

Financial Crisis Management

Handling a Credit Crisis

Sometimes a credit crisis is unavoidable, perhaps due to a lost job or significant health care expenses. In those situations, communication with creditors is critical. In nearly all cases, talking with creditors earlier rather than later will yield you more favorable results. It is much easier to work things out with a financial institution before it turns your account over to a collection agency. If you find yourself in this situation you may want to contact a National Council on Aging Economic Security Center in your community for the name of a reputable debt counselor. Benefit programs are constantly changing; therefore, you may want to check in your community for organizations that address older adult concerns.

Dealing with a Credit Emergency

- Ask your creditors for more favorable lending terms, such as lower finance charges and a lower minimum monthly payment. While this will lengthen the time to pay down the debt and may result in paying more finance charges over the long run, it could prevent your utilities (for example) from being cut off in the short term.
- If a debt situation becomes intolerable, contact the National Foundation for Credit Counseling (www.nfcc.org). This organization will help you take control of your spending and work out an affordable repayment plan.
- Protect your financial assets while you're in a credit crisis. Avoid services that claim they can "eliminate" debt or "fix" a credit score. You will typically pay a lot of money for these services and could end up in a situation that is no better, or possibly even worse.

Avoid Credit Traps

Wise use of debt in retirement also means avoiding credit traps. Repeated rolling of a debt from one credit card to another, for instance, can lower your credit score. Unless a credit card interest rate reduction is significant, such as a drop of 4 or 5 percent or more, moving a debt around is only delaying the inevitable. Rather than moving a debt around, pay down the debt as aggressively as possible. Or consolidate many higher-rate debts into one at a lower rate, if possible. No matter how bad your credit crisis may seem, be careful of quick fixes, such as the following:

- Pawnshops
- Check-cashing stores
- Cash-advance firms
- Payday lenders
- Rent-to-own companies
- Auto title loan companies

In nearly all cases, the costs of using one of these so-called "loan shops" will far outweigh any benefits you might gain.