[Rock music] You're listening to Rebuilding after a Financial Crisis. Hi, I'm Nikki, your host for today's podcast. There are many things in life that can derail even the best money management plans. When a crisis happens, most people take things day-by-day just hoping to get by. When the dust settles they're often left with a financial situation that is less than rosy. There are no savings to speak of, their credit is shot, and there's debt that needs to be paid. However, with hard work and dedication a healthy financial future is possible.

This podcast covers the steps you can take to rebuild after a financial crisis, including: budgeting, debt repayment, rebuilding credit, emergency savings, and replenishing retirement savings.

Let's begin with budgeting. Whether you're a millionaire or a minimum wage earner, the foundation of financial success comes down to one thing: budgeting. Budgeting simply means analyzing the money you have coming in, then developing a reasonable and goal-oriented plan for what goes out.

The first step is to write a list of your income and expenses. If you don't know exactly what you are spending, don't worry, just write down an estimate for now. To get more accurate figures in the future, start tracking your expenses on a worksheet or a spreadsheet. Don't forget to list in your budget debt payments and money put aside for savings. For periodic expenses, such as vacations or birthdays, determine the annual amount and divide it by twelve.

Though no two budgets are alike, there is a common rule: expenses should never exceed income. If you are currently spending more than you earn, you should increase your income, reduce your expenses or do both. Increasing income can be difficult, but most people have some expenses they can trim. Take a look at how you spend your money and determine what is and isn't necessary. Write down your proposed changes in your budget, and make an effort to track your expenses on an ongoing basis to help you recognize when you've reached your limits. If you overspend once and a while, try not to get discouraged. No one is perfect. If it happens often, you may need to readjust your budget so it's more realistic.

Next is debt repayment. When a financial crisis hits, many people rely on credit to get them through the storm. Eventually, they have to face repaying that debt. The first step in tackling debt is determining who and how much you owe. If you have a stack of unopened bills, take a deep breath and open them. If you don't have recent statements, call your creditors and ask them for up to date account information.

Next, create a plan of attack. How you do it depends on the status of your accounts. If you have accounts that you were able to keep current, they don't require any urgent action. However, keep in mind that if you owe a significant amount and only make the minimum payments, it could take years to pay off. This is why you should pay more than the minimum whenever possible.

If you have multiple accounts, focus your extra payments on one creditor at a time. Many people like to start with the lowest balance because it can be paid off the soonest. However, you'll save the most money by starting with the account charging the highest interest rate. Once the first debt is paid off, put that money towards the next debt and so on until all the debts are paid off.

You can also speed up paying your debts by finding ways to lower your interest rates. Want to know a simple way to lower your rate? Call your creditors and ask for a rate reduction. They may say know, but it only takes a few minutes of your time. If you have a good credit score, you can also look into transferring balances to a low-rate credit card or getting a consolidation or home equity loan. However, you have to be very careful not to charge up the old accounts.

Another option is a debt management plan in which many creditors give you lower rates in exchange for closing your accounts and going through counseling. It's important to use a reputable agency. Ask your financial institution for a referral if you're interested. Now if you have delinquent accounts, you should take care of these right away. If you fall far enough behind, it's possible that your debt will be sent to a collection agency which will severely damage your credit report. This typically happens after four to six months of non-payment.

Most creditors want you to pay your bills and will work with you. Give them a call and ask if it's possible to pay back the amount over a few months. You can also see if they're willing to settle the debt for less than the amount owed. Typically, when you settle you must pay the amount all at once or within a short period of time.

Once an account goes to a collection agency, the damage to your credit report has been done. Paying off collection accounts shouldn't be a priority anymore, but it's not a good idea to ignore them either. You still could be sued for non-payment. Collection agencies are usually very willing to settle debts for a fraction of the amount owed. You should always get a settlement agreement in writing before sending a payment. Although they're not required to do so, you can ask them to remove the collection account from your credit report. At the very least, they are required to report that the account was paid.

Most collection agencies will also accept monthly payments, even if they say they won't. Send them a check and chances are they'll cash it instead of throwing it in the trash. Since you may not receive statements from a collection agency, it's very important to keep your canceled checks or other proof of the payments you made. Keep in mind that it's still possible to be sued as long as you have an outstanding balance and the statute of limitations has not expired.

