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Surviving the Sequestration and other financial tips to use during hard times

People evaluate crisis differently. I am in crisis if I cannot meet my necessary expenses, those expenses to which I am contracted or obligated. I may not be in crisis if I merely do not have entertainment or allowance money for the month. At the point of crisis, all attention is off the "wants" and is focused on "needs." This white paper gives helpful guidance on dealing with personal financial crisis.



VBSFCU
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Surviving the Sequestration and Other Financial Tips to Use During Hard Times.

Virginia Beach Schools Federal Credit Union was founded in 1960 at Princess Anne High School and has been steadily growing since, becoming the credit union for all Virginia Beach City Public Schools. In 1986, we added the employees of Accomack and Northampton County Schools on the Eastern Shore and shortly thereafter added the employees and students of Virginia Wesleyan College. In addition, we serve employees, and students of the Adult Learning Center located in Virginia Beach, St. John the Apostle Catholic School, and the Virginia Beach Art Institute. We now serve over 10,000 members.

VBSFCU is a non-profit financial organization owned and operated by its members for the benefit of all who belong – and founded on the philosophies of “people helping people” and “not for profit, but for service.” Unlike some financial institutions, our volunteer Board of Directors are member-owners who work in the best interest of other fellow member-owners. Without shareholders to pay, profits are returned to members in the form of lower loan rates, low or no-fee products and services, and higher savings rates. At a bank, the only people who benefit from profits are the investors.

The mission of Virginia Beach Schools Federal Credit Union is to promote the financial wellbeing of its members by providing comprehensive and progressive financial services. We strive to uphold this commitment by becoming the financial partner that helps members (owners) realize their financial goals by our singular dedication to understanding and satisfying their individual needs.

This can only be accomplished by establishing and maintaining a relationship of mutual respect and trust with all of our members. This relationship is built on adhering to the Credit Union’s core values.

Credit unions are insured by the National Credit Union Administration (NCUA), a U.S. government agency. For more information about the NCUA, visit www.ncua.gov. Your savings are federally insured to at least \$250,000 and backed by the full faith and credit of the United States Government.

We hope you find this booklet helpful during this time of uncertainty. We tried to compile helpful hints, and valuable contact information that you may need. You can also find this booklet on our website <http://www.vbsfcu.org/loans/need-help>.

Crisis Management

When in crisis

People evaluate crisis differently. I am in crisis if I cannot meet my necessary expenses, those expenses to which I am contracted or obligated. I may not be in crisis if I merely do not have entertainment or allowance money for the month. At the point of crisis, all attention is off the "wants" and is focused on "needs." Causes of crisis can vary, i.e. medical, loss of work, reduction in income, unexpected expenses, some threat (abuse, robbery, ID theft) or a legal action (garnishment, levy, repo, etc).

You CAN navigate your way through a crisis and come out on the other side in a much better financial position. This pamphlet reviews some of the ways you can handle crisis, what decisions can help you and which ones can hurt you.

Evaluate your condition

- Know how "off" your budget is as it will be the key to developing a plan for recovery.
- What do you have to work with?
- Net worth – are there assets you can sell to help you through crisis?
- Community resources – network among church/community resources like the Food Bank.

Evaluate your options

- Additional Income – if you can bring in a little extra through a part time job, can you earn enough to get you through the crisis so you can return to "normal."
- Austerity living – prioritizing needs first and then wants. You may have a couple of months where "wants" are neglected.
- Supplemental support – sometimes there are family and church supports to assist.
- Seek counsel – ask a trusted resource to suggest a legitimate credit/housing counselor.
- Creditor arrangements – more information will be addressed in another section.
- Debt consolidation – this may or may not be an option, but it is one that may be worth exploring. It is a longer-term fix, but it can free up cash.

Make a plan

- Prioritize payments such as mortgage, vehicle, utilities, food, and credit cards.
- Map your money – estimate income and expenses for the next few weeks to ensure there is enough to address high priority items.
- Build a temporary budget that you can present to creditors to demonstrate your sincerity in working through your crisis.
- Involve the family – everyone has to be on board with getting through this tough time.

