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- Home
  - News
  - Banking
  - Investing
  - Planning**
  - Taxes
  - My Money
  - Portfolio
  - Loans
  - Insurance
- Planning Home
  - Retirement
  - Savings**
  - Insurance
  - Family/College

**Resources**

- Decision Centers
- Save Money
- Learn to Budget
- Manage Debt
- Find Deals Online
- Travel For Less
- Save on a Car
- Consumer Guide
- Commentary
- Index
- More Tools

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Liz Pulliam Weston

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- [Tools Index](#)
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**The Basics**

# How to not pay your bills

Here's

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how to

dodge the repo man and buy some time while you try to pull your financial life together.

By [Liz Pulliam Weston](#)

This is not a lesson in how to be a deadbeat.

It's a lesson in how to do the least damage when you can't pay all of your bills.

Most stories about dealing with debt assume you have the money to pay most or all of your bills. That's not always the case. Thanks to bad planning, bad decisions, bad luck or a combination of all three, sometimes you just don't have the scratch.

Yet filing for bankruptcy, despite its recent popularity, isn't always the solution. If your bills aren't that monumental or your financial prospects are likely to improve, a Chapter 7 filing could be a major overreaction. You also may have a profound distaste for skipping out on your creditors -- even if you can't pay them just now.



It can be helpful, in those times, to understand how to create some breathing room for yourself so you can formulate a plan to get back on your feet while minimizing the long-term financial fallout.

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Unfortunately, many people in financial crisis simply stick their heads in the sand, refusing to admit the severity of the problem and ultimately making matters worse. They pay a credit-card bill when the mortgage is due, for example, simply because a collector is pressuring them, or they stop paying any of their bills because they can't pay them all.

Knowing which bills must be paid and which can wait -- and for how long -- is essential for your financial survival.

### **The essentials**

**Any late payment can hurt your credit score.** The three-digit number lenders use to gauge your credit-worthiness is extremely sensitive to "lates," although generally you must fall at least 30 days behind for the delinquency to be reported to credit bureaus and to affect your score. The later you are and the more accounts that are delinquent, the more devastated your score will be. The damage may persist for years, but it isn't permanent; as soon as you're back on your feet, you can begin repairing the mess (see "[7 fast fixes for your credit score](#)").

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**Some late payments have much more drastic consequences than others.** Miss a single rent payment, for example, and your landlord can start eviction proceedings that will have you on the street in a matter of weeks in most areas. Mortgage lenders (including home-equity lenders) and auto lenders have short fuses as well. Meanwhile, credit-card companies, medical providers and student-loan lenders typically wait months before taking collection actions.

**Knowing the consequences can help you prioritize your bills.** Your essential bills include your shelter (rent or mortgage), utilities (that's power, heat, water and one phone line, but not cable), food and anything that allows you to work, including car payments and child care. If you owe child support or taxes, those are typically must-pays as well.

Most other debts fall into the nonessential category that can be delayed, at least for awhile.

Consequences of being late		
Debt	Time when real trouble starts	Fallout
Mortgage	90 to 120 days late	Foreclosure, loss of home
Auto loan	One day late (although many lenders wait 60 days)	Repossession, loss of car, potential for collection of unpaid debt
Student loans	270 days late	Wage garnishment, tax-refund seizure
Credit cards	180 days late	Account "charged off," sent to collections
Collections	Depends on amount,	Lawsuit, wage garnishment

accounts	aggressiveness of collector	
Tax debt	Depends on amount, aggressiveness of collector	Wage garnishment, property or bank account seizure
Child support	Depends on amount, aggressiveness of collector	Lawsuit, wage garnishment, jail

## Coping with creditors

**Mortgage lenders:** If at all possible, keep up with your mortgage and home equity payments. If you don't pay, your lender can foreclose -- a process that can take as little as three months (although most lenders wait for you to miss two or three payments before starting foreclosure proceedings). The further along the foreclosure process gets, the more you'll have to cough up in fees and collection costs to get your house back.

Fortunately, many lenders have gotten a lot better about trying to help homeowners survive rough times with various "workout" plans that lower or suspend payments for a few months. If your cash crunch will be short term, it makes a lot of sense to contact your lender as soon as you know you might miss a payment to request help.

If you have no idea when your financial prospects will improve, selling your house is usually a better option than letting it fall into foreclosure. You'll keep more of your equity and protect your credit score from future damage.

**Auto lenders:** The repo man (or woman) can come for your vehicle if you're even a day late with your payment, although it typically takes a month or two for the lender to act. But, like mortgage lenders, some auto lenders are willing to work with you if you **a)** contact them early and **b)** are in a temporary cash crunch that's about to be resolved.

Of course, if you don't need the car to get to work and you owe less than it's worth, selling it is often a great strategy to reduce your bills and free up some cash.

Unfortunately, many borrowers in your situation either need the car, owe more than it's worth or both. The options are kind of grim:

- You can sell the car, but if you owe more than it's worth, you'll usually have to come up with the extra cash to get the lender to release the lien on the vehicle.
- You can arrange for a voluntary repossession, but that trashes your credit as much as an involuntary one and the lender can still come after you for any unpaid debt.
- You can try to hide the car from the repo team. Good luck with that.

**Student lenders:** At last, a little good news: most student lenders will bend over backwards to help you if you run into financial trouble.

You typically can ask for forbearance or deferrals that allow you to skip payments for a total of three years. If you've already used up those opportunities, ask about income-sensitive or graduated repayment plans. If you can't make those payments, your loan typically won't be placed in default status until 270 days, or about nine months, have elapsed. Even then, you often can "rehabilitate" your loan with a series of on-time payments that will eventually erase the negative effects on your credit.

This is another case where you want to call the lender as soon as you run into financial trouble to see what can be worked out.

**Tax debt:** The IRS and other taxing authorities often can offer you an installment plan; you also might try, with a tax pro's help, making an "offer in compromise" to settle your debt. Tax agencies have plenty of ways to get their money if you try to hide from them, including wage garnishment, liens on your property or bank accounts and seizure of your refund checks, so they're another creditor you don't want to avoid.

**Credit card companies and other "unsecured" lenders:**

"Unsecured" means your borrowing isn't attached to an asset, like a house or a car. Credit cards, medical bills and personal loans are considered unsecured debt.

It usually takes about six months of skipped payments for an unsecured lender to "charge off" your account and place it in collections. A "charge off" is an accounting term that means the lender has given up on trying to get its money; it doesn't mean you no longer owe the debt. The account is either turned over to an in-house collector or sold or assigned to a third-party collector.

You have the legal right to ask collection agencies to stop calling you; that request must be put in writing. But some collection agencies respond to such letters by taking you to court, where they could win a judgment against you and (in most states) take up to 25% of your after-tax wages (a process known as garnishment). It may be in your best interest to put off that day of reckoning.

In that case, it can be helpful to have caller ID or to use your answering machine to screen all your calls. Some folks disconnect their land

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lines entirely and rely solely on cell phones; that not only reduces their monthly overhead, but makes it harder for collectors to find them, since cell phone numbers aren't as easy to track down.

You can't live that way forever, of course, but again, all these techniques are only short-term solutions. It's up to you to craft a plan for getting yourself out of this situation and, hopefully, making sure this never happens to you again.

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