When negotiating with creditors, beware of debt settlement agencies. These are companies you may see advertising on television, promising to help you settle your debt. Avoid these companies. They typically charge high fees and may not contact your creditors for several months, if at all. You're much better off negotiating with your creditors on your own or going with a reputable credit counseling agency.

Rebuilding credit. Your entire credit history is tracked by your credit report and ranked using a credit score. Information that appears on your report and affects your score includes your: credit balances, past payment record, and credit related legal activities, such as foreclosures, repossessions, evictions, judgments, and bankruptcies.

When you apply for new credit, a creditor typically checks your credit report and or score to determine whether or not to approve you and what interest rate to charge. Landlords and insurance companies also frequently check them too. As you can see, having a good credit report and score can make life a little easier. However, when people experience a financial crisis, they often do things that negatively impact them. You can't undo the past. After all, most negative information can stay on your credit report for seven years, but there are steps you can take to have a better credit report and score in the future.

These include, pay on time, every time. Eliminating late payments will have a positive effect on your score. Pay down existing debt. A large debt load will lower your score. Explore ways to lower your interest rates and free up cash to make more than the minimum payments. Avoid taking on additional debt and dispute credit report errors. Review your credit report from each of the three credit bureaus: Equifax, Experian, and Transunion. You can get a free copy of your credit report annually from www.annualcreditreport.com. If you see any errors, dispute them with the relevant bureaus.

What if all of your accounts were closed. Well, besides paying off outstanding debt, there is not much you can do to improve your score without having active accounts in good standing. Getting new credit can be tricky if your credit score is low, but there are a few options. One option is a secured credit card. For this you'll need to put down a deposit which the creditor gets to keep if you do not make payments. While a secured credit card is typically easier to get than a regular credit card, the credit limit is usually low and the fees can be high. However, many creditors are willing to convert a secured credit card to a regular credit card after a year or two of on time payments.

Another option is to ask a friend or family member who has a good credit history to cosign for you. Be careful with this type of arrangement. Any late payments you make will not only reflect poorly on your credit report, but your co-signers as well. Some companies claim to repair credit reports, often for a very high fee. It's best to avoid them. Many times, a company will charge you for something you can do yourself for free, like writing a letter to dispute inaccurate information. Or they may even engage in dishonest or illegal tactics. Definitely not a good way to rebuild your credit.

Emergency savings. You probably don't want to think about the troubles that could occur in the future, but unfortunately, bad things can happen to good people, more than once. One of the best things you can do to prepare for the unexpected is to save money. When you have savings, you don't have to put unexpected car repairs or medical bills on your credit card or worry about how you'll pay your mortgage if you lose your job.

Financial experts recommend putting away at least three to six months' worth of living expenses and emergency savings. If you don’t already have that amount, determine how much you can set aside each month until you reach your goal. Since you don't know when you may need the money, put it in an account that is easily accessible and where there are no penalties for early withdrawal. A savings account is usually a good choice.

Saving is easier if you make it an automatic process. If you have direct deposit through work, you should be able to have a portion of your paycheck deposited into your savings account. Additionally, many financial institutions allow you to set up an automatic transfer of funds from your checking account to your savings account.

Replenishing your retirement savings. People often return to their retirement fund when faced with a financial crisis, either by withdrawing funds or stopping deposits into their retirement accounts. If retirement is several years or even decades away, it may seem easy to push it aside and focus on more immediate concerns, but saving for retirement isn't something that can be done overnight.

Borrowing or withdrawing against a retirement fund, can cost you a significant amount of money in lost potential and investment earnings. You can't un-borrow or un-withdraw the money, but you can focus on replenishing the retirement fund. If you've stopped your contributions, restart them, even if you're paying back a loan. If you reduce them, bring them back up. If you weren't contributing to begin with, now is the perfect time to start.

Most employers offer a retirement plan, the most common one being the 401k. You can also contribute to a traditional or ROTH individual retirement account on your own. You may want to consult with a financial advisor if you're not sure how much you should be saving or what investment options you should choose.

Remember an unfavorable financial situation is not set in stone. You can gain control of your finances and pay all of your bills on time, pay off your debt, have a good credit report and score, and save.

And that's all for this podcast. For balance, this is Nikki, saying thank you for listening.

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