Avoid Repeating

- Build Savings
- Monitor Credit Report
- Establish good repayment practices

Danger Zones

- Many companies out there will offer to help you when you are in crisis and not all of them have your best interest in mind. Credit repair scams, payday and title lenders all offer quick fixes, but they will end up hurting you in the end. Be very careful!

Four Walls – Shelter, Car, Food, Clothing for your family

Making Hard Decisions – Which bills first? Split payments? What options should you ask for? Many people find themselves in the split payment situation. Let us say you have \$100 left to put towards bills. Both your phone bill and your cable bill are each \$100. Is it better to send each company \$50 or to send one company the full \$100 and nothing to the second company?

It is better to pay all of one and none of the other. That way you are only delinquent with one company instead of two. The only exception to this would be if both companies give you permission in writing for partial payments.

Contact your creditors BEFORE they contact you. Use the debt worksheet in this pamphlet to start collecting your list of contact names, phone numbers, and account numbers.

When you call, tell them you want to pay them, but your first priority during this crisis is to feed and shelter your family.

Third party Collectors – What they CAN and CAN'T do!

The Federal Fair Debt Collection Protect Act was passed in 1977 to protect you from unfair collectors. The FDCPA applies only to third-party "debt collectors" or collection agencies, and does not apply to original creditors. In other words, if you financed your car at a small "corner lot dealer" and you're late with your payment; they do not have to adhere to FDCPA if they try to collect the debt themselves.

This is why we encourage you to use and have a local financial partner. If you do not already use a local bank or credit union search around town for one you like. A business in a different state is not going to care about you as a local business would.

- No collector may take a bank account or garnish wages without proper and lengthy court action, except in the case of delinquent IRS or student loan debt.
- All such threats are a bluff. You can tell them to please not call you at work. Per the FDCPA, they must respect your request.
- It is best to do this using certified mail with a return receipt.
- A collector's job is not to help your overall situation; their only job is to get your money.
- Collectors are trained salespeople or telemarketers. They are typically low paying jobs with high turnover (85%). They are taught in their training to evoke strong emotion to make you fearful or angry.
- They cannot harass or threaten you. Lodge any complaints with the Federal Trade Commission and your state's Consumer Affairs Division. Consumer Protection HOTLINE Toll free in Virginia: 1.800.552.9963
- Do not tell them to stop calling you. If they continue to be rude, inform them you will talk to them when they calm down, then hang up.
- Do not use a cease and desist letter except in horrible situations because all negotiations stop and any hope of positive resolution are lost.

Negotiating Tips

Communicate with creditors calmly, without making impossible promises. Do not let creditors pressure you into making decisions that will hurt you later. If you cannot yet afford to make payments on a particular "less important" bill, explain why it is less important and tell the creditor when you plan to begin making payments. Never agree to a payment plan that requires you to pay a low-priority debt and so makes it impossible to pay a high priority obligation, such as paying the rent or buying food for your family.

- Counter-offer the creditors' proposal. This is apt to be more successful than "back-and-forth" negotiating, particularly when a collection agency demands a larger payment than possible. Acknowledge the amount the creditor is requesting, and then propose a monthly payment and a payment date that fits your budget. Be willing to negotiate, but be firm in your commitment and avoid over promising.
- Learn when to pay off a debt for less than the full amount. In some situations, it may be beneficial for you to "settle" a debt that has already been sent to collections. This usually applies to situations where the account is already delinquent and so has already damaged your credit report. The opportunity to take this action may arise when you receive a lump sum of cash, such as a payout in a worker's compensation claim or a substantial tax refund. When debts are settled, you can usually pay a percentage of the amount owed, such as 65 to 80 percent. It is important, however, to get the creditors' written agreement to indicate that the debt has been "settled" or "satisfied" on the credit record. Some creditors also may

require your offer in writing. This information will remain on the credit record for seven years and may reduce your credit score, but the creditor will be "off the debtor's back" because the debt has been resolved.

