to as "unsecured." It is usually hard for unsecured creditors to collect what they are owed unless you pay voluntarily.

Debts with collateral are almost always your highest priority debts. How important it is to repay your other debts, particularly in the short-term, depends a lot on your individual circumstances. You should carefully review Chapter Nine to understand the consequences you are most likely to face if you stop paying your lower priority debts. This will help guide your decision making as you choose which debts to repay and in what order.

Regardless, it is almost always going to be true that the creditor making the most noise is not necessarily your most important creditor. Creditors who yell the loudest often do so only because they have no better way to get their money.

UNSECURED VS. SECURED DEBTS

Keep in mind this list of common unsecured and secured debts as you set your debt priorities. Remember that secured debts have some type of collateral, such as your house, attached to them.

SECURED DEBTS:	Mortgages Car Loans Loans secured by household goods
UNSECURED DEBTS:	Credit and charge cards Legal or medical bills Loans from friends or relatives Department store and gasoline card charges (unless the card specifically says that it is a "secured credit card")

SIXTEEN RULES ABOUT WHICH DEBTS TO PAY FIRST

These sixteen rules about how to set debt priorities are followed by advice about what to do if you cannot pay all of your high-priority debts. Other chapters in this book provide much more detailed information about the consequences of not paying certain types of debts. The following list is a good place to start.

1. Always pay family necessities first. Usually this means food and unavoidable medical expenses if the medical provider requires pre-payment.

(Do *not* pay old medical bills first.) You may want to look at ways to keep these expenses to a minimum as discussed in Chapter Two.

2. Next pay your housing-related bills. Keep up your mortgage or rent payments if at all possible. If you own your home, real estate taxes and insurance must also be paid unless they are included in the monthly mortgage payment. Similarly, any condo fees or manufactured home lot payments should be considered a high priority. Failure to pay these debts can lead to loss of your home.

If you are having very serious problems that require you to move to a cheaper residence, you might choose to stop paying the mortgage or rent. When you do so, you should not use that money to pay other debts, but rather save it as a fund to use for moving. Dealing with mortgage debts is discussed in more detail in Chapters Ten through Thirteen. Rent payments and dealing with landlords are discussed in Chapter Fourteen.

3. Pay the minimum required to keep essential utility service. At the very least, you should pay the minimum payment necessary to avoid disconnection. Working hard to keep your house or apartment makes little sense if you cannot live there because you have no utilities. Options for dealing with utility payments and disconnections are discussed in Chapter Fifteen.

4. Pay car loans or leases next if you need to keep your car. If you need your car to get to work or for other essential transportation, you should usually make your car loan or lease payments your next priority after food, housing costs, unavoidable medical expenses, and utilities. You may even want to pay for the car first if the car is necessary to keep your job.

If you do keep the car, stay up to date on your insurance payments as well. Otherwise the creditor may buy costly insurance for you at *your* expense that gives you *less* protection. And in most states it is illegal not to have automobile liability coverage.

If you can give up your car or one of your cars, you not only save on car payments, but also on gasoline, repairs, insurance, and automobile taxes. Car loan debts are discussed in Chapter Sixteen.

5. You must pay child support debts. These debts will not go away and can result in very serious problems, including prison, for nonpayment.

6. Income tax debts are also high priority. You must pay any income taxes you owe that are not automatically deducted from your wages, and you certainly must file your federal income tax return even if you cannot afford to pay any balance due. The government has many collection rights that other creditors do not have, particularly if you do not file your tax return. Remember, though, if you have lost income due to a change of circumstances, your tax obligations will also be reduced. Pay only what is necessary. See Chapter Nineteen.

7. Loans without collateral are low priority. Most credit card debts, attorney, doctor, and hospital bills, other debts to professionals, open accounts with merchants, and similar debts are low priority. You have not pledged any collateral for these loans, and there is rarely anything that these creditors can do to hurt you in the short term.

8. Loans with only household goods as collateral are also low priority. Sometimes a creditor requires you to place some of your household goods as collateral on a loan. You should generally treat this loan the same as an unsecured debt—as a low priority. Creditors rarely seize household goods because they have little market value, it is hard to take them without involving the courts, and it is time-consuming and expensive to use the courts to seize them. These issues are discussed in more detail in Chapter Seventeen.

