 34% of the $300 you have available on this debt (.34 times $300 equals $102).

Note, in this example, this would mean you are overpaying on one debt and underpaying four other debts. Doing this would require negotiating lower payments with four creditors. This method could be more beneficial if you only owe, for example, $300 a month in total debt payments and have $400 a month to pay on that overall debt. This method could help you determine how much extra you can pay on all of your debts to pay them off more quickly.

Table 2. Hypothetical example of Method B

Debts	Amount Owed	Required Payment	% of Total Debt	Amount You Can Pay
Student loan	$1,145	$180	34	$102
Bank card	680	35	20	60
Bank loan	525	170	16	48
Bank loan	755	190	22	66
Jewelry	275	25	8	24
Totals	**$3,380**	**$600**	**100**	**$300**

Method C: Pay each creditor proportionally based on the amount you have available each month for debt reduction. A third possibility is to pay back a percentage of your total monthly obligation based on the amount of money you have available for debt payments.

For example, if you owe $600 per month on your debts but only have $300 per month available for debt payments, you have 50% of the amount required. In this method, illustrated in table 3, you would offer to pay each creditor proportionally, called a "prorated payment." In this case, you would pay each creditor 50% of your regular monthly payment.

Note, this method results in underpaying every debt obligation \and would require negotiating this payment plan with each creditor.

Table 3. Hypothetical example of Method C

Debts	Amount Owed	Required Payment	X	Reduce by 50%	=	Prorated Payment
Student loan	$1,145	$180	X	0.50		$90
Bank card	680	35	X	0.50		17.50
Bank loan	525	170	X	0.50		85
Bank loan	755	190	X	0.50		95
Jewelry	275	25	X	0.50		12.50
Totals	**$3,380**	**$600**	**X**	**0.50**		**$300**

Method D. Pay down the smallest debt first.

Using this method, you would pay more money on your smallest debt and make smaller payments on all of your other debts. When the smallest debt obligation is completely paid off, you would use that money to increase the amount paid on the next-smallest debt, and so on. In a best-case scenario, you would make the minimum required payments on all but your smallest debt, but if you don't have enough money to do so, you can negotiate with your creditors to make lower payments until smaller debts are paid and you can devote more money to larger debts.

In the example in table 4, you would pay off your smallest debt in four months by increasing your payments to $80 per month. In month five, you would begin adding that $80 per month to the next-smallest loan, paying it off in month seven. You would continue increasing your payments on the smallest debt, paying them all off except for the student loan in just 12 months. Of course, the amount of time it will take to actually pay off your loans will depend how much you owe and how much total you can pay each month. In the table, note that the total amounts paid on each debt are more than the initial amounts owed; this reflects interest charges owed on the debts.

Table 4. Hypothetical example of Method D

Debts	Owed	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12
Jewelry	275	80	80	80	80								
Bank Loan	525	55	55	55	55	135	135	135					
Bank Card	680	55	55	55	55	55	55	55	190	190			
Bank Loan	755	55	55	55	55	55	55	55	55	55	245	245	
Student Loan	1,145	55	55	55	55	55	55	55	55	55	55	55	300
Totals	**3,380**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**

Method E. Make the largest payment to the creditor charging you the highest interest rate. In this method, you concentrate your efforts on paying off the debt that is costing you the most in interest. Then, once an obligation is paid off, you apply that amount paid to the debt with the next highest interest rate. The advantage to this method is that you will pay less in interest overall.

In the example in table 5, assume that the bank card has the highest interest rate, followed by jewelry loan, bank loan 1, bank loan 2, and then the student loan. By focusing on paying off debts with the highest interest rates first, you will pay less in total interest, but it may take you longer to pay off that first debt. This example is consistent with Method D in that you begin by making at least a $55 minimum payment on all of your debt obligations, and all five monthly debt payments total $300. But in this case, the bank card, which has the highest interest rate, gets the higher $80 payment. Interestingly, in this example, you would actually pay off your jewelry loan first, not the bank card debt, because the jewelry debt obligation started with a much smaller balance. Starting with month seven, you take the $55 payment that was going to jewelry and apply that towards your bank card debt, for a total monthly payment of $135. After two months of this higher debt payment, you would pay off the bank card balance. At that point, you would apply that $135 to your next-highest debt, which is one of the bank loans, for a total payment of $190. After month 10, both bank loans are paid off. This allows you to apply the entire $300 a month for debt payment to the student loan, until it is paid off.