- Be aware that when debts are settled for less than the full amount, the IRS views it as income. The difference between what is paid and what is owed, or the amount of the debt that is "waived," is considered income at tax time. This income is reported to the IRS on Form 1099C when the amount exceeds \$600.
- Understand that postdated checks may be cashed immediately. In Virginia, postdated checks are illegal and you are held responsible for the check. Creditors may agree to wait for payment if you give them postdated checks for deposit on a certain date each month. Some unscrupulous creditors will then turn around and attempt to cash the checks as soon as your account has a balance, causing NSF fees and delaying payments to other creditors. It is best to only send checks when money is currently available.
- Recognize that even collection agencies are open to negotiation. When possible, resolve the debt before it is sent to a collection agency. Collection agencies will probe for the fastest way to pay off a debt, which is now owed in full. However, most realize a monthly payment is all most people can handle and have some flexibility in setting payments.
- While some lenders will act quickly to repossess cars, others prefer to work with borrowers to obtain repayment. Lenders would always rather have a payment than the vehicle. Be aware: The repossession fee plus admin fee runs your loan up from \$300 - \$450 plus storage fees of \$35 - \$45 per day.

You can use these steps to prevent repossession.

- *Cure the default.* Curing the loan means repaying the past due amount. Negotiate a workout. Many lenders offer extensions on vehicle loans or offer opportunities to "catch up" on past due amounts. You should be proactive in contacting the lender and offering potential solutions. Factors to consider when weighing your decision include how much the car is currently worth, how much you have already paid, and the risk of owing an additional balance, or "deficiency," if the car is repossessed.
- *Sell the car.* Selling the car is always a good idea when you cannot afford to pay the loan. Selling the car is likely to require you to make adjustments, such as driving a less expensive car or moving to new housing that is close to public transportation or close enough to walk to work or ride a bicycle.
- *Voluntarily surrender the car.* This is when you return the car to the lender. Even though you willingly return the car, it still goes on your credit history as repossession. When a vehicle is voluntarily surrendered, make sure it is returned to the lender intact and clean so they can, in turn, sell it for as much as possible. You will still be responsible for the deficiency balance, but many lenders are willing to accept small monthly payments for this amount.

Alternatives to Bankruptcy

Self-Administered Budget and Repayment. You design and follow a disciplined budget to address both current income and expenses and a plan for repaying debt on your own.

A Debt Management Plan. You work with a licensed nonprofit credit-counseling agency to develop an acceptable and workable repayment plan with your creditors. You make regular payments to the credit-counseling agency, which disburses the funds to each creditor, who often will accept smaller payments, reduce interest charges, and eliminate late fees. Be wary of non-licensed for-profit companies offering these services!

Negotiated Debt Settlement. You may be able to negotiate directly with creditors to pay a lesser amount than what you owe. Make sure you get a signed, written agreement that says the creditor will inform the credit reporting agencies that it has received "payment in full" or "settled as agreed" so a notation can be made on your credit report. Debt settlement may have tax consequences. In some circumstances, the difference between the original debt and the reduced settlement payment may be considered taxable income so you should contact your attorney or an accountant before filing your taxes.

Home Equity and Home Refinance Loans. If you have any equity in your home, you may be able to get a home equity loan or line of credit. Keep in mind that if you default on a home equity loan or line of credit, you could lose your home to foreclosure so you should be certain you could make the payments before adopting this strategy.

Records to Have on Hand

Insurance Records

- Auto Insurance Policy
- Home Owners/Renters Insurance Policy
- Pictures of Interior and exterior of home to document assets and their condition
- Life Insurance Policies
- Policies sponsored by employers
- Insurance Appraisals

Identification Records

- Birth Certificates
- Marriage Certificates
- Social Security Identification
- Passports
- Military ID

Bank and Savings Records

- Brokerage Statement
- Bank Statement
- Savings Statements
- Savings Bonds Locations
- Location of Stocks and other Marketable Items
- Retirement Account Summary
- Loan Documents

Agreements

- Rental Agreement
- Official Legal Papers

Automobile Records

- Title /Registration Documents

Estate Records

- Wills
- Powers of Attorney
- Medical Directives
- Trust Documents

Military Records

- DD214 /Discharge Documentation
- VA Benefit

Use this decision tree to help you identify the budget items that you can control within your spending plan. Go through your budget and list each item as a "controllable" or a "not controllable" item. Then go through the controllable items and prioritize which ones are easiest to control and will create the greatest benefit to your budget.

