What do you do when you are over your head in debt? Those first steps are the hardest. Many folks are quick to jump to the idea of declaring bankruptcy, but there are lots of steps open to you before you get to this point.

Whether it is caused by a health crisis, loss of job or simple overspending, a financial crisis can seem overwhelming, but it can be overcome. Consider these options: realistic budgeting, credit counseling from a reputable organization, debt consolidation or bankruptcy. How do you know what will work best for you? It depends on your level of debt, your level of discipline and your prospects for the future.

The first step toward taking control of your financial situation and recovering from bad credit and debt is to do a realistic assessment of how much money comes in and how much money goes out.

Start by listing your income from all sources, including any tax credits or benefits and any permanent fund dividends you may receive. Then, list your priority expenses, such as your mortgage payments or your rent, utility bills, food, etc. Next, list all your nonessential expenditures, but don't include any repayments to your creditors at this stage. Identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance and education. Once you have listed all your expenditures, add it up and take the total away from your total income — the result is your disposable income.

If your disposable income is insufficient to make your required debt repayments, you need to seek further help. Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you, and your bad credit rating will get worse.
Low cost budget counseling services that can help you analyze your income and expenses and develop budget and spending plans are available in most communities. Check the Yellow Pages or contact your local bank or credit union. Take the time to make sure the counseling program is reputable and competent.

Debt consolidation is one option in your arsenal. In this case, all the debt can be combined and paid off. You are still responsible for the debt and will pay it all a little at a time. Debt consolidation is appealing because there is a lower interest rate on the debt and a lower payment. Through their connections with creditors, the company is able to consolidate your debts in such a way that you will wind up paying less than you did if you were to pay off your debts yourself. However, the lower payment exists because the rate may be lower, but also because the term is extended. You pay a lower payment, but if you stay in debt longer, you pay the lender more. In addition, unless you change your spending habits, the debt will soon overtake you again.

Bankruptcy should be considered an action of last resort. Bankruptcy will affect your financial situation for 10 years. It is not a step to be taken lightly.

Even if you are over your head in debt, there are ways to dig yourself out of the hole. The trick is to take a realistic assessment of where you are and to make positive steps to address the problem. Now is not the time to hide and hope the problems go away.

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