Table 5. Hypothetical example of Method E

Debts	Owed	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12
Bank Card	680	80	80	80	80	80	80	135	135				
Jewelry	275	55	55	55	55	55	55						
Bank Loan	755	55	55	55	55	55	55	55	55	190	190		
Bank Loan	525	55	55	55	55	55	55	55	55	55	55		
Student Loan	1,145	55	55	55	55	55	55	55	55	55	55	300	300
Totals	**3,380**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**	**300**

As should be clear by now, how long it will take you to repay a debt depends both on the amount you owe, the interest rate, and how much you can devote to debt reduction each month. A financial counselor or coach may know of programs or apps that can help you calculate repayment options. One highly recommended program is PowerPay, available online at https://powerpay.org/. This free program developed by Utah State University Extension takes your data to determine how long it will take to pay off your debts including the interest. The advantage of PowerPay is that it allows you to easily see how quickly you can become debt-free and how much you can save in interest by following a sensible debt reduction plan. Sometimes it is easier to stick to a strict spending plan when you see quick results for your efforts.

Setting Priorities. If you do not have enough money to make payments on all of your debts, prioritize them. Debts and other financial obligations taking the highest priority would be mortgage or rent, utilities, secured loans (such as car loans, in which the debt is "secured" with your car as collateral), and insurance. Second on the priority list would include credit cards and debts to finance companies, especially if they are unsecured debts (debts with no collateral that could be seized for nonpayment). Third priorities would be doctor, dentist, hospital, and other medical bills. Finally, debts owed to family members and friends usually are last in priority because they are normally willing to wait the longest to be paid off. If a creditor is threatening to garnish your wages (get a court order to have your employer pay a part of your salary directly to the creditor), you will want to pay something on that debt immediately if at all possible. As you determine how to tackle your debts, keep in mind that a car loan company can repossess your vehicle, whereas doctors cannot take back the services they rendered. If you don't have enough money to pay both bills, pay the loan company first to keep your automobile. Put the doctor's bills on hold temporarily but notify the doctor of your plans and intention to pay.

To set up your debt repayment plan, use Worksheet C in Appendix C. Write down each creditor's name in the first column and enter the total debt owed to them in the second column. Write down the amount of the original monthly payment in the next column. Once you have figured out how you will repay your debts, write down the dollar amount you plan to pay each creditor each month in the fourth column. If any of the amounts are less than the minimum payment, use this information to contact those creditors to see if you can negotiate the lower payment. If the creditors accept your plan, write down the actual amount you will pay that creditor in the appropriate columns.

Step 4. Informing Your Creditors

Now that you have worked out a plan, it's vital that you don't add to your debt: Do not use your credit cards and do not take out any more loans except in extreme emergencies. It's also extremely important to contact any creditor that will be shortchanged on monthly payments to explain your repayment plan. You may be surprised to know that many creditors would rather receive a smaller payment than nothing at all. Most also prefer to get their money back rather than try to repossess items you purchased.

To contact creditors, see the "Sample Letter to Creditors" in Appendix D. You will have to revise this sample letter with facts that fit your situation, but this template is a helpful start. Explain to each creditor that you do not have the money to make the minimum payment you owe. Be prepared to provide the following information to each creditor:

- Why you fell behind in your payment (e.g., loss of a job, illness, divorce, death in the family, and/or poor money management skills).
- Your current income.
- Your other obligations.
- How you plan to bring this debt up to date and keep it current.
- The exact amount you will be able to pay each month.

