

# Nine Mistakes to Avoid When You are Having Money Problems



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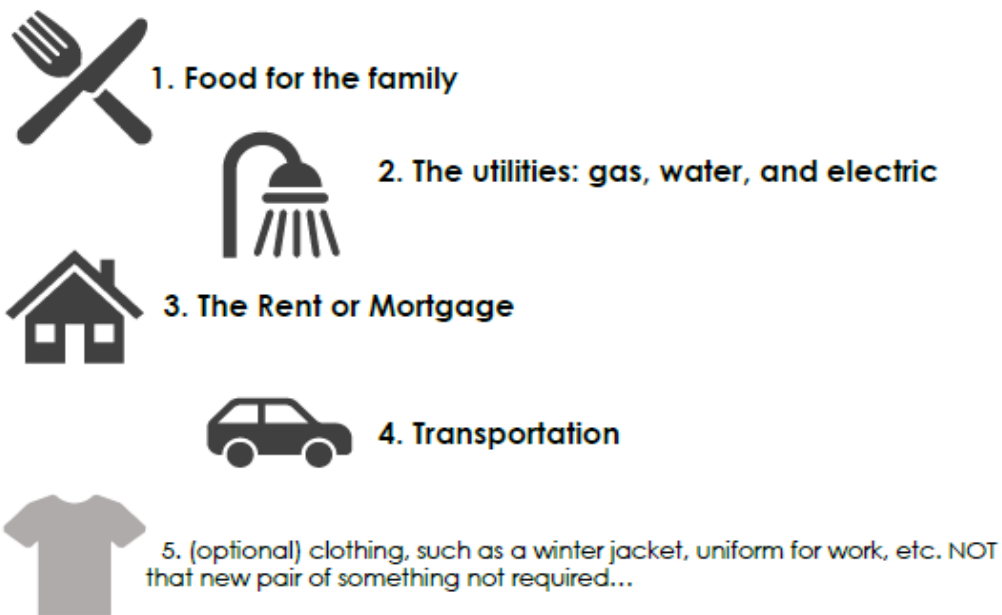
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# Nine Mistakes to Avoid When You are Having Money Problems

Financial difficulties can affect every area of your life and livelihood. Many times, work suffers, home life becomes strained, and the stress can be unbearable leading to loss of sleep and other health effects. Here are nine common mistakes that people make when they are having money problems. Perhaps you are reading this and can avoid these common errors, perhaps you are reading but have already made a few. It's okay. You can get turned around.

## Mistake 1. Not prioritizing your four walls

Money difficulties are frustrating and even scary but giving money to a creditor who has been calling and neglecting the electric bill or mortgage will make matters worse. **Shore up your "four walls" first.**



It may be tempting to protect the FICO by making the Visa payment- but it will add even more stress if the water gets shut off or you don't have gas to get to work. I know, I know, the "late fees," but those are minimal compared to utility reconnect fees or getting behind on the mortgage or car!

## Mistake 2. Paying medicals bills with a credit card

Around 43 million Americans had medical debt on their credit reports in 2017. Medical debt is treated differently from other debts, but it must remain "medical debt" for options to apply. But if you pay the medical debt with a credit card, you can limit your ability to settle the debt, or seek financial assistance from the hospital or other agency.

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"If you request financial assistance from a nonprofit hospital, the hospital cannot deny you care in any part of the hospital because of an old bill until it determines whether you are eligible for financial assistance. You usually have about eight months (240 days) from when you first received the old bill to request such financial assistance." <https://library.nclc.org/dealing-medical-debt-consumer-advice-nclc>

You also have 180 days to get medical bills handled before they hit your Equifax, Experian, or TransUnion credit report. You can dispute anything erroneously reported and have the records of medical bills that were paid by insurance removed.

## Mistake 3. Ignoring collection letters

**Open it, DO NOT ignore the letter.** It is astounding the number of people who throw these letters in the trash because they do not recognize the collection agency or primary creditor. You still have to take one of the two actions below.

