

Have a feeling you won't be able to pay your bills? Are already behind on payments? Resist the urge to hide your head in the sand and hope it will all just go away. Unless you take action, the situation will deteriorate, and your available options will be reduced. Here is how to gain control of the situation, prevent problems from escalating, and possibly even reverse damage.

Don't wait

If you know you won't be able to meet your financial obligations before you actually miss a payment, contact your creditors immediately. You may be eligible for special programs that will keep your accounts in good standing. Waiting until you are behind will not only increase your balance because of hiked up interest rates and fees, but will damage your credit as well.

Be honest

Never be less than truthful with a creditor. Chances are they've heard every story and excuse. If you are unable to pay a debt, explain why, even if it's because you were "irresponsible."

Stay calm

Rather than succumbing to tears, threats, or panic, keep your cool. Getting overly emotional can cloud thinking and you could say something you later regret (e.g., "Go ahead and sue me then!").

Be conservative

Though it can be very tempting to offer more than you can realistically afford in a time frame you probably can't meet, don't do it. If you think you can send a payment in two months, ask for three. If you make a payment early, great, but if you fail to meet your self-imposed deadline, you may not get another chance for a break.

Offer specific solutions

Make your offer first. If you leave it up to the creditor to find a solution to debt that's owed, you probably won't like what you hear. You may ask for:

- A hardship plan (lesser or no payments for a specific period of time)

- Reduced or eliminated fees and interest
- Paying interest only on the debt until you can resume making monthly payments
- A settlement (a lump sum payment that is less than the balance due)

Negotiate

If a creditor makes an offer to settle on a debt, don't hesitate to ask for a further reduction. It doesn't hurt to try.

Communicate with the highest-ranking employee

Ask to speak with a manager or supervisor regarding your account. They usually have more authority to strike a deal or make payment arrangements than customer service representatives.

Keep a journal

Keeping track of people you spoke with and what was said can be very confusing, and information can be conflicting. In a notepad or on a spreadsheet, list names, dates, times of day, and what transpired.

Write letters

Corresponding by mail lets the creditor know you are serious and allows you to say what you want without getting flustered. It also provides proof of communication. Having hard copies of your letters can be a great asset if the circumstances becomes dire and you have to go to court. Letters should:

- Have your contact information and account number
- Be addressed to a specific person or department.
- Include a detailed explanation of what led to not being able to pay for the debt
- Include the specific solution you are seeking
- Provide documentation (e.g., unemployment or medical papers)

Don't send post-dated checks

Though creditors may ask you to send post-dated checks, don't do it. They can be cashed anytime. And if the checks bounce, your situation will become even worse.

Know what can happen if you can't pay

When communicating with creditors, it is important to know what they can really do if you cannot pay what you owe.

- If a debt is secured, the collateral (such as a car) may be repossessed
- If a debt is unsecured (such as a credit card, medical bill, or collection accounts), you may be sued for the amount owed

Know your rights.

The Fair Debt Collection Practices Act regulates third party collector's collection practices, and state law (which closely mimics the federal law) regulates original creditors collection practices. Become familiar with what creditors are legally able to say and do so you can stop them if they go beyond their legal parameters.

Maintain contact.

Even if you don't hear from your creditors, continue to provide updates with your situation. It puts you in control.