CONTROLLABLE ITEMS

NOT CONTROLLABLE ITEMS



Sample Budget Plan

Monthly Income

| | |
|------------------------------|--|
| Gross Monthly Income | |
| Gross Monthly Income | |
| Rental Income | |
| Self Employment Income | |
| Interest and Dividend Income | |
| Child Support and Alimony | |
| Other Income | |
| Total Gross Income | |

Monthly Deductions

| | |
|---------------------------|--|
| Federal Taxes | |
| State Taxes | |
| Social Security | |
| Medicare | |
| Other Deductions | |
| Total Deductions | |
| Total Gross Income | |
| Total Deductions | |
| Net Income | |

Monthly Fixed Expenses

| | |
|------------------------------|--|
| Mortgage/Rent | |
| Savings | |
| Fixed Debt Payments | |
| Medical Insurance | |
| Child Care | |
| Child Support /Alimony | |
| Cable / Internet / Satellite | |
| Other | |
| Total Fixed Expenses | |

Monthly Variable Expenses

| | |
|------------------------|--|
| Food & Household Items | |
| Utilities | |
| Gasoline | |
| Phone | |
| Other | |
| Business Expenses | |
| Other | |
| Total Variable | |

S.M.A.R.T. Goals

Specific: State exactly what is to be done

Measurable: Include how the goal can be measured

Actionable: Determine steps to reach the goal

Realistic: Do not set goals for something unrealistic

Time Bound: State when the goal will be met

I want to buy a new car vs. SMART goal:

Specific: I want to save money for a down payment on a new car

Measurable: I need to save \$5,000 for the down payment

Actionable: I will save \$200 from every paycheck

Realistic: I usually waste the money on piddlycrap so I can easily set aside \$200 each payday

Time Bound: I want to have the \$5,000 saved in two years

What are your SMART goals?

| | |
|------------|--|
| Specific | |
| Measurable | |
| Actionable | |
| Realistic | |
| Time Bound | |

Sample Spending Diary

| Sunday | Monday | Tuesday | Wednesday |
|--------------|--------------|--------------|--------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total | Total | Total | Total |

| Thursday | Friday | Saturday | Week Total |
|--------------|--------------|--------------|--------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total | Total | Total | Total |

| | |
|--------------------|---------------|
| Week Total: | Notes: |
| Sun. _____ | |
| Mon. _____ | |
| Tues. _____ | |
| Wed. _____ | |
| Thurs. _____ | |
| Fri. _____ | |
| Sat. _____ | |
| TOTAL: | |

Whom do you call for help?

Plan B/Job Training – Even if you are currently employed, having a solid resume and skills that are in demand can help provide accelerate your career opportunities, and provide you a “Plan B.”

