

PART
I

A ROAD MAP
TO DEBT RELIEF

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CHAPTER 1

Getting Started

Forewarned, forearmed; to be prepared is half the victory.

—Miguel de Cervantes

There's an old expression that says, "When you're in a hole and trying to get out, stop digging." This means stop doing the things you've been doing that caused you to get in a hole in the first place. If you keep digging, you're only going deeper. Deciding to stop is a turning point where you put down the shovel and decide what to do next.

You have reached a turning point. You have decided to do something about your financial situation. That is why you are reading this book. This is the point where you fight back, the time in your life when you start over. You've had turning points before, even if you didn't recognize them at the time.

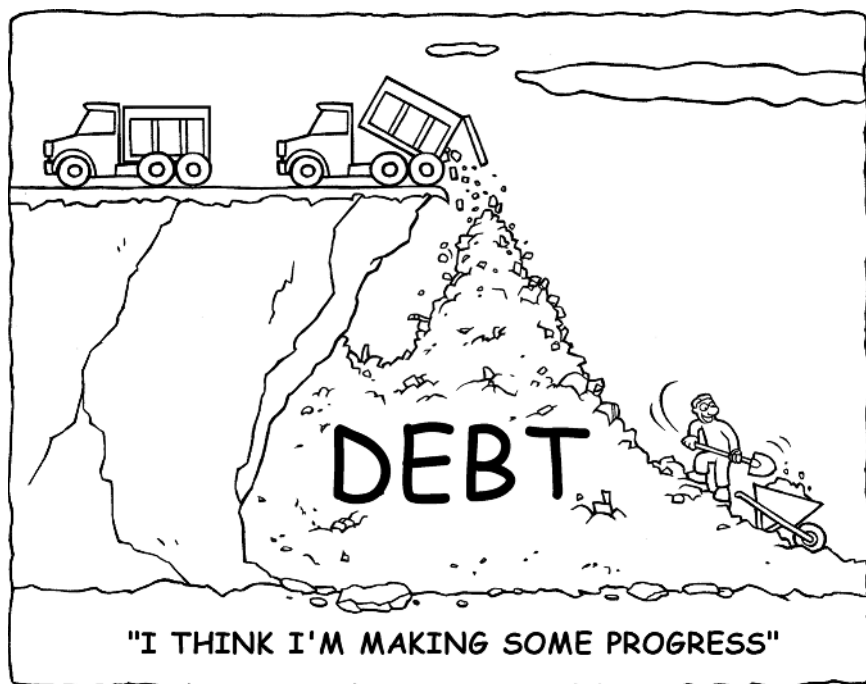
Think back to the times in your life when you reached turning points. What about the time you were involved in a personal relationship that didn't work out? Did you stop living your life? No, you left the relationship or it left you. You got over it, moved on, and probably became stronger because of it.

Or think about a time when you decided to move. You reached a turning point. You did something about it. You moved to another

place. Maybe it was moving out of the family home or back into the family home, but it was a turning point. You made that decision and went on with your life. The same thing happened when you decided to change jobs, go back to school, or leave school.

You might feel like things haven't gone along exactly as you planned (they rarely do). You haven't reached all of your goals, but you still have hope. When you approach roadblocks in a career, relationship, or even in the place you live, you can quit your job, end the relationship, or move. You can make the changes you need to make in order to fix what is bothering you. You can start fresh with a new job, a new love interest, or a new place to live.

It's time to do the same in your financial life. Getting free from debt gives you the chance to start fresh. You can break free from the bad choices you have made in the past. You can get away from the harassing phone calls and feelings of dread about your debts. You can turn your life and finances around. You *can* fight back.



None of us ever planned to get into debt we couldn't manage. We never thought that our bills or debt would become an all-encompassing, dominating part of our lives. And we never, ever thought that we would owe more debt than we'd be able to pay.

But in these times, more and more people are finding themselves with too many bills and not enough income and asking themselves how they're going to make it through the month—or worse, the day. The nagging question is: “How did I get into this situation in the first place?”

Unfortunately, it's easier to get into debt than out of it.

How Debt Happens: An American Story

Rob and Jean are hardworking, middle-class Americans. Rob is a fireman in the city and Jean is a real estate broker who earns commissions based on sales. They have two kids and live modestly. They own a house in a modest suburb where the schools are known for their strong scores.

Rob and Jean bought their home in 2001. After a couple of years, they realized that the value of their house and their equity in it had grown substantially. On top of this increased equity, interest rates had dropped. They heard from friends that they could refinance their mortgage, pay off their cars and credit card bills, but still pay less for their mortgage every month than they were paying. They called a mortgage broker who confirmed it was true.

