

Prioritizing Debt Repayment When Experiencing Financial Problems

By Michael D. Lieberman and Steven J. Cohen, June 2020

Credit card companies, lenders and advertisers constantly bombard us regarding the importance of our credit scores. However, they deliver their message in extremely broad strokes without regard to an individual's unique personal economic circumstances. This often creates confusion for people experiencing financial difficulties. And it forces them to make poor decisions thereby causing a long-lasting negative impact on their future. When experiencing such hardships, it is important to consider the big picture and prioritize how you handle these issues.

Frequently, we meet with clients obsessed with the effect their strategy will have on their credit score. While not unimportant, impact on the credit score should only be one of many factors considered when adopting a game plan to resolve financial problems. For example, clients have told me that they missed mortgage, rent or vehicle payments, in favor of making their minimum monthly credit card payments, to avoid the potential reduction in their credit score.

Other clients have said that they intended to liquidate their exempt (protected) retirement accounts to pay off their credit card debt, potentially jeopardizing their retirement or wiping out their limited rainy-day resources. Respectfully, this is backward thinking. When an individual experiences true financial hardship and has limited resources to pay his or her obligations, the focus must be on keeping a roof over head, food on the table and transportation to get to work, doctor's appointments and other necessary places.

In analyzing one's circumstances, the long-range effect of a short-term decision must be contemplated. Factors to be considered include age, health, length of time until retirement, length of time for recovery from a possible bankruptcy filing, and whether a realistic need for future credit even exists. Preserving exempt assets and protecting your home, your transportation and feeding your family should be the dominant concerns. Sometimes sacrificing your credit score by seeking bankruptcy or some other form of debt resolution becomes the most prudent way to work out a long-range plan to economic rehabilitation. The almighty credit score should not always dictate how one handles financial issues.

Before making the decision to liquidate or otherwise risk losing a retirement plan or other important (and perhaps protected) assets, consult with an expert who can help develop a game plan for dealing with the overall problem. Lipson Neilson attorneys Michael D. Lieberman and Steven J. Cohen can help guide you toward the most beneficial option(s) for your situation.

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