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THE FRESH START: GETTING BACK ON YOUR FEET:

A CHECKLIST FOR CONSUMERS

Once you start resolving your financial problems, it is important to make choices for the future which avoid renewing past problems. This checklist is intended to help you think about your financial life and your use of credit once your current debt problems are resolved.

Your Budget

The process of resolving your debt problems undoubtedly taught you the importance of making and sticking to a reasonable budget. Pulling yourself out of a debt crisis should not be your *final* goal. Do not throw out your budget plan simply because you are no longer in dire straits. If your financial situation has genuinely improved, it is appropriate to re-examine your budget. Faced with a financial crisis, you learned what your family can do without. In reexamining your budget, keep in mind what your family's true needs are. Here are some issues to consider:

- Can you start saving? Savings is an important part of getting back on your feet. Your savings account can help to protect you against new financial problems if they arise.
- Do you have deferred home maintenance or other necessities which should be viewed as proprieties now that your crisis has passed?
- Did you cut back in areas like cable TV, internet, movies, newspapers, shopping, magazines, cell phones, eating out, charitable giving, cigarettes and alcohol---all discretionary items--- that require special attention in order to prevent future problems?
- Do you have low priority debts which were not cancelled that you now wish to address?
- Did you reduce or eliminate contributions to a retirement plan, or borrow against that plan? Do you need to resume contributions or repay a retirement plan loan in order to provide for a stable retirement?
- Did you reduce insurance or medical coverage to save money temporarily? Is it necessary to restore the original coverage?

Your Credit Card Choices

You are likely to continue to get offers for credit cards despite your recent financial problems. While access to some credit can be necessary, you want to avoid getting back in over your head. Here are some questions to consider:

- Have you STOPPED CHARGING on credit cards? Can you pay cash and NOT CHARGE AT ALL?
- Do you have a debit card to replace expensive credit cards?
- If you have a card, do you have a low LIMIT to make sure that you don't have more than you need? Are you avoiding making minimum payments which run up the balances?

Protecting Your Home or Apartment

To make sure that you can keep your home for the long term, here are some things to consider:

- If you have caught up on home mortgage or lease payments, have you reviewed your recent bills to make sure that your mortgage company or landlord thinks you are caught up, as well? Has the lender or landlord properly credited all payments? Have all court cases related to foreclosure or eviction been dropped?
- Is your current savings plan sufficient to protect you if urgent home repair needs arise in the future? Is your savings plan sufficient to help you get through any new period of financial difficulties?
- If you find that you are continuing to struggle financially, have you thought about moving to a cheaper residence or renting as an alternative? Would it relieve pressure for your family if you spend less on housing?
- Have you implemented utility conservation measures which will make your home less expensive to maintain in the long-term?
- Have you shopped around for home insurance at the best possible rate? Have you applied for any real estate tax abatement to which you may be entitled?
- Have you received a larger than expected escrow payment increase from your mortgage company? (If you are caught up on back payments, this may be in error. Some mortgage companies are careless about escrow accounting. If you can't get the issue resolved quickly, you may want to see a lawyer).
- Are you continuing to make your housing payments your highest priority after food, necessary transportation and essential medical needs?

If You Filed for Bankruptcy

A bankruptcy case may have gone a long way toward helping you resolve financial problems. The following are some follow-up actions which may be necessary:

- Did you receive a copy of your bankruptcy discharge and have you put it away in a safe place?
- Do you know what debts you still have to pay because they were not covered by your bankruptcy discharge?
- Are you still hearing from collection agencies or others about debts you thought were eliminated in bankruptcy? (If so, check with your lawyer).
- If you successfully completed a chapter 13 bankruptcy case, are you still getting correspondence which indicates that your home or auto lender thinks you are behind? (If so, see your lawyer).
- Have you dealt with the problems which caused you to file bankruptcy in the first place? Will you be able to avoid filing again in the future?

Credit Repair

If you have had financial problems, there are likely to be some things on your credit report which won't easily go away. However, there are some things you can do which may make things easier for you in the future.

- Have you checked your credit report to make sure it is accurate? Although there may be many things on your credit report which you can do little about, you may have legal remedies under the Fair Credit Reporting Act if there are errors.
- Have you resolved any disputes about your credit report or sent the reporting agencies an explanatory letter to include when it distributes your report?
- Are you establishing better credit habits which will show new creditors that you are responsible? Have you tried borrowing a small amount of money and repaying it immediately to show potential lenders that you can manage your debts?
- Have you canceled unnecessary credit cards and lines of credit which may make new creditors concerned about your potential to become overextended?
- Are you still getting credit card solicitations in the mail? Have you limited yourself to one unsecured credit card on the best terms offered?
- Are you still shopping around for credit on fair terms? (If not, you may be making a mistake. Don't assume that because one creditor tells you that you are a high credit risk, others will tell you that, as well).
- When you apply for credit for big ticket items like a home or car, are you providing a good explanation for your financial problems together with evidence showing that they have been resolved?
- Are you worrying about your credit record unnecessarily? Having resolved your financial problems, can you make a decision to reduce your reliance on credit for several years so that you don't have the pressure of new difficulties?

