



Being a Responsible Homeowner

Managing Financial Difficulties

Being a Responsible Home Owner: Managing Financial Difficulties

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Managing financial difficulties

Financial difficulties can happen to anyone. How homeowners cope with these situations will affect their financial well-being. It is necessary to determine whether the current financial crisis is temporary or long term. Temporary financial crises could be an unexpected car repair or medical bill while a long-term financial crisis could be the loss of a job or the loss of a spouse. It is not recommended that the homeowner apply for other sources of debt to pay off current debt. Doing this could easily snowball into a much larger problem resulting in creditors calling to collect the debts. The homeowner could consider contacting a reputable consumer credit counseling agency and/or local housing nonprofit organization for help.

If a homeowner is in financial hardship, one of the first things to do is establish an emergency budget. This will help the homeowner determine where the money leaks are as well as prioritize debts. For more information on how to establish a budget refer to the Managing Money module.

When determining which bills to pay first, pay more attention to any debts that are secured by collateral or where the lender can take immediate action. This can include but is not limited to the homeowner's house, car and utility payments. Although it is recommended that you make all your payments to your creditors on time this may not be possible during a financial hardship. This list may assist you in determining which bills to pay first.

- **Household Necessities:** Can include items such as food, health expenses, and any other necessary items needed to live on a daily basis.
- **Housing expenses:** Includes your mortgage payment. Not making your payment could mean losing your shelter.
- **Utilities:** These are a necessity for everyday life. Check with your local utility company to see if there are any programs to help homeowners during hardships.
- **Car Loans:** If you do not make your car payment and there is no public transportation, you may not have a way to get to work.
- It is important to pay the bills that are most important to you and not necessarily the loudest or most aggressive bill collector.

Higher Risk/Higher Interest Loan Products

The financial industry offers many options when it comes to getting access to money. When you are experiencing financial difficulties it is easy to be tempted by the many loans that are advertised on the radio, television and billboards. Unfortunately most of these have high interest rates and will only add to your financial difficulties in the long term.

Traditional lenders will consider your overall financial position, and if you are financially overextended, they will be less willing to loan you money. However if a lender is willing to loan you money, it may come at a higher cost and could

put a financial burden on your family.

People sometimes borrow from one source in order to pay another financial provider, depending on their financial situation. In some cases, these lending companies work in conjunction with one another and share credit information on people who are using their services. When an individual is identified as a potential client the lending companies may refer customers to each other. A company that specializes in home equity loans may solicit the option to consolidate using the customer's home as collateral. Consolidating loans may look appealing because of the lower monthly payments and sometimes lower initial interest rates. However, the debt is then secured by your property, and if you cannot pay your monthly payments, you may face major financial crisis, including possible foreclosure.

The following types of loans are marketed specifically to people in financial difficulty. The options below are usually offered at a much higher cost of accessing funds than the rates of a traditional lending institution. This is because these financial organizations usually have more flexible guidelines to qualify their customers. Although a customer cannot afford a loan, these organizations will still loan the money, putting customers at serious financial risk. Some institutions are able to offer these loans through loopholes in the law.

Tax Refund Anticipation Loans

According to a 2005 study by the National Consumer Law Center, tax preparers and lenders strip about \$1.57 billion in fees each year from the Earned Income Tax Credit paid to working parents.

There are tax assistance options available to people who are looking for a way to save on tax preparation. One option is the Volunteer Income Tax Assistance (VITA) program, offered by non-

profit organizations. These organizations will do your income taxes for free if you meet the income qualifications.

Tax Refund Anticipation Loans (RALs) are short-term cash advances against a customer's anticipated income tax refund. RALs are offered at high interest rates, ranging from about 40 percent to more than 700 percent annual interest rate. They speed up the refund process by as little as one week, compared to what consumers can expect by filing online and having their refunds deposited directly into their banking accounts.

Overdraft Loans

Overdraft Loans (also called "bounce protection" plans) are offered by banks to their account holders. In exchange for covering account overdrafts up to a set dollar limit, banks charge bounced-check fees ranging from \$20 to \$35 for each transaction. Some banks also charge a per day fee of \$2 to \$5 until the consumer's account has a positive balance. In addition to writing checks, customers can borrow against their bounce protection limit using their debit cards and by making ATM withdrawals.

