

FINANCIAL CO-DEPENDENCY

Why do we as families feel a compulsion to pay the bills/debts of our addicted family members, often at great personal sacrifice and with little to no gratitude from the beneficiary? Why is it that once everything is paid and current, that the defaults recur, and we are confronted with the identical circumstances again...and again....and again? I believe the answer is that we are attempting to shield our family member from the consequences of default, and that often our fears of those consequences are unfounded.

Like all acts of enabling and co-dependency, paying the obligations of our addicts sends a signal that our addict cannot accept and execute his or her own responsibilities and that someone else needs to step in and take care of business. We take great satisfaction in knowing that we have “helped” the addict avoid serious consequences despite the fact that the behavior which led to the family’s sacrifice has not changed. And why should it? We have taken the hardship out of the equation and set up a scenario for continuing the irresponsibility.

So what are the consequences of default that make us so co-dependent? What are the myths and what are the facts surrounding unpaid bills and the resulting actions that creditors may take? Let’s examine a few of the most common types of obligations that our addicts tend to assume and look at the real world effects that defaulting on those obligations would have if we decided to NOT intervene.

RETAIL ACCOUNTS (INCLUDING CREDIT CARDS)

Retail businesses which offer credit accounts to their customers do so with an acceptance of the risk involved. It is incumbent on a business to assess risk before offering the credit and to recognize credit losses as one of their costs of doing business and incorporate those costs into their product pricing. Retail accounts, including credit cards, are typically “unsecured,” which means that there is no collateral for the debt and no recourse other than through the court system. A retail account default is NOT a criminal matter and is not adjudicated in CRIMINAL court; rather, it is a CIVIL matter and the worst that a creditor can do to a defaulting customer is obtain and execute a judgment. The only way the judgment can be executed is through the seizure of assets such as bank accounts or personal property like electronics or jewelry by court order. The court order is usually a product of a deposition where the defaulter is required to enumerate their assets.

In our situation, the addict typically has no assets that can be seized and going through the costs of obtaining judgment, deposition, and execution far exceeds the potential return; therefore, most retail creditors will simply write off their debt and take no further action. The only truly serious consequence from this type of default is the impact on the addict’s credit score when it is reported to the credit bureaus as “uncollectible.” Usually, though, the delinquency which preceded the loss has already negatively impacted the credit score and the incremental damage of the loss is not material.

AUTO LOANS

Automobile loans are a different animal. Typically, the vehicle is collateral for the loan and there are numerous ways one can default to the point that the creditor can justify repossession. The most common default is delinquent payments, but auto loan accounts also provide for technical defaults as well.

- Payment default: Banks and finance companies begin to call delinquent customers very early in the process...sometimes as soon as the day after payment is due! They are prohibited by law from discussing the loan with anyone other than the borrower, so our involvement should at most be “message taking.” If we ask the creditor to not call our home, they are required to comply with that request. If they ask us for information on the whereabouts or phone number of our addict, we are not required to provide that information. Under no circumstances are we EVER required to actually make the payment unless we have co-signed (more on that later). Typically, banks and finance companies will not initiate repossession until the third payment is past due, in order to give the customer every opportunity to become current AND to limit their loss on the collateral.
- Technical default: Often, automobile contracts contain a number of promises, or covenants, not related to timely payments. Frequently, they will require the maintenance of collision insurance for the life of the loan; often they will contain a requirement that the vehicle not be taken out of state without the express permission of the creditor. Some contracts even require timely notice of change of address or even telephone number and failure to do so can be regarded as “default.” Again, the recourse for technical default can be repossession of the collateral.

So what then are the consequences of repossession? Basically, it usually means that for some period of time, the borrower will be without transportation and that there will be a lingering debt after the sale of the collateral. The creditor will prepare the car for sale, sell it, and establish a “deficiency balance.” **THE SALE OF THE CAR DOES NOT IN ITSELF SATISFY THE DEBT; A COMBINATION OF SALE PROCEEDS AND PAYMENT OF ANY DEFICIENCY IS THE ONLY WAY THE DEBT CAN BE SATISFIED IN FULL.** And how are deficiency balances treated? Typically, they are written off. The cost of judgment, deposition and execution will often exceed the potential return, as the deficiency balance, like retail accounts, is now “unsecured” and can only be forcibly recovered via seizure of assets. No assets, no recovery.

The most significant perceived consequence of repossession, though, is the impact on credit score and the barrier this creates to obtaining future loans. But again, the delinquency of payments prior to the repossession probably did more damage to the credit score than the repossession itself and making the payments to help the addict avoid repossession will typically not reduce the impact to his/her credit score.