9. Do *not* move a debt up in priority because the creditor or collector threatens suit. Many threats to sue are not carried out. Even if the creditor does sue, it will take a while for the collector to be able to seize your property, and much of your property may be exempt from seizure. On the other hand, nonpayment of rent, mortgage, and car debts may result in immediate loss of your home or car. Debt collection lawsuits and threats to sue are discussed in Chapter Nine.

10. Find out whether you have good legal defenses to repayment. Some examples of legal defenses are that the goods you purchased were defective or that the creditor is asking for more money than it is entitled to. If you have a defense, you should obtain legal advice to determine whether your defense will succeed. In evaluating these options, remember that it is especially dangerous to withhold mortgage or rent payments without legal advice. However, for all debts, you should consider fighting back when you have a valid defense, as discussed in Chapter Nine.

11. Court judgments against you move debts up in priority, but often less than you think. After a collector obtains a court judgment, that debt often should move up in priority, because the creditor can enforce that judgment by asking the court to seize certain portions of your property, wages, and bank accounts. How serious a threat this really is will depend on your state's law, the value of your property, and your income. It may be that all your property and wages are protected under state law. If this is the case, you are considered to be "collection proof." This means that your income and assets are fully protected from seizure. If you are collection proof, you do not really have to worry about the judgment unless your financial situation gets much better. If you are not collection proof, you will need to evaluate whether the consequences of not paying your debts are likely to be worse than the costs of paying them. You might also want to consider whether bankruptcy is a useful option for you. This is also a good time to obtain professional advice if you have not done so already.

12. Government student loans are medium-priority debts. Government student loans should generally be paid ahead of low-priority debts, but after top-priority debts. The law provides special collection remedies to the government that are not available to other creditors. These include seizure of your tax refunds, special wage garnishment rules, denial of new government student loans and grants, and, in some cases, seizure of federal benefits such as Social Security. The law also provides special remedies for borrowers hoping to get out of default. These include reasonable and affordable payment plans, loan consolidation, and even cancellation in some circumstances. These extreme collection powers do not apply to private student loans. Private student loans should be treated more like other types of unsecured debt. These issues are discussed in Chapter Eighteen.

13. Debt collection efforts should *never* move up a debt's priority. Be polite to the collector, but make your own choices about which debts to pay based on what is best for your family. Debt collectors are unlikely to give you good advice. Debt collectors may be most aggressive when trying to get you to pay debts that you should actually pay last. You can stop debt collection contacts and you have legal remedies to deal with collection harassment. See Chapter Eight.

14. Threats to ruin your credit record should *never* move up a debt's priority. Many collectors that threaten to report your delinquency to a credit bureau have already done so. If the creditor has not yet reported the status of your account to a credit bureau, it is unlikely that a collector hired by that creditor will do so. In fact, your mortgage lender, your car creditor, and other big creditors are *much* more likely to report your delinquency (without any threat) than is a debt collector who threatens you about your credit record. See Chapter Three.

15. Cosigned debts should be treated like your other debts. You may have cosigned for someone else and put up *your* home or car as collateral. If the other cosigner on the loan is not keeping the debt current, you need to treat that loan as a high-priority debt. If you have *not* put up such collateral, treat cosigned debts as a lower priority. If others have cosigned for you and you are unable to pay the debt, you should tell your cosigners about your financial problems so that they can decide what to do.

16. Refinancing is rarely the answer. You should always be careful about refinancing. It can be very expensive and it can give creditors more opportunities to seize your important assets. A short-term fix can lead to long-term problems. Some refinancing rules and techniques to avoid scams are discussed in Chapter Six.

IF YOU CAN'T PAY ALL YOUR HIGH-PRIORITY DEBTS

You may find that your financial situation is so bad that you cannot even maintain required payments on your high-priority debts. Your income, for example, may not be enough to pay your mortgage and car loan.

One serious mistake that some people make in this situation is to pay smaller, low-priority debts if they cannot keep up with their high-priority debts—"If I can't pay my mortgage, at least I will keep up with my credit cards."

This is a bad idea. Almost any long-term plan for saving your home and your car will require that you start making payments again at some point. In the short term, if you don't have enough money to make full payments, you can try to negotiate with the creditor to accept partial payments. If you are unsuccessful, save the money. You can use it later to make a down payment, to get caught up, or to cover the costs of moving to a new residence or buying a new car.