Deciding Which Debts to Pay First

When you are between jobs, the paychecks may stop coming, but the bills don't. You're legally obligated to pay all debt, but when you don't have enough money to cover your expenses and pay creditors, you face some tough decisions. There is no magic list of the order in which debts should be paid since everyone's situation is different.

Here are some general rules about how to set priorities:

1. **First, pay housing-related bills.** Keep up rent or mortgage payments if at all possible. Failure to pay these debts can lead to loss of your home.

2. **Pay basic living expenses next.** This includes groceries and medical insurance if you can afford the premiums. Your reduced income may qualify you for FoodShare food assistance or BadgerCare medical assistance. Check out access.wisconsin.gov or contact your county human services office to see if you qualify.

3. **Pay the minimum required to keep essential utility service.** Full and immediate payment of the entire amount of the bill may not be required, but you should make the minimum payment necessary to avoid disconnection if at all possible.

4. **Pay car loans or leases next if you need to keep your car.** If a car is needed to get to work, you may make the car payment the next priority after housing, food, and utilities. Your creditor can repossess your car without going to court first. If you keep the car, stay current on insurance to avoid fees, legal problems, or even more expenses from an accident.

5. **Make tax debts a high priority.** You must pay any income taxes owed that are not automatically deducted from your wages and any property taxes if they are not included in your monthly mortgage payment. You must file your federal income tax return, even if you cannot afford to pay any balance due. The government has collection rights that other creditors do not have. Also pay child support; these debts are court-required and will not go away. Nonpayment can result in serious problems, including prison

6. **Make student loans a medium priority.** In general, pay them ahead of low priority debts but after top priority debts. Since most student loans are backed by the government they are subject to special collection remedies, such as wage garnishments, seizure of tax refunds, and denial of new student loans and grants.

Government Debt

Income Taxes: If you cannot pay the total amount due, contact the Wisconsin Department of Revenue and the IRS right away. Ask for information on repayment plans and find out whether your reduced income makes you eligible for tax credits. Contact the Wisconsin DOR at (608) 266-7879 or www.dor.state.wi.us. There's a $20 fee to make an installment agreement. Contact the IRS at (800) 829-1040 and ask to be transferred to "advanced accounts."

Property Taxes: Contact your county treasurer and explain your situation right away if you're not able to pay property taxes.

Child Support Orders: If your income has dropped sharply, contact your family court to find out about lowering your support order as soon as possible. This cannot be done retroactively.

Student Loans: If you are having trouble making your federal student loan payments, contact your loan servicer immediately. You may be able to have payments **deferred** – or postponed – during periods of unemployment or financial hardship. But you cannot qualify for a deferment once your student loan is in default.

7. **Make loans without collateral a low priority.** These include credit card debts, doctor or hospital bills, other debts to professionals and similar obligations. Since you have not pledged collateral for these loans, there is rarely anything these creditors can do to hurt you in the short term.
8. **Make loans with only household goods as collateral a low priority.** Creditors rarely seize the goods due to their low market value and the difficulty in retrieval without involving the courts. If the creditors do start actions to repossess household items, you will be notified by letter.
9. **Treat cosigned debts like any others.** For example, if you put up your home or the car as collateral, that is a high-priority debt for you if other cosigners are not keeping the debt current. If you have put up no collateral, make the debts a low priority. If others have cosigned for you, you should let them know about your financial problems so that they can decide what to do about the debt.
10. **Donôt pay when you have a good legal reason to not pay.** Examples include defective merchandise or when the creditor is asking for money that it is not entitled to. If you believe you have a legal defense, contact a lawyer.
11. **Donôt move up a debtôs priority based on threats to ruin your credit report.** In most cases, the creditor has already reported the delinquency to a credit bureau.
12. **Donôt move up a debtôs priority because of debt collection efforts or threat of a lawsuit.** Be polite to a collector, but make your own choices about which debts to pay based on whatôs best for you. Many threats are not carried out, and the procedure itself is long and complicated for the creditors. On the other hand, nonpayment of rent, mortgage, and car debts may result in immediate loss of your home or car.
13. **Do move up court judgments in priority if the creditor has already sued.** After a court judgment, that debt should move up in priority because the creditor can enforce that judgment by asking the court to seize your property, wages, and bank accounts.
14. **Be cautious about consolidating debts or refinancing your home.** Depending on your situation, this may or may not be the right option for you. It can be expensive and give creditors more opportunities to seize your important assets. A short-term fix can lead to long-term problems.

Bankruptcy

If you owe a large amount of money and your creditors will not accept reduced payments, you may have to consider your option of last resort - personal bankruptcy. A bankruptcy stays on your credit report between 7-10 years, making it hard to get credit, buy a home, get life insurance, or sometimes get a job. However, it is a legal procedure that can offer a fresh start for people who canôt pay all their debts. Filing for bankruptcy costs a few thousand dollars. While it is possible to file a bankruptcy case "pro se," that is, without the assistance of an attorney, hiring an attorney is recommended. Contact the Wisconsin Bar Association Lawyer Referrals numbers: (608) 257-4666 or 1-800-362-9082 look in the phone book for ñBankruptcyò listed as a specialty branch of the law.