

Useful information to assist consumers facing payment difficulties¹

Anyone may experience financial difficulties, which may be temporary or long-lasting. If you lose your job or get sick, you may no longer be able to meet day-to-day expenses and financial commitments.

It is thus essential to act and take the necessary measures to prevent your situation from deteriorating.

With that in mind, the first part of this document (A) offers tips to avoid such a situation and the second part (B) outlines possible steps you may take if, nevertheless, you are no longer able to honour your commitments.

A) Tips to avoid payment difficulties

1) Draw up a budget

In order to better manage your resources and plan your expenses, it is useful to draw up a provisional budget that takes into account possible loss of income or unforeseen events that may occur in life, both happy and unfortunate (e.g. the birth of a child, the loss of a job or a separation).

Do not underestimate periodic expenses (e.g. car insurance, heating, mobile phone, etc.). When added together, they can make up a significant portion of your monthly budget.

This exercise will provide you with a clearer picture of your budget and enable you to allocate a reasonable and measured share of the budget to leisure and entertainment expenses.

2) Save as much as you can

Devote a portion of your income to savings, which will enable you to meet occasional or unexpected costs if the need arises.

3) Balance your budget

This can be done by reducing the cost of your lifestyle or foregoing certain purchases.

Resist impulse purchases which impact your daily budget in the medium or long term.

Whenever possible, use the various insurance policies you have taken out (work disability, loss of employment, etc.).

The sale of valuables, if you have any, may also be a tool for reducing your debt and raising cash.

4) React before any incidents occur and contact all your creditors directly

If you feel that you are no longer in a position to pay one of your creditors, contact it promptly to inform it of your difficulties, if possible before an incident occurs. Each passing day could make your situation worse. The sooner you react, the greater your chances of finding a solution before your situation becomes unmanageable. Creditors are usually more receptive to negotiation before non-payment occurs. Keeping a budget and forecasting one's financial situation is generally considered a sign of sound management.

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Contact your main creditors to negotiate an extension of time to make payment or to reschedule your debts. Solutions that creditors may potentially offer you include adjusting or spreading your debt over several months, deferring payment to an agreed date or reducing services to a more economical level.

Do not make any commitments lightly and make sure your budget allows you to comply with any new arrangement.

5) Do not make repeated late payments

Late payments are costly and will only increase your debt.

6) Do not take out additional loans

If you take out additional loans to deal with cash flow difficulties, you risk worsening your situation: your debt and expenses will increase and your situation will become even more unbalanced.

If you require credit, contact your regular banker first. He is in the best position to advise you with full knowledge of your situation, provided you are fully forthcoming about your income and expenses.

7) Do not max out your bank overdraft and revolving credit facilities

A bank can demand repayment of an overdraft facility at any time.

Revolving loans are tempting because they offer a permanent cash reserve, but they are expensive due to the high interest rates charged.

8) Do not consolidate your loans

Although at first glance this solution may seem attractive and appears to provide an immediate reduction in expenses by lowering monthly instalments, you should keep in mind that generally the total amount to be repaid will be higher and that you will incur additional expenses, such as administrative costs and other fees. In addition, you risk increasing your overall indebtedness by extending the term of the loan.

9) Contact your bank

Do not hesitate to contact your bank and inform it of your difficulties. It can help you see things more clearly and look for solutions with you.

Confronting your bank with an urgent situation will not help you. By not informing your bank of your difficulties, it may legitimately conclude that you have tried to hide the reality from it. Don't forget, it is precisely when difficulties arise that you particularly need its trust.

B) If you are unable to honour your commitments, solutions exist

1) Take action and don't hesitate to confide in your banker

The longer you wait to react, the more limited the possible solutions will be. Therefore, contact your creditors as soon as possible and, in particular, contact your banker in the event of a delay, suspension or cessation of payments.

Your banker is a trusted partner who has a general awareness of your financial situation and will be able to offer you solutions, such as extending the term of the loan (resulting in lower monthly payments) or a temporary suspension of repayment.

If you fail to act and after the bank has sent you several notices to make payment, it may legally terminate the loan agreement and demand immediate repayment of the balance, plus late-payment interest. Such termination of the loan may lead to various enforcement measures, including, but not

limited to, the garnishment of your wages, a lawsuit, the enforcement of any other guarantees you may have provided, or the auctioning of the mortgaged property (or properties).

2) Opt for out-of-court solutions

To avoid such a situation, which can be harsh and prove traumatic for you and your family, the best course of action is to confide in your banker as soon as possible and, together with him, seek a solution to reduce your monthly financial obligations.

An out-of-court solution is always in the best interest of all parties concerned.

Based on your current and future situation, your banker will be able to develop some debt workout strategies and, to the extent possible, take appropriate measures to avoid worsening your debt situation.

In general, the following solutions (which are not exhaustive) may be considered:

- **a temporary payment deferment of principal and/or interest.** Because monthly instalments are a repayment of a portion of the principal and a portion of the interest owed, the bank may under certain conditions, and at its discretion, grant a moratorium or temporary deferment of the repayment of principal, or of both principal and interest.
- **an extension of the term of the loan, which may temporarily or permanently reduce your recurring repayment burden.**

These solutions will usually engender additional costs, but they are certainly more desirable than the forced sale of a property you cherish or any other enforcement measure the bank may take.

3) Contact the Over-indebtedness Information and Advisory Service

If despite your efforts you are no longer able to manage your financial difficulties, you can request help from the experts of the *Service d'Information et de Conseil en Matière de Surendettement* (Over-indebtedness Information and Advisory Service), the *Ligue Médico-Sociale* or *Inter-Actions*. These organisations will be able to guide you on the steps to take, in particular with respect to the various measures possible under the Act of 8 January 2013 on over-indebtedness.

Useful sites:

<https://www.letzfin.lu/>

<https://www.ligue.lu/service-dinformation-et-de-conseil-en-matiere-de-surendettement/>

<https://www.dettes-net.lu/surendettement>