- Virginia Beach Public Library – Share Network Access Point (SNAP) Call: (757) 385-4321 or Email: library@vbgov.com
- Need a job? Are you unemployed and looking for a new job? Do you need computer or vocational training? Come learn about the services offered by the Opportunity Inc. /Virginia Workforce Connection. Library staff can get you help performing skills assessments, writing resumes, preparing you for job interviews, provide free computer training and can provide funds to attend school.
- Virginia Beach Adult Learning Center Call: (757) 648-6050 <http://www.alc.vbschools.com>
- The Adult Learning Center equips adults with 21st Century skills by providing rigorous and relevant learning opportunities, which enable learners to compete in the global society. Interested in expanding your career opportunities? Career training programs can get your working in a new career sooner than you think!
- The Adult Learning Center provides Adult Basic Education/GED® classes and community education classes to enhance student’s quality of life.
- Opportunity Inc. Visit: 861 Glenrock Road, Suite 223, Norfolk, VA 23502 or call: 757-461-7537 www.opp-inc.org
- Opportunity Inc. One-Stop Workforce Center offers job search, job related training and professional certifications for individuals. Unemployed individuals should work with both Opportunity Inc. One-Stop Workforce Center and Virginia Employment Commission to improve their marketability for gaining employment.
- Virginia Beach CDC: For those clients in need of job search assistance they have our recently opened Work Force Center. The Work Force Center provides computer based career search, resume preparation assistance, fax and printing equipment, and workshops on interviewing skills, interview attire, and career fair success.
- Virginia Employment Commission (VEC) 5145 East Virginia Beach Boulevard, Norfolk, 23502 or call: (757) 455-3960/3911 or email Norfolk@vec.virginia.gov
- The VEC Workforce Center, Employment Service mission makes available job search assistance to all (employed or unemployed) individuals, and recruiting and referral services to employers. Services available to job seekers include job referral and placement, referral to training, and job search skill building activities. The VEC’s Unemployment Insurance Service help alleviate hardship for the unemployed by providing income support to those workers who are unemployed through no fault of their own and promote re-employment and economic stability.
- The VEC Workforce Center host seminars and workshops to help job seekers with skill such as resume writing, interviewing, job search strategies, and networking. Specialized employment and transition services for veterans are available in VEC Workforce Centers.
- Virginia Beach Department of Human Services 3432 Virginia Beach Blvd., Virginia Beach, VA 23452

Tax Help Contact Information

Millions of workers who saw their earnings drop in 2011 might qualify for an Earned Income Tax Credit the first time. The credit has been making the lives of workers a little easier for more than 37 years. Yet it remains little known, possibly because people move into and out of eligibility as their financial, marital and parental statuses change. IRS estimates only four of five eligible workers claim and receives their EITC.

- EITC Online Assistant - The online EITC Assistant at www.irs.gov can help you find out if you are eligible for this credit or download the EITC finder app to your phone free.
- Get Free Help to File - If you have household income of less than \$52,000, free help preparing your return and claiming EITC is available at volunteer income tax assistance sites. Virginia Beach has a variety of volunteer tax preparation sites including the AARP sites, which are also trained to help you gain access to the EITC. All volunteer tax preparation sites will electronically file your return free.
- Child Tax Credit - A taxpayer who has a dependent child under age 17 probably qualifies for the child tax credit. This credit, which can be as much as \$1,000 per eligible child, is in addition to the regular \$3,500 exemption claimed for each dependent.
- Credit for Child and Dependent Care Expenses - An individual who pays someone to care for a child so he or she can work or look for work probably qualifies for the child and dependent care credit. Normally, the child must be the taxpayer's dependent and under age 13. Though often referred to as the childcare credit, this credit is also available to those who pay someone to care for a spouse or dependent, regardless of age, which is unable to care for him- or herself.
- Education Credits - The Hope Credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time. A taxpayer can also choose the lifetime learning credit, even if she is only taking one course.
- Saver's Credit - The Saver's Credit is designed to help low- and moderate-income workers save for retirement. Eligible savers can receive 50% of their contributions up to \$1,000 on their tax return.
- Adjusting your W-4 (submit to your human resources office) - If you owed taxes at the end of the year, you may want to consider *reducing* the number of exemptions on your W-4 form. This will reduce your paycheck and reserve more money to pay taxes.
- If you received a large refund, you may want to consider *increasing* the number of exemptions to increase your paycheck and have more money available for your monthly budget.

Tools and Partners to Help You Handle Financial Challenges

Who can teach me more money management.

Know Your Balance: Your checkbook register is an important money management tool. By reconciling your checking account, you will always know how much you have at any given time. In your register, you will record checks written, ATM or debit card transactions and automatic payments from your account. Check with your local credit union for counseling resources they may have.

Partners who can help you evaluate your credit history and take steps to improve your credit score and reduce your debts

BankOn Coaches: If you participate in BankOn, you have access to personal coaching to help you get control of your cash flow and build a budget that can keep you from paying unnecessary bank fees. You keep more money in your pockets while improving your credit score at the same time.