1. *If you DO recognize the original creditor.* Write to request a validation of the debt. You MUST put your request in writing. You can send it by delivery confirmation to ensure they received your letter. They must respond to you in writing, within 30 days. They cannot just tell you over the phone. You need it in writing. Sometimes the collection letters are sent, but there is a pending resolution. If it is a medical debt, for example, the insurance claim may not have settled yet, and the bill was merely passed off to the agency from the doctor's office. Get it validated that YOU owe the debt.

2. *If you DON'T recognize the original creditor.* As above, write to get validation of the debt. Then check your credit report. You may be a victim of identity theft, or the collector may have you mistaken for another person. It happens. If you do discover identity theft, immediately take the steps outlined on [www.identitytheft.gov](http://www.identitytheft.gov), a website of the Federal Trade Commission. Once you receive the validation notice, it must include the steps you can take to dispute it. You can dispute any or all of the debt *in writing*, within 30 days. Dispute it with the collector.

## Mistake 4. Using payday lenders, title pawns/ loans on your car and other high interest-short term debt.

Payday lenders can give you "quick cash" immediately, paying a substantial fee, about \$15-20 on every \$100.00 borrowed. You promise to pay the balance in full on your next payday, by either providing electronic access to your bank or writing a post-dated check.

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Most loans are not paid off in the next payday cycle however, because something else happens. The lenders expect that, and they then offer to "renew" your loan and charge another fee. In fact, this short-term access to cash has an average annual interest rate of 391% to 521%. The cycle of paying it off, borrowing again (because your paycheck is again short) over and over is a main reason to stay away from these places. It is almost impossible to get out of without paying the entire balance in full before the next withdrawal occurs.

Title loans and pawns are just that- a pawn. You provide your car as collateral (paid off car of course) and they give you a loan for the title at their lending rate, typically far under market value of the vehicle. If you are late or miss payments, you are at risk of losing your car. You don't own it anymore. The title pawn company does, because you gave it to them for the loan. Just like other pawns, the entire balance must be paid in full before you can have the title released. The average annual interest rate on a title pawn is 300%. A bigger concern is that if you lose the car because you are unable to make the payments, you may very well lose your way to work!

## Mistake 5. Withdrawing funds or loans from retirement accounts

It may be quite tempting to tap into the 401k or other retirement account to "borrow from yourself" to pay off debts or improve cash flow. There are interest payments that must be made on "your own" money, and if you are unable to repay the loan, you will be hit with both a 10% penalty AND subject to taxes on the distribution if you are younger than 59 ½.

A much better strategy is to *stop all contributions to retirement*, temporarily, and get back on track financially. The "employer match" may add to your balance, but it will not put needed cash into the budget TODAY. Stopping the automatic deposits now, even for a few months, will give you more cash in your paycheck each payday.

## Mistake 6. Letting Taxes or Federal Student Loans default

"Administrative Wage Garnishment" (AWG) is the process by which the federal government garnishes your wages or offsets benefits when you default on a federal debt. The Treasury does not need to obtain a court order to have an employer withhold up to 15% of an employee's "disposable income." Disposable income is after taxes and deductions- not rent and utilities. You need to protect your income. Never ignore letters from federal agencies.

**For Student Loans-** if you are more than a few months behind in payments, know that after 270 days they CAN intercept your tax return and garnish your wages. Take immediate steps, such as contacting your servicer to see if you qualify for a reduced payment. If you are already in garnishment, get some legal help to see what you need to do to "rehab" your account and stop the garnishment.

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**For Other Federal Debts-** similar advice, contact the Treasury Department in charge of collecting your debt, or get legal help in dealing with the agency. For Veterans there may be an option for a waiver, or a payment plan so you receive a portion of your compensation while paying back principal debt. For the IRS, contact them to see if you qualify for a payment plan. And if you need help, get legal help, contact local legal aid or your state's bar association for a referral.

