6 Keys to Bouncing Back From a Financial Disaster

Nobody goes looking for a financial crisis. As a matter of fact, most people who are on the verge of one may see it coming only to bury their heads in the sand, hoping it will pass. Another thing people do is go into a denial mode, thinking they can continue to spend as they used to because that new job, or great deal is around the corner to bail them out. That is the worse thing anyone can do.

I know firsthand the thoughts and fears people face who are going through a financial crisis because I have been there and done that. My husband and I found ourselves $300,000 in debt. We'd sold our business at a loss and reinvested the money into another business that failed. Other factors contributing to this overwhelming debt had to do with bad advice we'd gotten from an accountant, our own poor decisions and a bad economy in the early 1990s.

Our income dropped 70 percent. Although the money went away, the bills didn't. Bill collectors harassed us. In addition, we owed the Internal Revenue Service money from a partnership, and we were being sued by a bank as a result of a business loan we had.

To make matters worse, I had let our medical insurance lapse to save money, and 30 days later my youngest daughter, Mindy, had to have emergency brain surgery and almost died. I can't begin to tell you the devastation of not knowing if your daughter is going to live or die, coupled with the apprehension of wondering what would happen when it was discovered that we didn't have medical insurance.

God performed two miracles: First, my daughter survived the surgery without any side effects. Then, several months later the hospital notified us that Mindy qualified for a special program for children who had suffered traumatic illnesses; the medical bills were paid.

A week after Mindy’s surgery, the IRS took all of our money out of our account. The funds had been borrowed to pay our housing expenses, and I thought I had an arrangement with them, but it appeared I didn’t.

I contacted them right away; I was hysterical from the stress. I explained to the agent what we had just gone through, fearing the worse. God stepped in once again. The agent said that they would return all the money except $100 and set us up on a payment program. Another miracle!

For six weeks, one catastrophe after another happened. During the sixth week, I had had enough. God has promised never to allow more on you than He will put within you to handle. I felt I had handled enough and couldn’t survive another day. I went to the backyard crying and pacing, carrying my Bible. OK, I wasn’t just crying, I was sobbing, screaming and yelling to God: “Where are you? I can’t handle this anymore.” As I paced and prayed, I stopped and opened my Bible to Isaiah 58:9: “Then you will call, and the Lord will answer; you will cry for help, and He will say: ‘Here am I'” (NIV).

I was frozen. God had answered me through His Word.

From that day forward, it was as though everything changed. I knew we were going to be fine. It was just a matter of time and our getting the right plan in motion. We contemplated filing for bankruptcy, but decided to try and find a way to deal with the problem before taking such a drastic step. It took us many years to climb out of this pit, but we did it without filing for bankruptcy.

Did we pay back $300,000? No, we ended up negotiating with our creditors including the IRS, and we worked out settlements to clear our name.

It still amazes me all these years later how God not only changed my life by showing me a plan, but He also gave me a ministry and business to help people with credit and money issues through education and counseling. Not only that, Mindy works side by side with me in the business helping others as well. Through my misfortune, I have been able to help others focus on their financial problems and situations in order to rebound.

One way to dismantle an impending financial crisis or begin the recovery process is to create a budget. A budget will give you a clear picture of your financial situation.

Begin by adding up all of your recurring bills. When calculating your expenses, keep in mind that some of your bills may be paid annually such as property taxes. Take the amount that is owed yearly, divide by 12 and add it to your budget.

You should also include in your budget items that are unexpected such as car maintenance. Total all of your expenses. Next, total your monthly income. Now, subtract your expenses from your income.

If the amount is negative, it is imperative that you cut back your expenses in some areas. If the amount is positive, pat yourself on the back and put that extra amount in savings each month.

Vanessa was a single mom of two teenagers who kept overdrawing her checking account. Even though she made a good income, she found herself short of cash each month. She knew if she didn’t get her finances organized, she was going to find herself in serious financial trouble.

Vanessa decided to make a monthly budget to get a better handle on her finances. Within a couple of months, she was not only able to make ends meet, but she could also begin saving money.

Another action to offset a financial crisis is to have a savings account. The ideal amount to have saved is three to six months of living expenses.

If you are married, and both you and your husband are working, the minimum amount for you to save is three months of living expenses. If you are single, or only one spouse is working, the amount you should have in reserve is six months of living expenses.

Don’t get discouraged if you feel that these amounts seem too high or unreachable. Put any money you can into savings, even if it is a small amount. Did you know that saving only $167 a month equates to more than $2,000 a year?

Becoming debt free will also help you when facing a financial crisis. Make a list of all your debts. See where you can make extra payments and pay more than the minimum balances. Paying more than what is owed per month on your credit cards will greatly reduce the amount of interest and shorten the repayment term.