The mortgage broker explained that with a lower interest rate, Rob and Jean could use the increased equity in their home to take on more debt and a bigger mortgage while paying the same or lower monthly payments. Because the value of the house would continue to rise, they could then refinance again in the future to cover any new debts.

Rob and Jean couldn't believe their luck. They refinanced. They paid off their credit card debts and one of their cars, bought the season tickets Rob always wanted (lower section), and even upgraded their kitchen with stainless-steel appliances and granite countertops. The best part was that their monthly payments would be considerably lower for the next three years.

Rob and Jean then became a little looser in their spending. The kids' clothes came from the mall, not just the discount chains. Dinners and nights out became more frequent. Soon the credit

card balances began to grow again. They didn't worry because they figured they could just refinance again as the mortgage broker represented.

But then Jean's sales slowed throughout 2008. Worse still, the value of their house had not appreciated like it had in the past. No bank would accept their application to refinance. Then the rate on their three-year adjustable rate mortgage increased dramatically. Now, more money than they could afford had to go to the mortgage each month. They had to start picking which bills they could afford to pay and which bills they would try to pay next month.

Soon the calls started coming. The mailbox was filled with stacks of letters that neither of them wanted to open. Rob and Jean felt tension between them like never before. Even the kids began to worry. The worst part was the persistent and harassing phone calls and visitors at all times of the day, any day of the week.

They felt depressed and inadequate because they were unable to provide for their family. They both felt that they were the subject of whispers wherever they went.

For Rob and Jean, the downturn of the economy and the housing market and the decline in Jean's commissions caused them to fall behind in paying their debts. For others, it could be job loss, sickness, medical emergency, the need to care for a family member, years of spending too much, or simply the slowdown in a business or the economy overall. While the underlying reasons may differ, the results are the same. The bills aren't getting paid on time.

Getting Started on the Road

Being behind on the bills should not strip you of your dignity. There are many things you can do to take the pressure off and to restore your peace of mind.

Stop the Harassment

The first thing you need to do is to stop all the annoying creditor calls and other harassments. No one can get ahead when the phone keeps ringing about his or her debts. It doesn't matter how strong a person you are. You cannot live your life under the constant anxiety that a bill collector is calling you, your work, or even your neighbors. You have to make the calls and letters stop.

You, by yourself, can make these harassing calls stop. You don't need to hire a company to help (they can't do anything you can't do yourself). You do it by writing a simple letter. We cover how to write that letter and other rights you have in Chapter 3.

Know Your Options

Stopping the harassment is the first step. The next step is dealing with the underlying problem of the debt that the collectors called about. You have many options to get out of debt and many resources to assist you in evaluating what options are best for you.

Sometimes, you will be able to handle one debt in one way but your other debts require a different set of strategies. Always remember that if one way is not working, you can always try another way. Two things always to keep in mind when dealing with your debts: Be flexible and be ready for anything. You may use one or more methods to conquer your debts. The pros and cons of several options are shown in Table 1.1.

Table 1.1 Options for Getting Out of Debt

Option	Pros	Cons
Negotiate (Deal with the Creditors on Your Own)	Inexpensive	Time consuming
	You control the process, for better or worse	Not very effective due to unfamiliarity with law and regulations
	You can access government programs	Frustrating
		Uneven playing field
Get Debt Counseling	Experience dealing with creditors	Many are scams
	Payment plans within your budget	May end up in worse shape than when you began
	Works out debts	Can be costly
Adopt a Debt Management Plan		Frequent defaults
	Payment plans are proposed	Many are scams
	Consolidates debt	May end up in worse shape than when you began
	Can lower interest rates	Can be costly
		Damages credit
		Long-term commitment

(Continued)

Table 1.1 *Continued*

Hire an Attorney	Experience	Long process
	Effective due to knowledge of laws	Expensive (unless done on retainer)
	Shows you're serious	May pick a bad or inefficient attorney
	Creditors want to avoid hassle of lawsuits	
Obtain Legal Assistance (Legal Aid)	May be free if you qualify	Long process
	Effective due to knowledge of laws	Too many cases, not enough staff/funding
	Shows you're serious	Hard to qualify
	Creditors want to avoid hassle of lawsuits	
Contact a Government Agency	Knowledgeable	Bureaucratic red tape
	Free advice	May not take an individual case
	Can deal with all debts, such as house, car, credit cards, etc.	Busy with other cases
File for Bankruptcy	One stop for most debts	Potential loss of some assets
	Liberating	Emotional and financial expense
	Fresh start	
	Keep certain assets	Needs to be done properly or results may be harsh

Now that you know there are many options available for debt relief, it's time to determine which one is right for *you*. The next section will guide you through evaluating your financial situation and determining if bankruptcy will help.

