

Consumer Tips: Weathering the Financial Storm After a Natural Disaster

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In the aftermath of a natural disaster you may feel overwhelmed with the task of putting your life back in order. Here are some simple strategies for working with your creditors to rebuild your financial life.

PRIORITIZING YOUR DEBT

Prioritize which debts to pay first. A natural disaster will lead to unexpected expenses and may also affect your income. As a result, you may not be able immediately to keep up with all your debt obligations. You must make tough decisions about which debts to pay and which to put off, at least for a while. Review each debt to see what will happen if you don't pay and whether the creditor will make at least a temporary exception because of the natural disaster.

High Priority Debts

- **Court judgment debt.** You have been sued on a debt and a court has ruled for the creditor. In most states the creditor has the right to seize part of your wages, bank accounts, and even your home or other property.
- **Criminal justice debt.** Non-payment of debt arising from a criminal proceeding (such as fines, fees, and costs) can lead to immediate loss of your driver's license, lost income or assets, or even incarceration.
- **Automobile loans or leases** can result in the creditor repossessing your car after you miss only a few payments.
- **Rent payments for your residence** (or for the lot on which your manufactured home sits). Swift eviction can result if you do not keep up these payments.
- **Utility bills.** Non-payment of utility bills can lead to termination of gas, electric, water and other utility service. In some states, programs to help people avoid disconnection may make utility bills a somewhat more flexible priority. Check with your utility or the consumer division of your state utility commission to find out about bill payment assistance and protections from disconnection in your state.
- **Child support debts** will not go away and can result in very serious problems, including prison, for nonpayment.

Debts That Quickly Become High Priority

Other debts can be put off for a few months, but at some point soon they become just as high priority debts as those listed above, and then must be addressed immediately.

- **Home mortgage delinquencies.** Miss a month or two and you are unlikely to face foreclosure, but if you get enough months behind, you face loss of your home.
- **Federal student loans** are not in default until you are nine months behind on payments, but then you are at risk of seizure of your tax refund and your Social Security or other federal benefits, wage garnishment without a court order, the addition of collection costs to the debt, and denial of new student loans and grants.

- **Taxes owed to the IRS.** Even if you do not pay your federal income taxes when due, always file your tax return on time, or file it by the deadline set by any requested extension. Then you can delay for a time paying taxes owed without serious adverse consequences. But at some point working out an arrangement with the IRS becomes critical, because the IRS can seize your bank account, part of your paycheck and federal benefits, and even your home.
- **Lower Priority Debts** Lower priority debts should not be paid ahead of higher priority debts if this prevents you from appropriately dealing with high priority debts. Low priority debts become higher priority once you are sued in court on the debt. Some low priority debts are:
 - **Medical debt**, including payments due hospitals, doctors, other medical professionals, dentists, and ambulance companies. This debt cannot be added to your credit report until it is six months past due, and is unlikely to involve high interest rates or late charges. If the debt is from a non-profit hospital, you may contact the hospital to apply for financial assistance.
 - **Credit card debt.** You will not be subject to seizure of bank accounts, income, or property until you are successfully sued on the debt or there is a default judgment taken against you. Debt collection contacts can easily be stopped.
 - **Private student loans.** These loans typically do not involve collateral, and special remedies available to the government to collect federal student loans do not apply to private student loans.
 - **Debts you owe as a co-signer.** If you co-signed for someone else's debt and put up your home or car as collateral for the other person's loan, the loan is high priority. Other loans for which you are a co-signer but have put up no collateral are low priority. If others have cosigned for you, tell them about your financial problems so that they can make plans.
 - **Deficiency actions after your car is repossessed.** If a creditor repossesses your car and sells it for less than the amount owed on the car loan, it may seek the difference from you, which is called a deficiency. This is a low priority debt because you have already lost the car, your credit rating has already been damaged, and the creditor can do little to you very soon.
 - **Charge accounts or other debts owed to merchants**, particularly if the merchant has not taken as collateral the goods sold (meaning that the company that sold you the item can't repossess it if you can't pay).
 - **Small loans even when they take household goods as collateral.** Non-payment is unlikely to cause you to lose household goods taken as collateral because creditors rarely seize them.

CREDITORS WHO MAY POSTPONE YOUR REPAYMENT OBLIGATION

Particularly where the federal government makes, insures, guarantees, or closely regulates a loan; there may be special repayment accommodations after a natural disaster.