## Mistake 7. Taking abuse from creditors and collectors

You may owe money to someone, but you cannot be harassed or threatened by a collector. It's a violation of federal law. The top three federal law violations by collectors in 2017 were:

- "Calls After Getting 'Stop Calling' Notice" (227,917 complaints),
- "Calls Repeatedly" (210,238 complaints),
- "Makes False Representation about Debt" (192,704 complaints),

<https://www.nclc.org/issues/analysis-of-unpublished-data-ffc.html>

71 million consumers had debts in collections last year, and less than a million consumers made a complaint or took steps to enforce their legal rights. If you are being harassed, or a collector is trying to get a payment on a debt you do not owe, contact a consumer advocacy agency or attorney and find out the federal and state laws available to protect you.

## Mistake 8. Refinancing or consolidating debt to lower payments

Refinancing your car, taking a home equity loan, or consolidating through a company to lower your payments may all sound like reasonable steps when you feel like you are drowning. Refinancing the loan balance on your car stretches out the length of the loan, which will actually add more interest and a more expensive loan in the long run. Let's say you owe two more years on your car, you refinance and lower the payment, but will now pay for four years, doubling your loan term. This may put you at more risk of being "upside down" in the car much longer (owing more than it is worth) making it harder to sell later.

Home equity loans were really popular before the meltdown in 2008, and many banks allowed borrowers to take out equity to 100% of the value of the home. Then the values dropped, and people were holding the primary mortgage AND the equity line, which is really a junior mortgage, they were "upside down" owing more than the home is worth. This locks people into being unable to sell their homes, perhaps prevents the borrower from moving to take a better job. Tapping all of the equity in your home to pay down other debt is risking changes in the market as well as putting another lien on the house.

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Consolidating through a non-profit company may lower your payments, because they negotiate a longer term of the loan, and may lower interest, because of the bargaining power of the organization, but these companies charge fees, typically by month, or for every account included. And often this consolidation is nothing more than a "debt snowball" meaning they pay the creditors in the order of debt, lowest to highest, and each month the same payment is made, but the debts are knocked out according to the plan. You can learn to debt snowball for yourself and save yourself the monthly fees. This link will take you to the lessons. <https://www.daveramsey.com/blog/get-out-of-debt-with-the-debt-snowball-plan/>

## Mistake 9. Not getting legal or coaching help, due to the belief that it is too expensive.

Many states have legal aid societies and clinics that can help consumers with collection violations, lawsuits from creditors, and other consumer law topics. If you do not have a legal aid office in your region, there are consumer lawyers who will provide free consultations, have sliding scale fees, and will take contingency consumer law cases. In many federal consumer statutes, the collector must pay the consumer's attorney's fees if they are found liable for violations. Bankruptcy is another legal option, and only a licensed attorney can help you determine if it is a good option for you. Bankruptcy does, however, have court costs and fees that go with filing.

Financial coaches are professionals who can assist with budgeting, advice on getting out of debt, and even refer you for specialized assistance if it is needed, such as an IRS professional or consumer law attorney. Importantly, coaches can help you make long term changes in money habits that can help prevent financial trouble in the future.

**And a bonus- Number 10. If you feel alone.** Your situation is unique, but your circumstances probably aren't. Job loss, medical debt, too much consumer debt, crushing student loans, etc. affect millions of Americans each year. Right now 78% of American families are living paycheck to paycheck. That's almost 8 in 10, and it could be some people you would never expect because they are struggling to keep up an image. In my own professional opinion as a lawyer and a financial coach, if you are considering bankruptcy as an option, I have a free resource online that explains some of the considerations and alternatives that may be beneficial to try first. You can visit my website for other free articles and resources. If you need additional help, please ask for it. Avoiding these nine mistakes is a great start. You got this.

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## About the Author:

Attorney Dawn K. Kennedy's Consumer Law practice focuses on helping families address their debts and financial crisis to achieve the peace of mind they desire. She excels in navigating the mass of federal regulations that guide debt collections, student loans, and other financial areas such as taxes and credit reports. She is also a financial coach with a mission to assist families with budgeting, getting out of debt, and setting up their long term financial future. She can be reached via her website [www.dawnkennedylaw.com](http://www.dawnkennedylaw.com)