Evaluate Your Situation: Do You Need to File for Bankruptcy?

Just as the U.S. Department of Homeland Security has levels of security threats, we've created levels to assess your financial situation and determine how best to handle your debt problems and whether bankruptcy is your best option.

Two terms you should know for this evaluation are *secured debt* and *unsecured debt*. Secured debt means a lender has security so that

the lender can take certain property if you stop paying your bills. Examples include mortgages (your house is at risk) and car loans (your car is at risk). Unsecured debt, on the other hand, does not come with a security interest and no property is involved. Examples include credit cards and medical bills.

Green Level: No Need for Bankruptcy

The green level is where we all strive to be. At this level, you have minimal credit card debts and other unsecured debts and manageable secured debts. Your income exceeds your expenses. You are not worried about your bills, tuitions, and mortgage payments. Your job is secure and you have sufficient savings and assets to get through any crisis. Working with the ideas in this book will help you reach the green level.

You are in the green level if you:

- Pay all your bills on time.
- Have assets, including health coverage, to carry you through any crisis.
- Have secure and steady employment for the foreseeable future.
- Have no balance or you're paying off the balances on your credit cards monthly.
- Save money at the end of each month.

Blue Level: You Might Need to Consider Financial Changes

At the blue level, you start cutting back on expenses and shifting priorities. Bankruptcy is not on your radar but your finances could use some changes. Your emphasis should be on budgeting and watching your spending (see Chapters 4 and 5).

You are in the blue level if you:

- Fear losing your job.
- Can't pay off the total monthly balance on your credit cards.
- Have increasing debts and you're dipping into your assets to meet your expenses.
- Have both unsecured and secured debts.
- Do not save money each month.

Yellow Level: Consider Bankruptcy

At the yellow level, you should start to consider strategies involving negotiating with your creditors to restructure your personal finances and reduce your debt. You must seriously start to work on improving your situation. If you don't work on improving it, your situation will only get worse and may lead to the necessity of filing bankruptcy. You should start working through the next several chapters to reduce your debt and change your expenses.

You are in the yellow level if you:

- Fall behind in some payments of secured and unsecured debts.
- Only pay some bills each month and wait to pay others.
- Get calls from collection agencies.
- Have little or no savings and your assets have diminished in value.
- Have been out of work for one month or more.
- Do not have health insurance.

Orange Level: Strongly Consider Bankruptcy

If you are at the orange level, you have to get very serious about your debts, house, cars, credit cards, and all other expenses. You are not always making even the minimum payments on your secured and unsecured debts. Bankruptcy is an option you should strongly consider. But first, work through the alternatives and see if you can solve these issues without bankruptcy (see Chapters 7 through 12).

You are in the orange level if you:

- Are more than 60 days behind on paying more than one bill.
- Use new credit cards to pay the minimums on other credit cards.
- Have pending lawsuits against you.
- Have total debt (excluding car and home) that can't be paid off in full over three to five years.
- Have high medical bills not covered by insurance.
- Owe taxes you can't pay.
- Have been out of work more than three months.

Red Level: File for Bankruptcy Immediately

Consider filing for bankruptcy immediately if much of the orange level and any of the points in the red level apply to you. The time for negotiation has passed. You should file bankruptcy as soon as possible.

You are in the red level if your:

- Unsecured and secured debts can't be paid.
- Wages have been garnished.
- Bank account has been subject of a court order of attachment.
- Car has been repossessed (or will be within days).
- Home is set for a foreclosure sale.
- Unemployment benefits are ending or you have no income.

If this is your situation, skip to the bankruptcy chapters (Chapters 13 through 20). You could improve your situation and your life tremendously by filing for bankruptcy as soon as possible.

It Can Get Better

What you are going through now—the uncertainty and fear—is as bad as it will get for you. If you have taken steps to stop the calls, letters, and other harassments, you have already turned a corner to getting your life back. You've stopped digging and started to figure out how you are going to climb out of the hole. You are past the worst of it. Whether you find yourself in the blue level, the red level, or somewhere in between, the rest of the book will lead you, step-by-step, to a new start. You will again be in control.



Points to Remember

- Recognize your financial trouble.
- Know you have to make changes.
- Develop a strategy for turning your personal finances around.
- Study your options for dealing with your debts, and remember that bankruptcy is just one of those options.
- Take the time to evaluate your financial situation and your level of need for bankruptcy.

