



Which Bills to Pay First....?

**Derived from the Debt-Proof Living Newsletter*

If you don't have enough money to pay all of your bills, which should you pay first, and which ones can slide for awhile?

Allowing bills to become delinquent is wrong, but available cash can only be stretched so far. That doesn't mean you are excused from payment, just that you need to know how to prioritize in a way that will cause the least amount of long-term damage, and keep you in the best position to eventually catch up.

Rule of thumb: *Do not make payments on nonessential debts when you have not paid the essential ones. (Even if your nonessential creditors are breathing down your neck.)*

Essential Debts

An essential debt represents a serious obligation that if not paid could produce severe, even life-threatening consequences. Once you've determined which debts are essential, prioritize them according to severity of the consequences you will suffer for non-payment:

1. **Family Necessities.** Usually means basic food, unavoidable medical expenses including health insurance. While these expenses should be at the top of your priority list, they should also be kept to the absolute, bare bones minimum. You don't eat T-bone steaks three times a week when you are unable to pay your phone bill.
2. **Rent or Mortgage.** Always assume that your landlord or mortgage lender will immediately proceed to evict or foreclose if you are late with a payment. Home equity loans and other consolidation loans secured by your home, are essential and fall into this category. If you own your own home, real estate taxes and insurance must also be paid unless they are included in the monthly payment.
3. **Utilities.** Next you should pay the minimum required to keep essential utility services. You may not have to pay the full amount of the bill, but the minimum necessary to avoid disconnection should be made if at all possible.
4. **Car Payments.** If a car is necessary to keep your job, making the loan or lease payment is the next priority. You must also keep up to date with insurance payments or the creditor may buy costly insurance for you at *your* expense that gives you less protection. In most states it is illegal not to have automobile liability coverage. If you can give up one or more of your cars, you will not only save on payments, but also on gasoline, repairs, insurance and license fees.
5. **Child Support.** Paying child support is absolutely essential. Not paying can land you in jail.

6. **Other Secured Loans.** Beyond your home and car, debts on furniture, boats, RV's and expensive electronic gear are all likely secured –that means the lender can repossess for nonpayment. You will know the debt is secured if you signed a security agreement. If the property is something you can not live without and you think the creditor will take it for non-payment, you need to keep the debt current. Otherwise, consider it nonessential.
7. **Unpaid Taxes.** If the IRS is about to take your paycheck, bank account, house or other property you need to set up a repayment plan immediately. If the amount is less than \$10,000 and you have never defaulted on an agreement with the IRS, you have the automatic right to a monthly payment schedule to pay your taxes. Even if the amount is over \$10,000, or you've defaulted in the past, the IRS might still be willing to negotiate a payment plan if you can convince the agent that you'll stick with it this time.

Nonessential Debts

These are financial obligations that will have a lesser and/or significantly delayed effect if you withhold payment for a limited time. Understand that to do so may cause blemishes to your credit file. But, in the big picture, a blemished credit report is easier to live with than being thrown out of your home, or having your car repossessed.

8. **Student Loans.** Most delinquent student loans are backed by the US government and the law provides for special collection remedies. These could include seizure of your tax refund and special wage garnishment.
9. **Credit, Department Stores, and Gasoline Cards.** The consequences for falling behind with these debts will be losing your credit privileges and, if the debt is unusually high, you may be sued.
10. **Loans from Friends and Relatives.** You should feel a moral obligation to pay, but these creditors will likely be the most understanding of your situation. Have an honest talk, explain your situation and plan, and then confirm your commitment to full repayment.
11. **Medical, Legal, and Accounting Bills.** While these are real and will be paid eventually, they are rarely essential with one exception: If you are still receiving necessary treatment from the provider to whom you owe money, you must keep up with the minimum payments to prevent these services from being cut off.
12. **Other Unsecured Loans.** Every other debt you owe is probably in this category. These unsecured debts are rarely, if ever, essential to pay first.

Your Role. As a good steward and caretaker of the funds that flow into your life – meager as they may appear to be – don't allow your emotions to dictate how you will distribute them. Do not let your creditors set the agenda, either. You must lead with strength, courage, and confidence based on good sound principles.

Do not hide, do not lie. Above all do not take your situation personally. Adopt a business mindset and treat your creditors as you would want to be treated if the tables were turned. Be courteous and respectful yet assertive. **DO NOT MAKE PROMISES YOU CAN NOT KEEP.** And when your situation turns around (and it will) keep the promises you have made to your creditors, your family, and yourself.