

WHEN BILLS AREN'T PAID

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What happens when bills are not paid depends on your credit contract. You'll be faced with ever-increasing pressure to pay up.

The Pressure Begins

One of the first actions taken to make you pay your bills will be a letter asking you to make the payments. After that, you may receive telephone calls. If bills still are not paid, they will probably be turned over to an independent collection agency. While the agency will try to get you to pay, you are protected by law from certain actions. The agency:

- May only contact you between 8 a.m. and 9 p.m.
- Cannot discuss your financial situation with others. (But they can ask others how to find you.)
- Cannot use abusive language or threaten you with violence.

You have the right to tell the agency in writing not to contact you, but creditors can still take you to court to force you to pay. The law only applies to debt collection agencies. It does not limit what your creditors themselves can do.

A Creditor's Options

Creditors can take several kinds of legal action against you, which may have been written into the sales contract you signed. You may also receive several letters from the creditor's attorney warning you of the intended action.

Acceleration. The entire debt is payable at once if you miss a payment. The courts can force you to pay by seizing and selling your property.

Repossession. The creditor can seize the item you bought or the property you put up as collateral. If the sale of the property brings less than the amount you owe, you still must pay the difference.

Wage garnishment. Creditors must have proof of your debt to get a court order to garnish your wages. Employers will then withhold part of your wages and pay it directly to your creditor. Only one creditor can collect at a time. Others must wait, and often their collection efforts stop. The law limits the amount that can be withheld. The exact amount withheld depends on family size and special circumstances.

The same law protects you from being fired as a result of garnishment for one debt. However, you are not protected against being fired for a second garnishment.

Wage assignment. There are some contracts in which you give your creditor the right to your future wages. If you miss a payment, your creditor simply tells your employer to withhold part of your wages. The creditor does not need a court order to do this. Although employers are not legally bound to honor the creditor's request, they probably will.

The law offers no protection against being fired for a wage assignment.

Foreclosure. If you do not make your mortgage payments, your lender will start foreclosure proceedings to acquire your home. Late notices will be sent during the first 30 days of delinquency, followed by a demand letter. Thirty days later, the loan is referred to an attorney.

Once an attorney is retained, extra costs of \$500 to \$1,000 or more in fees and expenses will begin accumulating and will be added to your loan. The type and length of time taken for a foreclosure varies from three additional months to a year or more after expiration of the demand letter. The lender, within statutory limits, retains the right to choose between a summary foreclosure or judicial foreclosure. With the judicial foreclosure comes the right to establish and collect a deficiency balance but also gives the borrowers a 12 month period to redeem the property.

The only alternative to foreclosure is to sell your house. If the loan balance is greater than market value and your other assets are insufficient to make up the difference, discuss with your lender the possibility of a presale. You would still need a buyer, but the lender or mortgage insurer may assist in making up the difference.

One last option may be a Deed in Lieu of Foreclosure, which is at the lender's option. In a rare case this mechanism can be approved and will minimize legal expenses and your costs. But in all cases a foreclosure of any sort, or a Deed in Lieu, is reported to all national or regional credit reporting agencies. This type of derogatory item will appear on your credit record for seven years, while a bankruptcy will show for 10 years and will affect your ability to obtain credit or financing.

Using credit lets you put off paying for goods – for a while – but if money is scarce, you may just be piling up your problems for later when the bills start coming in.

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