

More With Less\$

Consumer Alert!

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1-888-995-7856 **ALLIANCE**
Credit Counseling

"I always try to turn every disaster into opportunity." - J.D. Rockefeller

Income reduction is often an unexpected event and its causes are numerous: job loss, illness, accident, divorce, natural disaster, and so on. Therefore, it is important to plan for it through budgeting and insurance. When it does happen, however, there are additional survival strategies you can use.

Short or Long Term?

It's up to you to determine which of the following strategies will be appropriate for your situation. If you believe the income reduction is short term, you can be less aggressive or more selective about which suggestions to use.

Take Five:

Yes, you may want to take five minutes to calm yourself if you're feeling anxious, but afterwards here are five strategies you can take and use to address the income reduction.

1. Be Proactive

If you ignore bills or past due notices, the situation can quickly go from bad to worse. Creditors can charge late fees and high interest rates, which can cause the debt to grow rapidly. They can also shut off your service, even if it's a vital utility. In a short time, you could be facing eviction or foreclosure, collection agencies, and/or lawsuits.

Therefore, contact your creditor as soon as you know you will not be able to make the payment on time. Use the following strategies to create a plan, set priorities, and then **communicate** your plans to your creditors (preferably in writing, so you have a record of your communication). Ask creditors of vital utilities - heat, power, water, phone - if they have any temporary

assistance programs. When you call your creditors to ask about hardship programs or other arrangements, ask to speak with a manager or supervisor (you need to speak with someone who has the authority to say "yes"). Finally, even if the creditor won't agree to a reduced payment, it won't hurt to send the most you can afford along with a letter of explanation and it may help to show your good faith effort. Remember to keep records of all verbal or written correspondence.



2. Plan Your Spending

A smaller pie is going to require more careful slicing. You're going to need to **revise/create a Spending Plan** (budget) that will address your financial problems, anticipate your needs, and allow you to live within your means. For assistance with this, read our education publication entitled *The Spending Plan*.

A critical part of preparing your spending plan will be to **prioritize your debts**. A simple method is to divide your financial obligations into three levels: Priority 1 – mortgage or rent, auto loan, vital utilities, legal obligations (child support, alimony,

taxes); Priority 2 – secured debt (such as loans for secondary property/vehicles); Priority 3 – unsecured debt (such as credit cards, medical bills).

In its *Guide To Surviving Debt*, the National Consumer Law Center offers the following "Sixteen Rules About Which Debts To Pay First:"

- ☐ **Always Pay Family Necessities First** [food, necessary medicines].
- ☐ **Next Pay Your Housing-Related Bills** [mortgage, rent, taxes, required insurance].
- ☐ **Pay The Minimum Required To Keep Essential Utility Service** [heat, power, water].
- ☐ **Pay Car Loans or Leases Next If You Need To Keep Your Car** [for work (including required taxes and insurance)].
- ☐ **You Must Pay Child Support Debts.**
- ☐ **Income Tax Debts Are Also High Priority.**
- ☐ **Loans Without Collateral Are Low Priority** [Unsecured].
- ☐ **Loans With Only Household Good As Collateral Are Also Low Priority.**
- ☐ **Do Not Move A Debt Up In Priority Because The Creditor Threatens Suit.**
- ☐ **Do Not Pay When You Have Good Legal Defenses To Repayment** [such as goods were defective].
- ☐ **Court Judgments Against You Move Up In Priority, But Often Less Than You Think.**
- ☐ **Student Loans Are Medium-Priority Debts.**
- ☐ **Threats To Ruin Your Credit Record Should Never Move Up A Debt's Priority.**
- ☐ **Cosigned Debts Should Be Treated Like Your Other Debts.**
- ☐ **Refinancing Is Rarely The Answer.**

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3. Lower Your Expenses

Buy Smartly.

- ♦ **Shop with a list** and a calculator (make lists after you create a Spending Plan).
- ♦ **Determine the best value:** disregard brand name and compare the cost, quality, durability, energy efficiency and usefulness. For review assistance, check out consumer organizations (such as Consumer Reports), or user posts online (such as Amazon.com, Epinions.com).
- ♦ **Determine best venues:** Once you have decided on the items, consider the following ways to get them for less:

- ♦ **Bulk, Discount, and Warehouse clubs.**
- ♦ **E-Shopping.** There are plenty of major online stores (such as Amazon.com, SmartBargains.com, Overstock.com, Half.com, Buy.com, Ebay.com) where you can purchase many products and services for less than at a brick-and-mortar store. Interstate commerce is sometimes not subject to sales tax. Many online stores offer free shipping (which saves you time and gasoline). Remember to practice safety when shopping online (check site security, use virus protection, firewall, etc.). Mail order companies might give you similar types of benefits.
- ♦ **Pre-owned (used).** Great deals can be found at thrift stores, garage sales, etc.
- ♦ **Borrow** instead of buy. Friends, neighbors, or your public library may have things you only need temporarily.

- ♦ The Consumer's Union recommends you **skip the extended warranty**. These add-ons raise the product price and provide huge profits, but in reality fewer than 20% of these products will be brought in for repair.