- Contact your mortgage servicer (the entity you make your mortgage payments to) for special repayment options for your home mortgage. Pending foreclosures may also be delayed.
- Contact your federal student loan servicer about a "disaster-related forbearance" to delay payments for 90 days, or other options, such as adjusting your monthly payment based on your income. Find your servicer at <https://studentaid.ed.gov/sa/> or at 1-800-4FED-AID.
- Contact your utility or the consumer division of your state utility commission to find out about any protections against utility termination. If you evacuate your home because of the disaster, be sure to contact your utility. There may be special protections for you when you return to your home and want to restore utility service.
- Negotiate with your other creditors. As soon as you are able, contact your other creditors and let them know that your finances have been affected by a natural disaster. Most lenders understand that your immediate concern will be the health and safety of your family. Many

have policies that will allow you to defer or reduce your monthly payment, and waive or reduce late fees and other penalties. It may also be possible to temporarily reduce the interest rate on your credit card account or other loan. If you have been displaced by a disaster, make sure to give the creditor your current address.

Regardless of the type of deal you negotiate, be careful about offering to pay too much. Even a small amount of money to your low priority creditors is unwise if it prevents you from buying basic necessities or paying higher priority debts.

DEALING WITH DEBT COLLECTORS

Do not let debt collectors convince you to pay low priority debts (such as credit card or medical debt) ahead of your basic necessities or high priority debts. Debt collectors may try to scare you with vague threats of dire consequences if you don't pay their debt, but there is usually little they can do to you very soon, while non-payment of high priority debts can result in immediate and serious consequences for your family. You can stop most debt collection calls and letters simply by sending the collector a letter identifying the account number and asking the collector to stop all contacts. Federal law requires third-party collection agencies to stop their collection efforts after they receive this letter. Send the letter return receipt requested and keep a copy.

STRATEGIES CONCERNING YOUR CREDIT RECORD

If you are having trouble paying your bills on time as a result of a natural disaster, your credit record will reflect this and your credit score may decrease. But this should not be a reason to suddenly pay an overdue low priority debt. By the time you receive debt collection calls, your credit rating has already suffered and paying now will not help your credit rating. On the other hand, paying the low priority debt ahead of high priority debts can really hurt both your family and your credit score.

If your credit or rental application is turned down because of your credit rating, explain to the creditor that the natural disaster causes the low credit score and that you will soon be back on your feet. For example, if you have to evacuate your home and are looking for a new rental, explain to the landlord your circumstances.

STOP PREAUTHORIZED TRANSFERS

You may be paying off some of your debts through a pre-authorized automatic payment from your bank account. Stopping these payments on low priority debts will provide you with extra money to pay your high priority debts. To stop these transfers, notify your bank or credit union verbally or in writing at least three business days before the date the transfer is scheduled to take place. If you gave the instruction verbally, you should confirm this instruction in writing within 14 days. Be sure to give the institution your change of address if you have moved.

BANKRUPTCY IS AN OPTION

If you are overwhelmed with debt after the disaster, filing for bankruptcy can help you get a fresh start for many but not all your debts. Seek professional advice about whether this is your best option and when is the best time to file—you want to file in time to protect your home, car, bank account, and wages from seizure, but you may want to delay if you are going deeper into debt because of the disaster, health problems, or another compelling reason. In most bankruptcies you will not lose your possessions and in many cases you can even keep your home and car.

ADDITIONAL RESOURCES

The National Consumer Law Center's *Surviving Debt* (2019), contains everything consumers, counselors, community leaders, and others should know about what to do when a family is in financial trouble. The book is available in print and as an e-book at <https://library.nclc.org/bookstore>. Bulk pricing is available. Read the first chapter for free at <https://library.nclc.org/sd/0102>.

Find an attorney:

- The National Association of Consumer Advocates is a network of attorneys committed to ethical representation of consumers (see Find an Attorney and search by state and practice) at: <https://www.consumeradvocates.org/find-an-attorney>
- Legal-aid attorney representation may be available if you are low-income, A list of local legal-aid organizations is available at: <https://www.lsc.gov/>

More advice and materials about other consumer issues related to survivors of natural disasters can be found at <https://www.nclc.org/issues/disaster-relief-consumer-protections.html>.

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