Sometimes, no matter what we do, we still find ourselves faced with a financial disaster. The worst thing you can do is panic and lose hope. Fear and panic will paralyze you from making a plan. The Bible says, “For God has not given us a spirit of fear, but of power and of love and of a sound mind” (2 Tim. 1:7, NKJV). A sound mind will help you stay focused to formulate a plan.

When a crisis hits, the following proactive steps will help you begin the process of turning your situation around:

1. Prioritize your bills. Some bills are essential, while other bills are considered nonessential or borderline. You must determine which bills fit into each of these three categories.

Essential bills are necessary for your survival and must be paid first. These include your mortgage or rent payments, utility bills and food. Child support and any loans such as automobiles, furniture and so forth that are secured or used as collateral to obtain the loans should be included with the essential bills.

Nonessential bills are debts in which no immediate consequences would occur if payments are late. These include unsecured debts such as credit and charge cards, medical bills and newspaper subscriptions.

One of the biggest mistakes I made was paying the creditors who harassed and intimidated me the most and not taking care of the essential bills. Once I grasped the fact that my credit was already ruined, and our family had to come first, I was able to make the right choices as to whom to pay first.

Also, I studied the Fair Debt Collection Practice Act (), which showed me what my rights were, and I realized many of these collection agencies were in fact breaking the law. Knowledge gives you power, especially when facing a tough financial situation.

Borderline bills fall into either essential or nonessential categories. You are the judge as to which category these bills should be assigned. When reviewing your borderline bills you must move them over to either the essential or nonessential category, based on the severity of the indebtedness.

If you are unable to pay all your creditors, communication is key. There can be severe consequences for not paying your essential bills. By communicating with your creditors you have a better chance of working out a repayment plan. Creditors have their own policies for delinquent accounts, and what can be worked out will depend on how far behind you are in making payments. Write a letter or call the creditor to explain your circumstances.

A couple, Mike and Brenda, were struggling to make ends meet after Brenda became ill and could not work. Immediately, they contacted their creditors to explain the situation. Most of their creditors, including their landlord, were willing to work out a payment plan.

2. Negotiate with your creditors. Most of your bills will have large penalty fees and interest tacked onto the balance, making it higher than the amount with which you started. Come up with a number that you can pay the creditor and make them an offer. For example, if your bill is $1,000 make an offer of $400 to settle the account within three days. Get it in writing before you pay it.

For the best results, have the money ready to send once you have made an agreement and gotten it in writing from the creditor that they will accept the payment as payment in full.

Never make a payment until you have the written agreement in your possession. Make your offer at the end of the month when the creditor is trying to close out their accounts.

3. Focus on controlling your spending. Just about everyone wastes money in some way or another. Those lattes, candy bars and sodas can add up each month. To determine where your money is going, write down all of your expenditures for an entire month. At the end of the month add up your spending. Cut back on spending where you can and add those funds back into your budget.

4. Generate extra income. This is another proactive step you should take when dealing with a financial crisis. Consider holding a garage sale or selling unwanted items on Internet auction sites. If you enjoy a hobby, you can use it to increase your income. For example, if you enjoy sewing, offer your services to neighbors, relatives and friends for a fee. Use the money to help offset any drop in your regular income.

Getting a part-time job is also a way to get the extra cash you need to survive. However, it is important that the money you earn is more than the amount spent on child care or work clothes for that job.

5. Contact a debt-management company. A reputable debt-management company, such as Debt Relief Solutions, can assist you in dealing with your creditors. They can help you lower your interest rates and payments and pay off your debt faster than if you tried to do it on your own.

Educate yourself in all areas of finance. Pray daily for God to give you wisdom and peace. The Scriptures state that "If any of you lacks wisdom, he should ask God, who gives generously to all without finding fault, and it will be given to him" (James 1:5, NIV).

6. Give to the Lord. When going through a financial crisis it is easy to become discouraged and stop tithing. Second Corinthians 9:7-8 says: "Each man should give what he has decided in his heart to give, not reluctantly or under compulsion, for God loves a cheerful giver. And God is able to make all grace abound to you, so that in all things at all times, having all that you need, you will abound in every good work" (NIV).

When facing a serious financial challenge, my counsel to you is to give what you can. If you can't give your full tithe, volunteer your time and services to your church or to a needy cause. Time is worth money. Later, when you are re-established financially, increase your giving. God will bless you when you give what you can with a cheerful heart.

When we were going through hard times, God never ceased to amaze me by always making sure we had the things we needed at the precise time when we needed them. God will always come through when we are obedient to Him. During a financial crisis, remember that things will get better. In time, your situation will improve if you faithfully, consistently apply the steps outlined here.

Read a companion devotional.

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