Business Debt Part 3: Navigating High Debt

DECAL
Thriving Child Care
Business Academy

Learn how to recover from high debt

Facing high levels of debt can feel overwhelming. While there is a lot that child care businesses can do on their own, sometimes reaching out for support will be the quickest path to relief. This guide will walk you through determining when debt levels have become unmanageable, options available for your support, and understanding the potential effects of financial restructuring.

How do I know if my debt is out of control?

It's common for businesses to experience financial strain and take on debt to continue operations from time to time. Even when you need to work to reduce your debt after these periods, the key is to ensure you remain in control of your debt, rather than letting it control you. If you're unsure whether you're managing your debt effectively or if it's starting to overwhelm you, ask yourself the following questions:

- **Is your debt-to-asset ratio above 30% and growing?**
  This means your debts are increasing faster than your assets.
- **Are you having difficulty regularly making monthly payments?**
  Struggling to meet your monthly debt obligations is a sign you need help.
- **Are your balances growing despite making payments?**
  If your debt isn’t shrinking despite regular payments, it’s time to reevaluate.
- **Are you relying heavily on credit cards for everyday expenses?**
  Using credit for essentials indicates underlying financial issues.
- **Are your payments toward consumer debt above 50% of your income?**
  If you owe half or more of what you earn each month to consumer debt, a significant portion of your earnings are tied up in high interest debt repayment, which can accumulate quickly.
- **Are you receiving calls from creditors, have accounts in collections, or is your credit damaged?**
  These are clear signs your debt situation is critical.
- **Are your credit cards maxed out?**
  Having no available credit limits your financial flexibility and indicates a strain on your cash flow.

- **Are you having a hard time saving up enough money to do anything about reducing debt?**
  Struggling to save or generate extra cash can perpetuate the debt cycle.

If any of these questions sound familiar, don't worry, there are steps that you can take to get yourself feeling more in control of your debt rather than feeling like your debt is in control of you.

What can I do if I can't get ahead financially no matter what I try?

If you feel like your debt levels are causing too much strain and you can't seem to get ahead, there are options available to help you manage and reduce your debt. Here are some of the most common approaches to addressing high levels of debt:

Creditor Negotiation involves talking directly with your creditors to seek more favorable terms, such as lower interest rates or extended repayment periods. Though not all creditors will allow negotiations, when available to you, it can help make your debt more manageable. It is important to note that you'll need to understand what you can realistically afford to pay, and you'll need to be prepared to explain your financial situation clearly and honestly.

Pros	Cons
May reduce interest rates and overall debt	Not all creditors may agree to negotiate
Can provide immediate relief from high monthly payments	Can be time-consuming and stressful to negotiate yourself
Helps you avoid defaulting on loans	May temporarily impact your credit score

Debt Settlement involves negotiating with creditors to pay a lump sum that is less than the total amount owed. This can significantly reduce the amount of debt, but it may also impact your credit score. If you are looking into debt settlement, know that you'll typically need a lump sum of cash to offer as a settlement — and the debt write off is considered taxable income.

Pros	Cons
Can significantly reduce the total debt owed	Can negatively impact your credit score
May provide a quicker path to becoming debt-free	Settled debts may be taxed as income
Can help avoid bankruptcy	Fees associated with debt settlement companies

Debt Management Programs, often offered by non-profit organizations, provide structured repayment plans and financial counseling to help manage debt. These programs typically consolidate your payments into a single monthly payment to the program, which then pays your creditors. While they can lower your monthly payments, they often extend the repayment period, making them a multi-year commitment. Ensure the organization is reputable; non-profits are a good option due to their lower fees, client-focused services, and increased regulatory oversight.

Pros	Cons
Simplifies repayment with a single monthly payment	Can take several years to complete
Provides access to financial counseling	May require you to close credit card accounts
Can reduce interest rates and stop collection calls	Some fees may be involved

Debt Consolidation combines multiple debts into a single monthly payment, which can lower interest rates and simplify repayment. This can be done through personal loans, balance transfer credit cards, or home equity loans. It’s important to understand the terms, as options like home equity lines of credit use your home as collateral, risking foreclosure if you default. Additionally, debt consolidation will only be effective if you address the spending issues that led to high debt levels. While it may lower your monthly payments, it often extends the repayment period, so it is important to stick to your repayment plan to manage and eliminate your debt.

Pros	Cons
Simplifies repayment with one monthly payment	Can extend the repayment period, leading to more interest
May lower overall interest rates	Risk of losing assets if using secured loans
Can improve your credit score if payments are made on time	Doesn’t address underlying spending habits

What do I do if I need more help?

