Prioritizing Debt: Which bills do I pay first?

Credit Problems
Nearly all of us at one time or another has faced a problem with a creditor: the IRS, a credit card company or hospital. Often, you have money to pay some of their bills, but you do not have enough to pay them all. If you are in this position, you may find it hard to know which bills to pay first.

This publication will define the different general types of debt you may have and then help you prioritize and figure out which debts to pay first. This publication provides general advice only. If you face serious debt issues, check with other resources, including an attorney. (We have information concerning helpful resources at the end of this publication.)

Types of Creditors
When it comes to use of your limited resources, you should give the basics, or "necessities," priority. Example: you would choose to use your last dollar to pay for food or shelter over luxuries such as jewelry.

It can also help in debt prioritizing to understand the different types of debt and creditors.

Unsecured vs. Secured Creditors
A creditor is someone to whom you owe money. A creditor could be almost any entity: the government (the IRS for taxes; the local court for traffic or parking fines); credit card companies; local retailers (an appliance store); medical providers (doctors, dentists, hospitals); or a collection agency collecting debt you originally owed to someone else.

- Unsecured Creditors are creditors that have either loaned you money or agreed to sell you something based solely on your promise to repay them under certain terms or conditions.

- Secured Creditors agree to sell you something or give you a loan in exchange for your promise to repay PLUS the provision of "collateral" as a guarantee. Collateral could be anything: a piece of furniture, your car, or your bank account. It often includes the property you bought. The creditor can take back ("repossess") the collateral IF (and ONLY IF) you violate the terms of the contract (example: fail to make payments as required).

Home Foreclosure and Eviction
These are two special types of debt collection. If you do not make your house payments, the creditor can foreclose on your home. The creditor will be able to sell the home. You will have to leave. Along the same lines, a landlord can evict you if you do not pay rent and have no valid defense
for this. If someone is trying to foreclose on your home or evict you, talk to an attorney.

Debt Prioritization

The type of debt/creditor at issue can you help figure out which debt to give priority. Secured creditors can more easily and quickly take your property away to satisfy a debt. You should make payment to certain secured creditors over others more important, depending on the collateral or risks involved.

The checklist below is based on the above ideas.

Debt Priority Checklist

1. **Always pay family necessities first.** Usually this means food and essential medical expenses. Find ways to keep these expenses down.

2. **Next, pay your housing-related bills.** Keep up your mortgage or rent payments if at all possible. If you own your home, you must also pay real estate taxes and insurance (unless they are part of your monthly mortgage payment). Similarly, any condo fees or mobile home lot payments are a high priority. If you do not pay these debts, you may lose your home.

   If you are having very serious problems that force you to move to a cheaper place, you might choose to stop paying the mortgage or rent.

   TALK TO AN ATTORNEY FIRST IF POSSIBLE. If you choose to move, do not use that money to pay other debts. Save it as a fund to use for moving.

3. **Pay what you must to keep essential utility service.** Make whatever payments are necessary whenever possible. You may not always have to make full payment (such as during a winter moratorium on disconnections – see our publication [Public Utilities](#)). It makes no sense to keep up on your house or apartment if it is unlivable because you have no utilities.

4. **Pay car loans or leases next if you really need your car.** If you need your car to get to work or for other essential transportation, you should make your car loan or lease payments next after food, housing costs, medical expenses, and utilities. You may even want to pay for the car first, if you need it to hold onto your job.

   If you do keep the car, you must stay current on your insurance payments as well. Otherwise, the creditor may buy for you at your expense costly collision and theft insurance that may give you minimal protection. (In Washington State, it is illegal to not have automobile liability coverage.) If you can do without your car or one of your cars, you save on car
payments, gasoline, repairs, and insurance.

5. **You must pay child support debts.** These debts will not go away and can have serious consequences if not paid – 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. You must also file your federal income tax return, even if you cannot afford to pay what is due. The government has many rights which other creditors do not have, especially if you do not file your tax return. Remember: if you have lost income due to a change of circumstances, your tax obligations will also be reduced. Pay only what you have to.

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. You have not pledged any collateral for these loans. There is little that these creditors can do to hurt you in the short-term.

8. **Loans with only household goods collateral are also low priority.** A creditor might make you put some of your household goods up as collateral on a loan. You should generally treat such a loan the same as an unsecured debt - a low priority. Creditors rarely seize household goods. They have little market value and are hard to seize without court process. It takes more time and to use the court process than is worth it.