AUTO INSURANCE PREMIUMS

All autos are required by law to have liability insurance. If insurance lapses due to non-payment of the premium, the owner can be criminally charged if the car is used while uninsured. Also, as mentioned above, many auto loan financing contracts require the maintenance of collision insurance for the life of the loan. So what happens if the addict doesn't pay and we don't pay either? By law, the license plate must be removed from the car and returned to the state, and the car must not be used for as long as it is not insured for liability. If the financing company receives notice of the collision insurance cancellation, they are allowed by the contract to repossess the car. Driving without insurance is never a good idea, both from a financial and a legal perspective. Preventing the loss of our addict's vehicle use by paying the insurance premium is never a good idea because it enables and rewards the irresponsible behavior which led to the non-payment of the premium in the first place. Experience has shown that it will keep happening again and again for as long as we continue to pay it.

STUDENT LOANS

Federally insured student loans take the creditors off the hook for loss, but the federal government has a powerful and tenacious arm for collection. The most used technique for collection by the government is the seizure of future tax refunds and the garnishment of other federal benefits. Again, default on these loans is not a criminal matter; it is still a civil matter despite the government's involvement. The temptation to pay these loans for the addict is very high, though, because of the tone of the collection efforts the government expends when collecting.

UTILITY BILLS

Since utility bills, including electric, gas, land-line and wireless telephone, cable TV, water, etc. are typically "pay as you go," the consequence of default will typically be the discontinuation of the service. However, the power companies all have "hardship" funds which can assist if the addict truly can't pay. They also have "budget" plans to help people through the high-usage months. Once again, the "write-off" will be reported to the credit bureaus, but other credit issues have typically already ruined the addict's credit score. Paying the utility bill to prevent a hit to the credit score or to forestall discontinuation of service is of no value and will usually only delay the process.

RENT/MORTGAGE

The fear that our loved one will be homeless is the primary motivator for paying these bills on their behalf. This is an understandable emotion, but the facts are that there are numerous alternatives available; a residence with a lower rent/mortgage payment, room-mating, government programs such as Section 8, and shelters, to name a few. By our not paying these bills, the addict will be forced to seek out one of these alternatives. If the property is a rental, the landlord can sue for the unpaid rent, but what value would it be if the addict has no assets? Likewise, if the property is owned, the creditor can foreclose. In either case, the impact on the addict's credit score is extremely negative, but in most situations, the credit score was already destroyed before the rent or mortgage payment default. There is no value in making these

payments for the addict, especially if the intent is to preserve his/her credit rating. As for the equity in owned property, foreclosures almost always end up selling for a loss, regardless of the amount of initial or subsequent investment by the owner, so preserving equity is typically not a justification for making the addict's mortgage payments.

INTERNAL REVENUE SERVICE/STATE DEPARTMENT OF REVENUE

Willful tax evasion is in fact a criminal violation and will not be addressed here. But “making a mistake” on tax returns or failing to remit due to lack of funds is a different matter in most cases. The IRS and even the state, will work with delinquent tax payers to arrive at a payment plan or even a settlement of the amounts due in the case of financial hardship. By paying our addict's taxes, we send the message that this is another responsibility that can be avoided because someone else will take care of it. Our addicted family members need to understand the seriousness of these debts and the necessity for making arrangements to pay. The message will never be received for as long as someone else is paying.

INTERNET LOANS/PAYDAY LOANS

These types of loans are absolutely the most scandalous and carry the highest interest rates. Once ensnared in these traps, they are very difficult for our addicts or anyone else to ever pay off. When co-dependents decide to “help” with these types of loans, it once again signals that this behavior carries no risk and as such, it is sure to be repeated again in the future. These types of companies have “unethical” collection methods and can be downright fearsome to encounter. Under no circumstances should we as families EVER attempt to intervene in these situations as they are typically very intimidating and unending!

BAD CHECKS

When our addicts get desperate for money, a common avenue for relief comes in the form of writing bad checks to any number of payees: creditors, grocery stores, convenience stores, payday lenders, friends, and even relatives. Families feel pressure to make these checks good for two reasons: criminal charges can be filed in some cases and the failure to make them good can result in the inability to open a checking account for seven years. Almost every bank in America belongs to a database known as QualiFile (previously known as ChekSystems) and this database is very unforgiving once a person's name goes on the list. No one likes to think about criminal charges being filed against a loved one, but mitigating these consequences for the addict will typically perpetuate the behavior and it will be repeated for as long as someone else is willing to pay. Losing the privilege of having a checking account is inconvenient and expensive (money orders aren't cheap!), but it is a small price to pay to learn a valuable lesson—don't write checks you can't cover!

