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Choosing Which Debts to Pay First

Choosing which debts to pay when you can't pay everyone. The Consequences of not paying different types of debt. What if you cannot pay all your important debts?

Unsecured vs. Secured Debt

The most important principle in setting priorities is to understand the concept of *collateral*. Collateral is property which a creditor has the right to seize if you do not pay a particular debt. The most common forms of collateral are your home in the case of a mortgage (or deed of trust) and your car in the case of most car loans.

Determine which of your debts
are “*secured*” and which are “*unsecured*”.
You should almost always pay secured debts first.

1. **Always Pay Family Necessities First.** Usually this means food and unavoidable medical expenses.
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 mortgage payment. Similarly, any condo fees or mobile home lot payments should be considered a high priority.
3. **Pay the Minimum Required to Keep Essential Utility Service.** While this may not always require full and immediate payment of the entire amount of the bill, the minimum payment necessary to avoid disconnection should be made if at all possible.
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 will 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. This would also mean keeping up on the car insurance payments as well.

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. 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.
7. **Loans Without Collateral Are Low Priority.** Most credit card debts, attorney, doctor and hospital bills, and other debts to professionals, open accounts with merchants, and similar debts are low priority.
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 low priority.
9. **Do Not Move a Debt Up in Priority Because the Creditor 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.
10. **Do Not Pay When You Have Good Legal Defenses to Repayment.** Some examples of legal defenses are that goods purchased were defective, or that the creditor is asking for more money than it is entitled to.
11. **Court Judgments Against You Move 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 of your property, wages, and bank accounts. This is also a good time to obtain professional advice.
12. **Student Loans Are Medium Priority Debts.** They should generally be paid ahead of low priority debts.
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.
14. **Threats to Ruin Your Credit Record Should Never Move Up a Debt's Priority.** In many cases, when a collector threatens to report your delinquency to a credit bureau, the creditor has already provided the credit bureau with the exact status of the account.
15. **Cosigned Debts Should Be Treated Like Your Other Debts.** If you have put up your home or car as collateral on a loan, that is a high-priority debt for you if the other cosigners are not keeping the debt current.
16. **Refinancing Is Rarely the Answer.** You should always be careful about refinancing.