- ♦ For lowering **Holiday spending**, see our publication "Holiday Survival Guide."
- ♦ **Avoid credit.** The average person will spend less if they have to physically hand over cash for a purchase. If you must use plastic, using a debit card will keep you from spending money you don't have. If you must use a credit card (for example, to limit your liability for online purchases), you should have the funds now, so that you will be able to pay the entire balance on the next statement. Finally, stay away from check advance or "payday" loans charge as they charge outrageous fees.

Use Wisely.

- ♦ **Perform maintenance** on items so they will last longer. Using an item in this way (until it wears out) can reduce its overall cost to you and to the environment.
- ♦ **Consider doing it yourself**, but carefully weigh the pros and cons (including risk).

Housing & Transportation

- ♦ **Contact creditors for temporary assistance.** If you have a good payment history, they might be willing to defer one or two payments.
- ♦ **Investigate refinancing** your home to get a lower payment (factor in closing costs).
- ♦ **Downsize.** If your situation looks long-term, weigh the costs of trading down for a house/vehicle with a lower payment.
- ♦ Consider getting a **roommate or boarder**.
- ♦ Consider **car-pooling** or **public transportation**.
- ♦ **Re-evaluate insurance needs.** Consider raising deductibles and eliminating unnecessary coverage.

Food

- ♦ **Compare** prices on items you use, then stock up during sales.
- ♦ Use **generic** or store brands and buy your non-perishable items in **bulk**.
- ♦ Use **coupons** for products that you use regularly. Coupons can be found online at sites, such as www.currentcodes.com or www.momsvision.com.
- ♦ Prepare **meals in bulk** and freeze portions.
- ♦ Eat at **home**; pack **lunches**; skip lattes.
- ♦ For more ideas: www.GrocerySavingTips.com.

Utilities

- ♦ **Close or reduce unnecessary utilities** (cable, cell phones, etc.).
- ♦ **Practice conservation.** Use a programmable thermostat to reduce heating/AC while you sleep and are at work. The U.S. Department of Energy has an online do-it-yourself home energy audit and many energy saving tips: www.eere.energy.gov/consumer/. For more ideas, contact your local utility companies.
- ♦ **Check the competition** at places such as www.LowerMyBills.com.

Recreation & Entertainment

- ♦ **Enjoy more free things.** Parks, concerts, plays, festivals or other attractions can be free. For state attractions, stop in at a state welcome center or go online to www.state.xx.us. Call or stop in at the local visitor's center. Remember, the best thing you can give your family/friends is your time.
- ♦ **Public libraries** have CDs and DVDs.
- ♦ Make vacation arrangements early and in off-peak times. The Bankrate link below has **28 ways to lower vacation costs**.
- ♦ **Cut out/back** tobacco and alcohol.

4. Raise Your Income

- **Sell items** that are not needed. Household items, equipment, clothing, second vehicle, etc., can be sold through venues such as garage sales, community bulletin boards, local papers or internet classified/auction sites, or local consignment shops.
- **Consider tapping into savings or retirement funds.** Temporarily stop

or reduce contributions to retirement plans; before withdrawing funds, weigh the cost of any fees or penalties.

- **Obtain Additional Employment Income.** Consider asking for a raise if you think you can show merit, or ask for additional hours or a pay advance; get an additional job, or possibly a new job that pays more.
- **Consider using the equity in your home.** Carefully weigh the costs and risks involved in refinancing (to cash out equity) or in getting a home equity loan.
- **Investigate your tax withholding.** Consider adjusting your W-4 withholding to avoid having a large refund; or if your situation looks long-term and your income is well under \$38,000 see if you can qualify for the Earned Income Tax Credit (click the EITC Assistant link at www.irs.gov or call 1-800-829-1040).

5. Seek Assistance

♦ **Government services.** A great deal of education and information is available regarding food programs, medical and welfare programs, employment assistance, and more. For help finding Federal programs, visit www.firstgov.org (or call 1-800-333-4636). For help finding local services, call 311 for city/county agencies and 211 for social services (in most states).

♦ **Local charities** and faith-based organizations. For help finding local charities, check the yellow pages or visit www.lic.org. If you belong to a faith community, speak with the pastor/leader. If they don't have charitable assistance for you, they may encourage you to temporarily lower or suspend your contributions.

♦ **Friends and relatives.** Everyone needs help at times. Talking with the people who care about you can provide important emotional support. Additionally, they may offer some other form of assistance. A private loan, for example, can be a win-win, but be sure to put the terms in writing.

♦ **Non-profit accredited credit counseling.** A qualified credit counselor can help you to know your rights and your options with all these strategies.

The Best Things In Life

Paradoxically, hard times can have some positive effects: they can provide an opportunity to renew your appreciation for things that are more important than money: your faith, your family, your friends, your health, your talents and abilities, your environment, your freedom.

To Find Out More



- *The Spending Plan* (Alliance): www.knowdebt.org/education.php.
- *Guide To Surviving Debt* (D. Loonin, et al. National Consumer Law Center).
- *331 Ways To Cut Costs*: www.bankrate.com/brm/news/cheap/331ways/331home.asp.
- *The Complete Tightwad Gazette* (A. Dacyczyn, Villard Books).