CO-SIGNING LOANS

Many people do not understand that by co-signing a loan, they are taking responsibility for the agreed upon payments for as long as the loan has a balance. They also do not realize that any default on a co-signed loan will negatively impact the co-signer's credit score as well as the primary borrower's. They also fail to realize that all of the collection methods and legal processes available to creditors against the primary borrower also apply to the co-signer. I wish I had a nickel for every customer who has ever said to me, "I just signed so he/she could get the loan! I can't afford these payments....I have obligations of my own!" Well, a co-signed obligation IS your own!

The best rule is to NEVER co-sign a loan with anyone, especially an addicted family member who is not in recovery. The second best rule is that if you have an addicted family member in recovery and feel that you must help them with whatever the need may be by co-signing a loan, that you consider the payment as part of your own budget, as it is statistically VERY likely that you will be called upon to pay it more than once during the course of the loan.

ESCAPE

So how does our addict escape from a terrible financial mess if we, the families, are unwilling or unable to contribute to paying the bills? In all cases except student loans and the IRS, bankruptcy is a viable route. It will literally vacate all unsecured debt and will force what is known as a "cram down" on all collateralized debt. For example, if our addict owes \$10,000 on a car with a market value of only \$5000, the bankruptcy court will force the write-off of the excess balance and restructure the payment schedule to account for the lowered balance.

Re-establishing credit after a bankruptcy is not as difficult as many think it to be and with an already ruined credit rating, the bankruptcy adds very little incremental damage to the credit score. Bankruptcy can only be taken once every seven years, so it should be used judiciously. If the behaviors that have led to the bankruptcy have not changed and if a recovery from addiction is not underway, then bankruptcy should be postponed so that the full benefit of filing can be realized.

RE-ESTABLISHING CREDIT

At the same time as this discussion is recommending that families NOT pay our addicts' bills, it also seeks to assist families in providing good advice and direction to our loved ones who have destroyed their credit reputation. As previously mentioned, re-establishing credit is not as difficult as many think, but it DOES take a long time. In the same manner that the credit rating was destroyed over time, re-building it will ALSO occur over time.

Here are a few ideas to help our addicts get back on the right track with their credit ratings:

- Establish a savings account and contribute to it on a regular, defined schedule. When a large enough balance has been achieved (\$2500 or more would be recommended) the savings account or certificate of deposit can be used as cash collateral for a loan (no bank that I know of will decline a loan secured by cash regardless of how bad the

credit rating may be). The loan should be for a minimum of 24 months and every payment should be made within a few days of its due date, preferably BEFORE the due date. It will do no good to establish the loan and pay it off prior to its maturity....the point here is to demonstrate a dependable repayment stream over time.

- Again, using savings, seek out an affordable auto through a reputable auto dealer and be prepared to make a down payment of 50% or more. Most new car franchised dealers sell used cars and have a “second chance” department. With 50% equity, they can usually be persuaded to actually give someone a “second chance.” Here again, get the car financed for a minimum of 24 months and make each payment on or before its scheduled due date. The interest rate on this loan will be obnoxious, but it will be worth the price to re-establish credit!
- If the employer has a credit union, joining it will serve two purposes: it will provide a convenient way to establish savings and provide an avenue for loans that will be payroll deducted. Most credit unions report their loan experience to the credit bureaus, and with payroll deduction, the credit rating that results will be perfect.
- Re-affirm debt with accounts that have been previously written off. Ask the creditor for a new account and transfer the old balance to the new number. Then make payments on time as billed for as long as it takes to pay it off. Just because it was written off doesn't mean that it isn't owed!
- To the maximum extent possible, try to maintain job and residence stability during the re-establishment process. People who do not jump from job to job and residence to residence are considered less risky than those who do.
- If a new credit card account is established, try to keep the utilization under 50% of the available credit line. Low utilization greatly enhances credit score.
- Create and live within a realistic monthly budget so that the ability to pay will not be impeded.
- Pay all obligations on time or before the due date.
- Never co-sign for others.
- If circumstances change and obstacles appear, communicate with creditors immediately; seek help from agencies such as Consumer Credit Counseling Services or others.

As with any enabling or co-dependent behavior, NOT paying our loved ones bills in the face of known consequences is a very difficult decision to make. In this upside down world of opposites that all of us have come to recognize, it forces us to do the exact opposite of what our hearts are telling us to do; but our heads know that enabling and co-dependency only perpetuate the addiction and do nothing to defeat it. In this case, by paying the bills of our addicted loved ones, we not only perpetuate the addiction but we end up much poorer financially as a result. Paying the bills and accepting responsibility are part of the recovery process.....and no one can begin the recovery process for someone else. It is a journey that the addict must address using his or her own resources and determination while families provide the moral and intellectual support!

By John C.