Be honest and explain the whole situation. If you tell a creditor that you only owe two companies, but you really owe 20, you could be setting yourself up for trouble later. Also, if you fail to follow the plan that you and your creditors have agreed upon, you will harm your chances of getting future credit. So, be sure to immediately contact your creditors about any changes that may affect your payment agreement.

While it may be tempting, do not wait for creditors to contact you. Call the creditors before the bills are due. They will be much more likely to work with you.

If you owe a large amount of money and your creditors will not accept reduced payments, then you may have to consider filing for bankruptcy or setting up a loan consolidation. A loan consolidation is a loan that will enable you to pay all of your creditors and leave you with just one creditor — the loan consolidator. This single payment must be manageable in your budget.

Step 5. Sticking with Your Debt Payment Plan

To stick with your debt payment plan, you will need to make the decision to do so every single day. It will take dedication and may not be easy every step of the way. However, you need to remind yourself that following your plan will put you in a better place, reducing both your financial problems and the stress that goes along with them. Remember, no one else can stop you from indulging in unnecessary spending. Only you can make this happen.

Step 6. Review Your Plan

Your debt repayment plan isn't a "set it and forget it" arrangement. Review your plan weekly at first and then monthly to see if you are on track. If there is a change in your income, you may need to raise or lower your monthly payments accordingly. Also, you may find new ways to reduce certain expenses and decide to put that money towards debt payments. Be sure to discuss any changes that will result in lower payments with creditors.

Credit Counseling Services

In some cases, you may feel it's not possible for you to manage the problem of being financially overextended. If you are unable to solve your financial problems alone, counseling services can help you set up a budget and debt payment plan. Nonprofit financial counseling agencies charge little, if anything, for their services. Military bases and private companies often hire people who can help you manage your debts. Housing authorities, credit unions, churches, and universities sometimes provide financial counseling. Of course, your local Extension agent may be able to help you as well.

The U.S. Department of Housing and Urban Development has a list of resources to help you find a local credit counseling service at https://apps.hud.gov/offices/hsg/sfh/hcc/hcs.cfm

Be careful when selecting a credit counseling service. According to the Federal Trade Commission, the number of fraud complaints about debt management or credit counseling has been rising in recent years. (For details, go to http://www.ftc.gov and search for the 2019 Consumer Sentinel Network Data Book. Complaints are up from 7,508 in 2017 to 9,490 in 2019. To be sure you are dealing with an aboveboard agency, use the list available on the HUD website or check with the Better Business Bureau to see if complaints have been filed against a credit counseling service before contacting them.

One more way of settling your debt is by court provisions, under either Chapter 7 or Chapter 13 Bankruptcy. When filing under Chapter 7, your debts are settled by selling your nonexempt property. Under Chapter 13, the wage-earner's plan, you may keep your assets while paying back your debt. However, any form of bankruptcy should be considered the last resort, and you would be wise to consult an attorney for guidance.

During this process, it will be very important that you are tracking all of your transactions, including those related to your debt. See VCE publication AAEC-216P, "How to Make Your Money Go Further," for tips and suggestions for tracking expenses and creating a spending plan.

Extension's Financial Mentoring Program

Select units of Virginia Cooperative Extension offer financial mentoring services. Clients are assisted in managing debt, improving credit standing and score, increasing savings, and other specific financial goals. Some offices use volunteers who are trained to help develop a workable budget. Many locations have trained Master Financial Education Volunteers whose primary focus is teaching money management skills, credit improvement strategies, and personal financial tools including:

- Developing Spending Plans.
- Understanding and Increasing Credit Scores.
- Reviewing Risk and Insurance.
- Reviewing Credit Reports.
- Establishing Steps Toward Goals.

Together, the volunteers, Extension agents, Extension specialists, and local financial consultants have expertise to support your debt management goals. Some Extension offices offer group financial education and/or individualized mentoring. For more details and contact information for the Master Financial Education Volunteer Program, see https://ext.vt.edu/family/mfev.html.