Through a loophole in Federal Reserve rules, institutions do not have to call these bounced-check programs extensions of credit, and therefore do not disclose that they are charging people up to 1,000 percent interest on the loans.

Credit Cards

Credit cards have become a common form of currency for millions of Americans. Between 1989 and 2001, credit card debt in the U.S. almost tripled from \$238 billion to \$692 billion.

While some cardholders use their credit for occasional purchases, many families have come to rely on credit to weather economic downturns or to simply make ends meet. College students and other minors also have become attractive

marketing targets for cards that contain hidden transfer charges, hefty late fees and rising interest rates. The credit card industry has identified its ideal customers as those who no longer pay off their balances, but instead grow increasingly indebted to their creditors by making low minimum monthly payments.

If you choose to use credit cards the best option is limit the number of credit cards you have and the credit limits on the cards. Also, do not allow a credit card company to continually increase your credit limit. Instead, determine the amount you think is appropriate for your budget and keep your card set at that limit. If you are considering getting a new credit card read all the fine print. Credit card companies may offer a low introductory rate and in a few months raise the interest. Others may offer you a competitive rate but as soon as you make a late payment on any of your other credit responsibilities (including utilities) the rate will be raised. For more information regarding credit cards refer to the Managing Money module of this curriculum.

Rent-to-Own

Rent-to-Own companies rent merchandise, although the structure of the transaction is more like a loan because of the interest and credit insurance involved. These businesses charge a weekly or monthly rent for a stated period, after which the property is owned by the consumer. The store does not have to report how much it is charging in interest. If a borrower is late with a payment, there is no legal limit on how much interest the store can charge in finance charges, although the company usually repossesses the rental property. Under a typical rent-to-own contract, a consumer may pay as much as \$2,200 over two years to purchase a \$500 television.

An alternative to rent-to-own is to use a lay-away program. This option allows you to make payments on your purchase over a period of time,

and when you have paid for the product you own it without the extra cost of high interest rates and fees, allowing you to save money for another purchase.

Payday Lending

Payday lending (sometimes called cash advance) is the practice of using a post-dated check or electronic checking account information as collateral for a short-term loan. To qualify, borrowers need only personal identification, a checking account, and income from a job or government benefits, such as Social Security or disability payments. Research shows that the payday lending business model is designed to keep borrowers in debt, not to provide one-time assistance during a time of financial need. As an alternative, consider starting a savings account and add to it on a regular basis. Even if some months you are only able to add a small amount, every dollar will help if you ever find yourself in a situation when you need money.

Title Loans

When a consumer takes out a car title loan, the consumer's automobile is used as security for the loan. The loan amount is based on a percentage of the vehicle's value, usually around 25 percent of the book value. For example, if your automobile book value is \$10,000 you would be eligible for up to a \$2,500 title loan. If you borrow \$1,000 for a period of only 14 days your total payback could be \$1,250 which is equivalent to 659.71 percent APR. Instead of using car title companies consider going to your local banking institution. Your banking institution may allow you to borrow a higher percentage of the value of your loan versus car title companies. Best of all the rate and monthly payment should be considerably lower.

Finance Companies

Finance companies are institutions that make

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personal loans and, in some cases, real estate loans. These institutions usually offer the same loan products as local banks or credit unions with different interest rates and insurances options. Finance companies typically have less strict guidelines, which causes their interest rates to be considerably higher.

When considering your loan options, first go to your local bank or credit union. These institutions offer a variety of loan programs that may fit your needs. Although they usually have stricter guidelines, there may be a short-term loan program that will help you establish your credit and allow you to get a loan with a lower interest rate at a later date.

*This resource is one in a series on **Being a Responsible Homeowner** which include:*

Getting to Know Your New Home

Maintenance Repairs, Home Improvements
Universal Design for Easy Living
When and How to Hire a Professional

Financial Issues for Responsible Homeowner

Financial Responsibilities
Predatory Lending

Managing Financial Difficulties

Foreclosure

Legal Responsibilities

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