# Credit and Natural or Declared Disasters

## Tips for Financial Coaches

CREDIT BUILDERS TOOLKIT®

### How to protect or mitigate damage to credit during a natural or declared disaster

During times of disaster and crisis, many people experience stress and uncertainty. While paying bills on-time may not be high on the priority list initially, it's important to have a strategy in place for avoiding and recovering from financial harm. How can you prepare for and support your clients during and after a Natural or Declared Disaster?

**First,** assess income and savings. Explore options to make a payment plan for any utility services (such as electricity, gas and cable) to free up money in your budget. If services are interrupted due to the event, explore options to suspend the service completely. Some financial institutions may offer financial hardship accommodations due to the disaster. Assess available lines of credit and how they can be used strategically to cover budget gaps. Keep in mind that how you use credit will impact household finances and credit utilization moving forward.

**Second,** help clients determine what they CAN and MUST pay and set priorities about who to pay first. Mortgage, rent, auto payments, and insurance payments are generally important to keep current if possible. However, credit cards and installment loans should also be addressed to mitigate future or prolonged financial harm, Consider the following:

- For homeowners, contact the mortgage servicer to discuss the situation and explore options. Even if a home is damaged or destroyed, the damage does not stop the homeowner's responsibility to pay the mortgage.
- For renters, contact the landlord and try to work out payment arrangements or contract adjustments depending on the situation.
- In cases of damage to or loss of a home or other personal property, contact the insurance company to start the claims process. Request a copy of the homeowner, renter, or auto insurance policy if the client does not have one available.

# Credit and Natural or Declared Disasters

## Tips for Financial Coaches

- For auto and personal loans, contact the lender immediately to explore options if repayment is going to be impacted by the natural or declared disaster. In crisis situations, many lenders take proactive steps and create special departments to support borrowers who might have trouble paying. Clients may receive emails from a lender with details about their response to a crisis situation and can also look on the financial institution's website for more information. Financial institutions may agree to waive late fees or provide other remediation for payment disruption.

*Most creditors will try to find a way to work with borrowers. Make the call before the next payment is due*

Generally, if income is interrupted or reduced, making it difficult to make minimum payments or pay on-time, borrowers should be sure to contact their lenders as soon as possible. According to the Consumer Financial Protection Bureau (CFPB), most creditors will try to find a way to work with borrowers in these difficult situations. The important thing is to make the call before the next payment is due. Late or missing payments could damage an individual's credit score at a time when they may need access to credit most.

### When communicating with creditors, consider the following:

- Look on the statement or the back of the credit card to get the creditor's contact number and call the creditor directly rather than responding to an email. Doing so helps protect vulnerable clients from scammers who may be posing as lenders in order to collect information and possibly steal sensitive information.
- Explain the situation and plan for resuming normal payments. Depending on the situation, options could include various short- and long-term payment assistance programs or even putting a temporary hold on payments altogether.
- When contacting creditors, clients should be prepared to tell them how they have been impacted by the disaster or emergency, how long their ability to pay will be affected and how much they can afford to put toward your bill(s) at this time, if anything.
- Keep a detailed written record of the conversation; record the name of the representative, what they promised, and when the phone call took place. If a creditor agrees to a major change to the credit agreement, such as a temporary suspension of payments, request doc-umentation of the modification in writing.

Credit Builders ALLIANCE

# Credit and Natural or Declared Disasters

## Tips for Financial Coaches

CREDIT BUILDERS TOOLKIT®

**Third,** requesting a credit report during or immediately after a disaster or crisis situation can help to reflect a person's financial situation before any financial impact resulting from the disaster has occurred. As a result, an individual can later make the case to a lender or someone else checking a credit report—such as a potential future landlord—that the disaster, not financial mismanagement, caused the credit scores to drop. Consider the following steps:

- Access a free credit report from each of the three big credit bureaus (Experian, Equifax and TransUnion) by visiting AnnualCreditReport.com.
- Add a 100-word statement to the credit report explaining the financial hardship that result-ed from the natural or declared disaster and how it caused credit to suffer. While this won't impact the credit score, it will let any potential creditors know what's going on and can con-vey that the consumer is working to bring any delinquent accounts current. Depending on their policies, creditors may consider that in any lending decisions. Just remember to revise and eventually remove the 100-word statement as the situation improves so the statement doesn't hinder borrowing abilities in the future.

**Finally,** if you are in a presidentially declared disaster area, you may qualify for disaster assistance. Check with the Federal Emergency Management Agency (FEMA) for more information.

### HELPFUL LINKS to learn more

Consumer Financial Protection Bureau search "natural disasters"
www.consumerfinance.gov

Federal Emergency Management Organization
www.fema.gov

Ready.gov
www.ready.gov

Mint: How to Manage Finances Before, and Through a Natural Disaster
www.mint.com/financial-goals/how-to-manage-finances-before-and-through-a-natural-disaster

To request a free credit report
www.annualcreditreport.com

**Visit CBA's Learning Library for more tip sheets, tools, and resources on a variety of Credit Building topics!**

**cbatraininginstitute.org**