Summary

When your debt is higher than your monthly income, take action. Develop a personalized debt payment plan. If you need assistance to set up the plan, use the resources mentioned in this publication, including online programs such as PowerPay or a credible financial counseling service.

The road to financial recovery takes commitment and time. You decide that you want to be debt free, then make small choices daily taking the necessary actions to pay down each debt. If you decide that you want to do this, then you will make the effort, sacrifices and daily decisions needed to achieve your financial goal of becoming debt free.

Resources

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U.S. Department of Housing and Urban Development Office of Housing Counseling. n.d. https://apps.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

Virginia Tax. n.d. "Free Help with Your Taxes." https://www.tax.virginia.gov/free-help-your-taxes.

Appendix A – Worksheet A. Who You Owe

Creditor	Address	Phone #	Account #	Interest Rate	Collateral	Balance Owed	Number of Payments	Monthly Payment	Payment Due Date	Date Last Due	Legal Action Taken	Collection Agency/ Lawyer Contact Information

Appendix B – Worksheet B. Monthly Income and Living Expenses

Income	Week 1	Week 2	Week 3	Week 4	Week 5
Net Pay Job 1					
Net Pay Job 2					
Net Pay Job 3					
Other Income					
Total Income					
Expenses					
Housing					
Mortgage/rent					
Insurance					
Gas					
Electricity					
Water and sewer					
Telephone					
Trash collection					
Food					
Groceries					
Meals eaten out					
Snacks					
Transportation					
Car payment					
Gasoline					
Insurance					
License and registration					
Maintenance and repairs					
Parking and tolls					
Rental, taxi, bus, subway					
Clothing					
Purchases					
Cleaning and laundry					
Alterations and repairs					
Medical					
Insurance					
Prescriptions and over-the-counter medicine					
Hospital					
Doctor					
Dentist					
Eye Care					

Expenses (cont.)	Week 1	Week 2	Week 3	Week 4	Week 5
Life/Disability Insurance					
Child Care					
Personal					
Books					
Newspapers/magazines					
Educational expenses					
Hair care					
Cosmetics/toiletries					
Postage/stationery					
Recreation/Entertainment					
Movies, plays, concerts					
Television					
Internet					
Club dues					
Alcoholic beverages					
Tobacco					
Sporting goods					
Vacation					
Allowances					
Donations					
Gifts					
Birthdays					
Holidays					
Other					
Savings					
Monthly Debt Installments					
Credit cards					
Loans					
Other					
Miscellaneous payments					
Total Expenses					

Appendix C – Worksheet C. Debt Repayment Plan

Creditor/ Collection Agency	Amount Owed	Original Monthly Payment	Amount to be Paid	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12

Appendix D – Sample Letter to Creditors

Your Name

Street Address

Your City, State Zip

Date

XYZ Company

Street Address

City, State Zip

Attention: Delinquent account representative

Subject: ***Your account number***

Dear Sir or Madam:

This letter is to inform you that I am experiencing financial difficulties. I am having trouble making my minimum monthly payment because of a ***recent divorce and job change to a lower salary***. I hope we will be able to agree on an acceptable debt repayment plan.

I have evaluated my financial situation. I have prepared a realistic, minimum budget for my living expenses and have developed a debt repayment program. I am asking each of my creditors to accept a reduced payment. Amounts will be increased as soon as possible until the debt is totally repaid.

I owe ***18 creditors over $7,500***. My asset value is less than ***$3,000***. My only assets are ***a car with a blue book value of $1,000, some home furnishings worth $1,500, and my clothing***. My monthly take-home pay is ***$708***. I have ***$242*** left over for debt repayment after basic living expenses. I would like you to accept a partial payment of ***$50 per month for 34 months***, which will repay my obligation. I would appreciate receiving your written response accepting this payment plan. You may expect the first payment on ***(month day, year)***.

Thank you.

Sincerely,

Your signature

Print your name

NOTE: *The items in bold italics above should be changed to meet your situation.*

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