



Digging Yourself Out of Debt – with Dignity

By Kim Blueher, Director of Lending, WESST Corp.

America's debt crisis is a collective one. Our government is spending beyond its means, and so are businesses and individuals.

How much debt is too much? When we can't afford to make payments on time.

How did we get here? Sometimes we spend too much. Sometimes divorce, illness or unexpected unemployment affects our ability to meet financial obligations. A sudden drop in sales can evaporate cash flow for a small business. And if loan payments are late, that business might have trouble ever getting another loan.

A successful relationship with your creditor depends on communication. At the first sign of difficulty, warn lenders of your predicament. They will respect you for taking responsibility and are more likely to be flexible about restructuring your payment plan.

I recently received a letter from a borrower who owns a small publishing business. She had lost an order, income was down and she worried about her ability to make payments on time. She wrote all her creditors to alert them and said she would do her best to meet payments. To date she has not missed a payment, but if she does, I'll know why and be prepared to work with her.

When clients miss a payment, it's often because they mailed it late or simply forgot to write the check. But sometimes the business is in trouble and the owner is too embarrassed to talk about it. Such avoidance causes stress and frustration for lender and client. As humiliating as it is to admit we can't pay a bill, most lenders are willing to restructure debt and set up payments more suitable to a business's or individual's resources. Because a lender's goal is to be repaid, enabling the borrower to resume regular payments — even if it takes longer for the loan to be repaid — is best for everyone. The lender then has money to lend another client, and the entrepreneur maintains a good credit rating and a sense of pride at overcoming adversity.

When renegotiating a payment plan, the goal should be to design a payment that can be made every month. A small payment made regularly is more valuable to the lender and your credit record than a larger payment made irregularly. Consider the case of one of our first clients, who obtained a small loan for her cleaning company. When health problems forced her to close the business, she spent the next few years moving around the country. Despite her hardships, she

faithfully sent us \$25 every month. It took her almost 10 years to pay off a three-year loan. But to me, this woman's character and moral fiber are unparalleled.

Another client whose sales fell short of expectations after she moved to a larger location managed to keep up with payments on her small-business loan but not on her personal mortgage. She decided to sell her house and found the mortgage company willing to work with her because she keeps in touch and the lender knows she is actively working to sell the house and pay off the debt.

If you have loans that are already overdue or have been turned over to a collection agency, it's past time to get over your embarrassment and contact the lender to negotiate a mutually acceptable arrangement. Before you start negotiating, learn as much as you can about the options available to you and the best strategies to use. You can research resources on the Internet or go to www.moneymanagement.org for more information. And don't hire a debt-consolidation agency or consultant before you're sure it's reliable and won't ruin your credit for years to come.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

