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FAQ: How to Pay Off Debt

Helpful hints for helping you get out from underneath your debt

What do I do when my debt is overwhelming me?

Debt can be a very overwhelming experience to deal with. It's important to remember, however, that, in the end, your creditors want to get paid, and may be willing to work with you to make sure that happens. Life can come at you from many different angles, and you may get behind in payments because of divorce, bankruptcy, illness, or any number of other troubles. You should contact your creditor to find out how to pay off debt that you owe and suggest possible solutions. For instance, you could propose that you skip one or two payments on your debt and that these payments get added on to the end of the loan term. Or, in other situations, you could even suggest rewriting the loan.

Many people often feel that negotiating with their creditors about how to pay off debt owed is fruitless and shouldn't even be attempted. However, there are a number of nonprofit organizations and local credit counseling services that can work with you and your creditors resolve a number of issues, including credit card debt, debt relief, debt consolidation and more. The Federal Trade Commission also has a [useful site](#) that contains information for consumers that have debt problems.

I don't have enough money to make my car payment; will my lender repossess my car or are there other options?

You get that sinking feeling in your stomach when you realize that there's just not enough in the bank right now to make your car payment on time. Every time you get in your car, you're worried that this may be the last ride you get to take, or the last errands that you'll run in your 2-ton problem. There are measures that you can take to help your situation, however. Instead of avoiding your creditors, contact them straight away and explain your situation. Loan companies want to keep you as a customer as long as they can and will often be very willing to modify your loan or even let you skip a payment in exchange for a promise to pay the balance at the end of the loan term. If you do not make arrangements with your lender, though, they may repossess your car without any notice.

If the loan company has already repossessed your car, it is still not the end of the world. Oftentimes you can get your car back by paying off the missed loan payments as well as the cost of the repossession. Depending upon your situation, however, you may have to pay off the entire loan balance and the cost of repossession in order to get your vehicle back. If your credit cards are maxed out and it is simply impossible for you to pay to get your car returned to you, the bank will most likely auction off your car and hold you accountable for the difference between the money they receive and the remainder of the loan balance.

In some situations, a person simply cannot figure out how to pay off debt owed on their automobile. Cases like this frequently arise and if you are proactive about your situation, you will be better off than if you simply let the dealer repossess your car. If you voluntarily surrender the vehicle, dealers will sometimes waive many fees associated with repossession and will sometimes, depending upon how much of the loan you have already paid off, let you walk away from the deal entirely. You also have the option of selling your vehicle yourself. This is a great option because you can be sure that you get the best price for your car, and you may even be able to get out of debt by using the sale proceeds.

If I miss a mortgage/house payment, when will the bank begin to foreclose?

With the nation's economy in an uproar, millions of homeowners across the county have been hit hard and may be facing foreclosures on their homes. During 2008 alone, it was estimated that more than 2 million homes in American were facing foreclosure. In most situations, foreclosure notices are sent out if banks do not receive loan payments for four or five months. However, just like with most other loans, banks would still rather keep you as a customer than take a financial hit by foreclosing on your home and selling it for a loss. Banks often have programs that will allow customers to miss one or two payments, pay only interest for a few months, or spread out missed payments over the rest of the loan. So what's the catch? You have to contact the bank and talk with them!

There is also good news for those that may be facing foreclosure in the near future. If you can hang on long enough, you may be able to take part in the federal bailout program that is designed to help struggling homeowners with their mortgages. Over \$100 billion is earmarked and set to be released, and you may be able to enjoy some of the benefits of this program.

There are also many free and low cost foreclosure avoidance counseling services that have sprung up around the nation recently. The United States Department of Housing and Urban Development (HUD) maintains a listing by state of [HUD approved housing counseling services](#) that may be able to help you avoid foreclosure.

My house is in danger of being foreclosed; should I cut my losses and sell my home?

If you know that foreclosure is coming and you cannot stop the process, then you'll most likely be better off selling your home privately than letting the bank take it to auction. Generally, if you find someone that is willing to buy your home for at least the amount that you still owe on your mortgage, then you should take the offer. If the offer is for less than the amount of debt that is still owed, your bank has the option of blocking the sale. "Short sales" are another option where banks may let you sell your home for less than you owe and forgive the remaining balance, but these short sales are rare and you must often prove to the bank why you qualify.

I received a huge utility bill in the mail. Will the utility company make me pay it all at once?

Perhaps. But perhaps not. Depending on your location and circumstances, your utility company may allow you to average your utility bill out over the year. If your utility bills are higher in some months and lower in others, your utility company may allow you to flatten out your payments so you pay similar amounts each month. In addition, with current economic times, utility companies are also allowing those with small incomes to receive reduced rates on things like electricity, gas, water and sewage.

However, there are situations when you may have to pay off the entire utility bill. For example, if an unknown leak occurs where water runs continuously, you may be responsible for the large bill that shows up at the end of the month. Utility companies provide an item of commerce, and after that item passes through a meter at your home, you have "bought" it and will be charged, even if you didn't intend to use it.

I am in debt to a creditor. Can he or she place liens on my property, garnish my wages, seize my assets or take my tax refund?

In most situations, a creditor has to take you to court and obtain a judgment against you before garnishing your wages. Even if that happens, federal law prohibits the creditor from taking more than 25% of your wages, and you can even contest this, arguing that you cannot survive on only 75% of your earnings.

Depending on your creditor, however, there are three situations in which your wages can be garnished without a court proceeding. First, the IRS can garnish your wages without a court order, but you have a 30 day window in which to challenge the garnishment. Second, if you have student loans that are in default, the Department of Education can garnish up to 15% of your wages and a state agency can also garnish up to 10% of your wages. Lastly, if you have failed to pay alimony or child support, up to 50% of your wages may be garnished.

A creditor may also want to put a lien on your property or attempt to take money directly from your bank account. Apart from the IRS, most creditors must go through court and use law enforcement officers to take these actions. An unpaid contractor who has done work on your home may place a special lien ? called a mechanic's lien - on your home without suing you first, however.

Finally, your tax refund is very hard to touch and cannot be taken unless the Department of Treasury receives a request from the IRS, Department of Education or a child support collection agency.

If I do not pay off all my debts, am I going to go to jail?

Most likely not. The United States did away with debtors' prison by 1850, and there are only a few circumstances where you may be jailed. That said, you may be jailed if:

- You are tried and convicted of willfully refusing to pay income taxes; or
- You refuse to comply with a court order, most of the time with respect to child care payments; or
- You have concealed, or are attempting to conceal, your property or your person in order to avoid paying a creditor that has a judgment against you.

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