Avoiding Scams

Consumer scams are often targeted against people that have had recent financial problems. A company may get your name from bankruptcy court records, foreclosure records, or by buying lists from debt collectors. Some of these companies assume that you will be desperate enough to make bad decisions about credit. Here are some scams to avoid:

- Don't Get a Payday Loan!** These unscrupulous lenders are all over the place: on the TV, the internet, around military bases, downtown, malls, etc. They typically have names like, "Cash Fast," "Pay Day Loans," "Cash Now," "Easy Cash" and so forth. Typically, a payday loan works like this: a loan applicant, borrowing \$200 would write a check for \$270 (which includes a \$70 finance charge) for a 15-day term. *This results in an annual percentage rate of 900% per year!* You pay a total payment of \$270 for a \$200 loan. The check is held for a scheduled period of time, usually until the consumer's next payday (thus the term "payday loan"). When repayment comes due, the consumer may then redeem the check by paying the face amount and any charges, allow the check for \$270 to be cashed, or more commonly, refinance ("rollover") the loan by paying another fee. City governments have been trying to enact legislation against such creditors. Says one Council Member, "Payday lenders prey on people in economic straits and people in low-income neighborhoods. These lenders seduce people into believing that with a quick loan, they can fend off their creditors and keep their family afloat". The interest on these loans is exorbitant, usurious--- and these loans will ruin you.
- Paying for Credit Repair.** No credit repair agency can clean up your credit record if you have been behind on many debts. Promises to do so are lies designed to get you to pay for something that can't really help you. Self-help strategies are much more likely to help you get back on your feet.
- Taking High-Rate Loans to Tide You Over.** Some lender offer high-rate loans to help you get back into the market for credit. The worst of these are high interest rate loans secured by your home, pawn shops and loan companies. These lenders are counting on your belief that you cannot get credit on better terms elsewhere. They also may make false promises that the rate can be reduced if you establish a year or more of timely payments. Lenders offering high-rate credit in these circumstances are only trying to rip you off.
- Don't accept a lender's statement that you are a "sub-prime" borrower who must pay very high interest rates to get credit.** You should always shop around rather than accept a higher than normal rate loan. You may have perfectly good credit in the eyes of another lender. Even if you are considered a high risk "sub-prime" borrower by every lender you contact, there are many types of sub-prime loans. You should shop among the different sub-prime loans until you find a reasonable rate and reasonable terms.
- Beware of people or companies that market their services as "loan brokers".** Although some loan brokers are perfectly honest, there are others that will find a loan for you on the worst terms possible because high-rate lenders will pay them the biggest commissions. Brokers that advertise to people with a history of financial problems are among the most likely to be unscrupulous.
- Beware of companies that advertise with claims such as "no credit check" or "bad credit, no problem".** These companies are either loan brokers or lenders that are looking for borrowers that consider themselves too risky to pass a credit check. Companies that pretend they do not care about your credit record, say so in order to find borrowers willing to sign up for high rates.

Returning to a Normal Lifestyle

The first hurdle for many people coming out of a financial crisis is to get over feelings of shame about past problems. The reality is that nearly everyone in this country experiences some type of financial difficulties at one time or another. Accept it and move on. Release your toxic feelings as if they were in a balloon filled with helium. Watch it sail away and focus on the *here and now*. You are out of debt and you have a chance to start over. Don't let negative thoughts weigh you down.

If you apply for credit it is important to be up-front with new creditors or lenders and not be afraid to acknowledge that you have had problems. Emphasize that you are back on your feet and financially stable.

Feelings of embarrassment might lead you to try to wipe the slate clean too quickly. This can be a mistake. It is important to realize that even though not all past problems can be erased or covered up, most creditors and lenders understand that people fall on hard times, and are usually willing to help you if you can prove that you are no longer facing financial problems.

Before you try to repair your record, make sure that your past financial problems are fully fixed. Don't be too eager to take on substantial new debt. The most critical step in rebuilding is not necessarily the number of new credit cards that you have, but rather evidence of your ongoing ability to repay loans or credit. Perhaps the worst thing you can do for your credit record is to take on too much new credit too soon and fail a second time.

Rebuild your credit history by focusing on stabilizing your income and keeping your debt burden low. Creditors know that virtually all delinquencies occur because consumers are unable to pay their debts and not because they are trying to avoid legitimate obligations. Many creditors will be more concerned about whether you have the present and future ability to repay a debt than about your past problems.

If you need help, please call. We will be happy to help you.

Good luck. May the Peace of God be with you. Go forth joyously and carry on vigorously!

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