BankOn Blog: A resource for asking questions, getting worksheets and materials, and staying informed of the latest news for Bank On. Visit <http://bankonvb.blogspot.com> for more information.

Catholic Charities of Eastern Virginia: 5361-A Virginia Beach Blvd., Virginia Beach, VA 23462 or call: 757-484-0703. Offers free, comprehensive, individualized one-on-one financial counseling sessions that help clients set financial goals, develop spending plans, rehabilitate credit, increase savings, and reduce debt.

Virginia Beach Public Libraries: (757) 385-4321 Libraries can be a source for free family fun as you look to reduce your monthly expenses. Check out their selection of movies and games as well as great books to provide hours of entertainment. In addition, the library is host to many community events each year, check out their calendar of events.

Local Credit Unions: many local credit unions offer credit-counseling services to their members at no cost.

Debt Repayment

If you have debts and are having a difficult time making your monthly payments, you have some no cost and low – cost options to help you take control of your debt repayment. Credit counselors from partners listed above can help you to develop a Debt Management Plan (DMP) to manage your debt. In addition, many credit unions offer DMP programs that can make your debt burden more manageable.

Web resources to help you get started

www.creditkarma.com: This site can be used to learn your Trans Union your credit score. Credit Karma can monitor your score monthly to help you track your progress and provides a scorecard that will give you actions to take to improve your credit score.

Annual Credit Report: There are many websites that claim to offer free credit reports, but only one that is endorsed by the federal government: www.annualcreditreport.com. From this website, you can obtain a free credit report from each of the three credit reporting bureaus each year (Experian, Equifax, and Transunion). Knowing what creditors say about you is the first step in building a stronger credit score. You can also get your credit report by calling 877-322-8228.

www.myfico.com: Educational materials, webinars to learn more about your credit score, and actions to take to improve your score.

www.mymoney.gov: MyMoney.gov is the U.S. government's website dedicated to teaching all Americans the basics about financial education.

Mint: www.mint.com free budgeting tool - See all your balances and transactions together, on the web or your phone. Mint automatically pulls all your financial information into one place, so you can finally get the entire picture. Mint automatically updates and categorizes your information, and suggests ways to help you save. Mint can even send automatic alerts—like bill reminders—to your mobile phone or email.

Money 101: www.money101thebasics.com. Enter your financial information and get systematic instructions on how to assess your current financial situation. Print a comprehensive assessment report that gives you a clear picture of your current financial situation and helpful personalized hints, tips and strategies.

211 - There is help available. When you dial 2-1-1, a trained professional listens to your situation and suggests sources of help using one of the largest databases of health and human services in Virginia. All referrals are confidential and you can search for these same services on this 2-1-1 VIRGINIA website, 211virginia.org.

Glossary

Bankruptcy ~ a legal proceeding involving a person or business that is unable to repay outstanding debts.

Collection agency ~ a firm that collects unpaid bills for other firms and is usually compensated by receiving a percentage of the amount collected.

Creditor ~ a person to whom money is owed; also known as a lender.

Debtor ~ a person who is in debt or under financial obligation to another.

Default ~ failure to meet financial obligations.

The Federal Fair Debt Collection Protective Act ~ passed in 1977 to protect you from unfair collectors; applies only to third-party "debt collectors" or collection agencies, and does not apply to original creditors.

Financial abuse ~ used to gain power and control in a relationship.

Foreclosure ~ action taken by a creditor to recover a debt that was secured by real estate.

Judgment ~ a decision by a court that describes the rights and obligations of both parties in a lawsuit.

Levy ~ type of judgment that allows creditors to take control of a debtor's bank accounts. Unlike a wage garnishment, where the court order is typically limited to a specific percentage of income, a levy can be used to claim the full amount of the account.

Repossession ~ regain possession of, especially for nonpayment of money due.

Settle ~ to agree upon, as in a payment amount.

Waived ~ to put aside or dismiss.

Wage garnishment ~ a court order that requires a debtor's employer to withhold money from the debtor's paycheck.

Credits:

Thank you BankOn Virginia Beach, Office of Financial Empowerment for contributions to this article.

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