



Dealing With Debt

Q.) What should I do if I cannot pay all of my bills?

A.) Many people are unable to pay all of their debts. The loss of a spouse, a sudden disability or a medical emergency, or an unexpected loss of income can cause problems for most people. When this happens, you need to start by determining which debts to pay first.

Q.) How do I prioritize my debts?

A.) Use these guidelines to help you figure out what debts to pay:

- Food and medical essentials should come first. Medical essentials are prescription drugs and treatments that you need to stay alive and healthy. An old medical bill is not an essential bill and should be paid later.
- The next priority should be your housing costs. If you do not pay your rent, you can be evicted. If you do not pay your mortgage payments, you may lose your home in a mortgage foreclosure. If you lose your housing, it could cause serious problems in your life.
- Essential utilities should come next. You need to pay the minimum allowed to keep your heat and electricity connected. If you do not have heat, running water or electricity, you run the risk that your home or apartment will be condemned. You would not be allowed to live in a condemned property if it threatens your health or safety. Phone service can also be an important utility if you need the phone for medical emergencies. Long distance service and cable television charges would not be essential utility debts.
- If you need a car to keep a job, or if it is required for other essential transportation needs, this should be your next priority. If you stop making your car loan or lease payments, a car can be repossessed fairly quickly.
- Child support debts must be paid. Failure to pay child support can have serious consequences, including imprisonment. In addition, child support is a debt that can be taken from your Social Security benefits. Other debts that can be taken from Social Security include: federal income tax debts; food stamp overpayments; and unpaid student loans from the federal government.
- Unsecured debt and credit card debt are lower priorities.

Q.) How will I know if I can pay all of my important debts?

A.) You need to sit down and prepare a budget. A budget will let you know how much money you have left after covering your essential expenses. This can help you decide which bills to pay first. A budget will also help you see where your money goes. You may be spending money on things that are not essential. You may also be able to see where you need to cut back on your spending. You may have to give up some luxuries if you cannot meet your basic needs.

Q.) What do I do if I find that I do not have any money left after I pay my basic living expenses?

A.) You may have to stop making payments on low priority debts, which include unsecured debt and credit card debt. Unsecured debt is a debt with no collateral. Mortgages and most car loans have

collateral pledged, your house and car respectively. Most credit card debt, including debts to attorneys, doctors, and hospitals are unsecured debts.

Q.) How do I protect my money if it is exempt (protected) from creditors?

A.) If the creditor has an attorney, the first thing you can do is send the attorney proof that all of your income is from a protected source. Do this as soon as possible, even if the attorney has not served you with a Summons and Complaint yet. If you use direct deposit, your bank statement will show the source of your funds. Send the attorney copies of two (2) recent bank statements to prove your money is protected. You can also send the attorney a copy of your yearly benefit statement or a letter from the government agency that sends you monies stating the type and amount of benefits you receive. However, this will only prove that you receive protected monies, it will not prove that all of the money in your bank account is exempt. The attorney may still attach your bank account unless you send them two (2) recent bank statements that contain only exempt funds. NOTE: Under federal law, your bank cannot freeze federal funds (Social Security, SSI, VA and federal pensions) that are put into your account by direct deposit. The law protects the equivalent of 2 months of federal benefits and prohibits the bank from charging you a fee if a creditor tries to attach the account.

Q.) What should I do if a creditor threatens to sue me?

A.) Do not move a debt up in priority because a creditor threatens to sue you. Many threats to sue are not carried out. Even if a creditor does sue you, it will take some time before they could try and take income or property from you. In addition, many types of retirement income and some basic assets are protected and cannot be taken by general creditors, like credit card companies. Common examples of income that is protected from general creditors include: Social Security; Supplemental Security Income (SSI); welfare benefits; Veteran's benefits; Railroad Retirement; Workers Compensation; Unemployment Compensation; Civil Service retirement benefits; and Public Employees Retirement Association (PERA) funds. Minnesota law also protects a homestead (including a mobile home) with a value up to \$450,000; a car worth up to \$5,000; and some pensions, IRA's and insurance proceeds. Up to \$25,000 (present value) held in a health savings account is protected as of May 1, 2018. Talk to an attorney if you are sued and have questions about the protections that apply to you.

Q.) Should I take a cash advance from one credit card to pay another credit card bill?

A.) This is never a good idea. Most credit card companies charge a higher interest rate for cash advances than they do for purchases made with a credit card. In addition, most charge an additional fee when you get cash using your credit card. Finally, it's not likely you'll be able to pay the bill when the second credit card company bills you for the cash advance. Your credit card debt can quickly skyrocket if you start taking cash advances. If you are making a minimum payment that is less than the amount of interest being charged on the account each month, you will never pay off the debt. In addition, the next month, you will be paying interest on the interest charges from the month before. In conclusion, you need to look at your income and expenses and make wise choices about which debts to pay first.

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