9. **Do not move a debt up in priority when a creditor threatens suit.** Many creditors do not carry out their threats to sue. Even if the
creditor does sue, it will take a while for the collector to be able to reach your property, bank account, or wages, and much of your property may be exempt from seizure. On the other hand, non-payment of rent, mortgage, and car debts may result in immediate loss of your home or car. (See our publications Debtor’s Rights in a Lawsuit and How Do I Answer a Lawsuit for Debt Collection.)

10. Do not pay when you have good legal defenses for repayment. Examples: the goods you bought were defective, or the creditor is asking for more money than it is entitled to. If you think you have a legal defense, get legal advice to determine whether your defense will succeed. In evaluating these options, remember: it is especially dangerous to stop mortgage or rent payments without legal advice. However, for all other debts, consider fighting back when you have a valid defense.

11. Take court judgments against you seriously. After a collector gets a court judgment, you should move that debt up in priority. The creditor can now enforce that judgment by asking the court to seize your property, or garnish your wages and/or bank account. The seriousness of a threat depends on the applicable law, the value of your property, and your income. State law might protect all of your property and wages. If so, you should still pay this debt only after more pressing obligations. Talk to an attorney for advice on your specific situation.

12. Student loans are medium priority debts. You should generally pay your student loan debts after top priority debts and before low priority debts. Most delinquent student loans are backed by the United States. Federal law provides special collection remedies against you that other creditors do not have. Examples: seizure of your tax refunds, and denying you new student loans and grants. The Department of Education may also try to garnish some of your government benefits. If this happens, talk to an attorney immediately. There are rules limiting how much the Department of Education may garnish.

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 will not give you good advice. They may be most aggressive to get you to pay debts that you should actually pay last. You can easily stop debt collection contacts, and you have legal
remedies to deal with collection harassment. (See our publication Debtor’s Rights: Dealing with Collection Agencies.)

14. Threats to ruin your credit record should never move up a debt’s priority. Often, 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. If the creditor has not done so, a collector hired by the creditor is very unlikely to 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. Treat co-signed debts like your other debts. If you have put up your home or car as collateral on a loan, it is a high priority debt for you if the other co-signers are not paying. If you have not put up such collateral, they are a lower priority. If others have co-signed for you and you cannot pay the debt, tell your co-signer about your financial problems so that s/he can decide what to do about that debt.

15. Refinancing is rarely the answer. Beware! Refinancing can be very expensive. It can give creditors more opportunities to seize your important assets. Example: by refinancing unsecured credit card debt through a loan where your home is collateral (second mortgage), you have now put your home at risk if you default on the new loan. A short-term fix can create long-term problems. (See the Federal Trade Commission’s publication Home Equity Loans: Buyer Beware.)

Garnishment

Garnishment is a powerful tool for creditors who have gotten a court judgment mandating payment of a debt. Garnishment allows these creditors to be paid directly from your income or bank accounts. In Washington State, the law protects certain kinds of income and personal property from garnishment. (See our publication How to Claim Personal Property Exemptions.) If someone is trying to garnish your income or seize your property or bank account, talk to an attorney.

What if I Need Legal Help?

- Apply online with CLEAR*Online - http://nwjustice.org/clear-online or
- Call CLEAR at 1-888-201-1014

CLEAR is Washington’s toll-free, statewide intake, advice and referral service for low-income people looking for free legal help with civil legal problems.

- Outside King County: Call 1-888-201-1014 weekdays from 9:10 a.m. until 12:25 p.m. CLEAR works with a
language line to provide free interpreters as needed. If you are deaf or hard of hearing, call 1-888-201-1014 using your preferred TTY or Video relay service.

- **King County**: Call 211 for information and referral to a legal services provider Monday through Friday from 8:00 am – 6:00 pm. Or call (206) 461-3200, or the toll-free number 1-877-211-WASH (9274). 211 works with a language line to provide free interpreters as needed. If you are deaf or hard of hearing, call 1-800-833-6384 or 711. You will be connected to a relay operator at no cost, who will then connect you with 211. You may also find information on King County legal service providers on 211’s website: www.resourcehouse.com/win211/.

- **If you are age 60 or Over**: Call CLEAR*Sr. at 1-888-387-7111, regardless of your income.