NEGOTIATING WITH CREDITORS

Most people encounter financial difficulties at some point in their lives. The loss of a job, a serious medical condition, and divorce are a few examples of unforeseen life events that can wreak havoc on a person’s finances. Listed below are some basic steps to help you develop a plan of recovery and negotiate effectively with creditors.

Preparing to Negotiate

Before contacting creditors, you must have a firm grasp of your current financial standing.

- **Establish a budget** – Include all sources of income and expenses. A written budget will enable you to calculate what you can afford, allow you to track your progress, and keep your payments organized. The Credit Union can help you in this process with a free Spending Plan Review offered at your local branch.
- **Prioritize which creditors should be paid first** – The most important financial obligations should be paid first, usually housing and transportation.
- **Set goals** – Develop a strategy to settle each debt. If you need help, the Credit Union offers free Debt Elimination Counseling at your local branch to assist you in establishing a payment plan to pay off each of your creditors.

Communicating with Creditors

Be proactive in reaching out to creditors once you have established a plan of action. Creditors may approve payment plans, loan extensions, reduced interest rates, and refunds of late payment fees. Creditors will often make special arrangements if you demonstrate your willingness and ability to pay.

- Explain the circumstances that led to your inability to pay, and offer your plan.
- Commit to only what you can afford, and be firm in your position.
- Keep the lines of communication open. Do not ignore a creditor’s attempt to contact you.

Helpful Tips for Successful Negotiations

Focus on a solution-oriented process in your negotiations with creditors.

- Know how much you have to offer and attempt to identify what the creditor may accept. If a creditor believes you can afford to pay a specific amount, they may be unwilling to accept a smaller payment.
- Offer a lump sum as part of a settlement arrangement. Creditors may accept considerably less than what is owed to them if they doubt the prospects of collecting future payments. **Note:** Cancellation of debt may trigger a 1099-C Cancellation of Debt notice which could result in additional tax liability.
- If the creditor refuses a lump sum settlement, offer a monthly payment arrangement you can afford.
- Put your agreement in writing, and keep documentation of your negotiations. Draft a letter summarizing the agreement and keep evidence of delivery to the creditor.

Did you know that your Credit Union offers Financial Counseling Services? For more information about negotiating with creditors, debt elimination, credit report review, and spending plan review, please contact your local branch. We are here to help!

The Credit Union does not negotiate with creditors on behalf of its members nor do we negotiate amounts owed or interest rates charged on Credit Union loans. If you are having difficulty re-paying your Credit Union loans, please speak with your Credit Union lending officer who may be able to restructure your debts or offer other alternatives.