If you need more help, seeking professional support can make a significant difference. Here are some options to consider:

Debt Counselors are professionals who provide personalized guidance and support, often from non-profit organizations. They assess your financial situation, create realistic debt repayment plans, and negotiate with creditors for better terms. It's important to ensure that debt counselors are certified with a good track record, so look for reviews or references to ensure the counselor has a good reputation. Debt counselors, especially those working for nonprofit organizations, typically charge fees that are relatively low.

Nonprofit Organizations specialize in debt management and financial education without profit motives. They offer structured programs to manage and reduce debt, provide financial education and resources, and assist with debt consolidation and repayment programs. Check for accreditations by reputable bodies like the National Foundation for Credit Counseling (NFCC). Though typically relatively affordable, make sure that they are transparent about all fees and costs that you can expect.

Financial Advisors are certified professionals who offer comprehensive financial planning and debt management advice. They help create long-term strategies to manage debt, improve financial health, and plan for the future. When selecting a financial advisor, look for individuals with relevant certifications (such as CFP), experience in debt management, and positive client reviews. Typically, financial advisors do charge higher rates for their services than debt counselors or nonprofit organizations. It’s important to understand their fee structure upfront to ensure it aligns with your financial situation and goals.

Credit Unions are member-owned financial cooperatives that often offer lower interest rates on loans and financial counseling services. They provide debt consolidation loans, financial education, and personalized financial advice. When choosing a credit union, look for those with good reputations, transparent fee structures, and a strong focus on member services. Typically, credit unions offer affordable or free financial counseling to their members, making their services accessible and cost-effective. Membership in a credit union is usually required to access these benefits.

Regardless of who you choose for support, it is important to remember that you still have choices, and how you feel matters. Here are some tips to guide you in selecting the best option:

1. **Research and Compare:** Look into multiple options and compare their services, fees, and reputations.
2. **Check Credentials:** Ensure that the professionals you are considering are certified and accredited by reputable organizations.
3. **Read Reviews:** Look for reviews and testimonials from past clients to gauge the effectiveness and reliability of the support provider.
4. **Ask Questions:** Don’t hesitate to ask potential support providers about their approach, the services they offer, and any costs involved.
5. **Trust Your Instincts:** Choose a support provider that you feel comfortable with and confident in their ability to help you manage your debt.

By selecting the right professional support, you can gain the guidance and resources needed to take control of your debt and work toward financial stability.

How would filing for bankruptcy affect my ability to keep running my business?

In very extreme situations, professionals may recommend that you consider filing for bankruptcy. The ability to continue operating your child care business after declaring bankruptcy depends on the type of bankruptcy filed and the specific circumstances of your business. Here’s a detailed look at how different types of bankruptcy impact the operation of a child care business:

Chapter 11 Bankruptcy allows businesses to reorganize their debts and continue operations. It is designed for businesses that have the potential for future profitability but need time to restructure their finances. Under Chapter 11 bankruptcy, your child care business can continue to operate under a court-approved reorganization plan. However, Chapter 11 can be complex and costly, necessitating detailed financial planning and legal assistance.

Chapter 13 Bankruptcy involves a repayment plan for individuals with a regular income, allowing them to keep their assets while paying off debts over time. It’s typically used by sole proprietors who can continue to operate their business while repaying debts according to a court-approved plan. Chapter 13 allows the individual to manage both personal and business debts under a single repayment plan.

Chapter 7 Bankruptcy involves the liquidation of assets to pay off debts. It is generally used by individuals and businesses that cannot realistically pay off their debts. Instead, business assets are liquidated to pay off creditors. In most cases, filing for Chapter 7 means businesses will cease operations, as the liquidation process often includes selling the business’s physical assets, such as equipment, property, and supplies.

As you can see, there are many ways to tackle high levels of debt. However, regardless of which option you choose, it’s important to view these steps as the beginning of a recovery phase rather than a negative ending. These options can lead you toward a clean slate, a path to recovery, and the road to sustainability. Though it can be challenging to navigate, stay dedicated to your repayment plans and focus on creating healthier, more sustainable financial habits to make the most of the opportunity this new beginning will provide.

Additional Resources

If you have questions or need help, assistance is available.
GaPDS Website
DECAL Thriving Child Care Business Academy Website
To Find Other Study Guides: Click on Resources on the Academy home page
To Find Training: Click on Trainings on the Academy home page
To Register for Training: Click on Schedules & Registration on the Academy home page
To Sign Up for Study Groups: Fill out the Intake Assessment
For questions about coaching or study groups: Email GAcoaching@civstrat.com
To Find Other ECE Resources: Visit the DECAL Website

For General Questions about the Academy: Email thriving@decal.ga.gov
For More Information:
Family Child Care Learning Home Rules and Regulations
Child Care Learning Center Rules and Regulations

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