

Contents



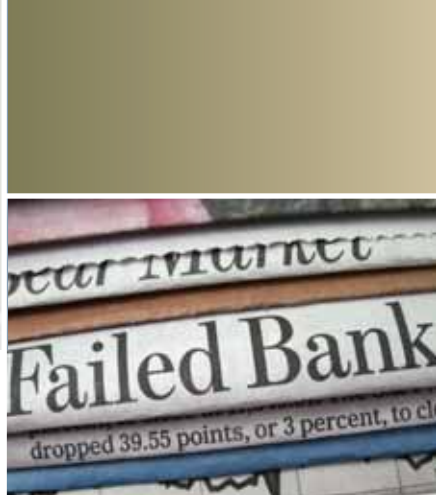
Your Survival Guide for Tough Times

- Introduction 1
- Take Control 3
- Cope With Tough Times 11
- Cut Costs 17
- Protect Your Home 23
- Achieve a Secure Future 29
- Useful Resources 32





Introduction



When times are tough, it can seem that your emotional state is tied to the latest dismal news about the economy. Every economic update increases your anxiety about your ability to pay your bills, protect your assets, and achieve long-term goals such as owning a home or saving for retirement.

W

hile you can't control the economic landscape, you can make personal financial choices that increase your ability to adapt to shifting economic conditions. This handbook can help you through the

process by examining your finances in five areas:

1. Taking control of finances, including making a budget, building an emergency fund, repaying debt, and maintaining a good credit score.
2. Coping with economic hardships, including job loss and income cuts.
3. Cutting costs for everyday living, both to survive tough times and set aside funds to achieve long-term goals.
4. Protecting your assets, including using home equity loans wisely and preventing foreclosure.

5. Positioning your finances for a secure future, including wise management of investments and retirement savings.

When financial worries seem overwhelming, it can help to remember that you're not the only one in this situation. It's likely that others in your neighborhood, your family, or your circle of friends also are making adjustments in their personal finances. While the scope of those adjustments may vary depending on whether the changes are a precautionary measure or a response to drastic shifts in income or expenses, everyone feels the impact of a tighter economy in some way. You can find family members, friends, or neighbors willing to share tips and tactics for surviving tough times. And as always, the people at your credit union are ready to help you find your way financially.

Take Control



Whether you're losing your job or simply worried that you are losing ground financially, six steps can make it possible to manage your finances and protect your financial well-being.

Step 1: Pay attention

The constant need to interact with money makes it easy to ignore the importance of attending to financial matters. That seems like a contradiction, but it's the only way to explain some consumers' tendency to ignore financial statements, fail to maintain a checking account register, or to neglect letters that provide vital information about changes in interest rates, ongoing payments, or other matters.

Taking control of your finances starts with paying attention to financial matters. An essential place to begin is

with your checkbook. These rules can help you manage your checkbook to avoid overdraft fees or other problems:

- **Record transactions.** Using either a paper register or a computer program, keep a record of both deposits and spending, including checks, account fees, ATM withdrawals, and debit transactions.
- **Check your balance.** Online or telephone banking can help you stay on top of deposits and withdrawals. Your balance only will reflect transactions that have cleared the credit union, so keep that in mind when making spending decisions.
- **Read your statement.** Whether your statement arrives by regular mail or e-mail, always open it promptly and scan it for unusual fees or unfamiliar transactions. As soon as possible, balance your account.
- **Take action if problems occur.** If

Rise to the Challenge

These scenarios describe a few of the reasons you might choose to revisit your approach to personal finances during tough times.

- You need to cope head-on with challenging issues—job loss, the potential for losing your home or your car due to inability to pay, the need to drastically change your lifestyle—rather than allow fear for your family's future to keep you from making vital changes.

- You want to position yourself for the potential of job loss for yourself or your spouse by reviewing your spending, increasing your emergency fund,

and figuring out what's essential and what's an "extra."

- You want to be prepared to weather tough times and build the savings you need for a secure retirement, rather than spending your entire paycheck before you get around to depositing money in savings or retirement accounts.

- You'd like to focus your spending on priorities, instead of trying to defend your latest purchase from your conscience and your budget.

- You'd like to know whether the economy's impact on your investments means you need to revise your plans for retirement.



problems occur, call your credit union to ask questions about discrepancies. Acting promptly is especially important to spot identity theft or other forms of fraud.

The same approach applies to any type of financial account or transaction. Whether it's a parking ticket or a credit card bill, it pays to open your mail, verify your financial obligation, and deal with problems as soon as possible. That's the best way to prevent small bills from growing into big problems.

Step 2: Create a spending plan

The first step in any financial plan is knowing how much income you have and then figuring out where that income is going. Your budget is a plan for matching your spending to your income and your goals.

You can opt to analyze your spending and create a budget using old-fashioned paper and pencil or newfangled computer software. Either approach will work. If you need help, ask the professionals at your credit union about handouts, access to a financial counselor, or budgeting classes. Your public library also can provide books and other resources.

Emergency Fund Comes First

In a discussion about spending, you may be surprised to see this advice about *saving*: Pay yourself first. This is a primary obligation in your spending plan, and the only way you can build an effective emergency fund, or savings cushion.

Aim to save at least the equivalent of one month's expenses in your emergency fund. Over time increase that amount to three to six months' expenses, even more if there is only one breadwinner. If you must tap the fund in an emergency, replace the money as soon as possible. Use direct deposit of your net pay and automatic transfers from checking to savings to make sure you consistently make progress toward this all-important savings goal.

Whatever approach you use, start by analyzing spending. Many people assume they can skip this step because they already know how they spend their money. But if you're adjusting to tough times and prepar-

ing to meet financial goals, you need to know where every penny is going. Keep track of your spending for a month to capture a full cycle of ongoing expenses. Be sure to include your cash purchases to catch those little, everyday expenditures that add up to big amounts over time.

Next, make a list of expenses that occur outside the monthly cycle—typically every few months to once a year. The list should include items like dental bills, property taxes, and home repairs. Divide the total by 12 to come up with an amount to put in your budget to cover these expenses.

Combining everyday spending with ongoing expenses gives you a complete list of your current spending.

Deciding what to keep on the list—and what to cut out—gives you a budget.

Step 3: Turn your budget into a plan for spending, saving, and repaying debt

Your plan should balance three goals: meeting ongoing expenses without incurring additional debt; repaying existing debts in a timely manner; and saving money for both day-to-day emergencies and long-term goals such as retirement or starting a business.

Large and small emergencies that lead to unexpected expenses can make it difficult to live within your budget. Your car might break down,

Budget for Infrequent Expenses

Use a grid with infrequent expenses listed on the left side and columns for annual and monthly budget goal amounts across the top to help develop your spending plan.

	Estimated annual cost*	Monthly savings deposit	
Car repair	\$1,000	\$84	
New tires for car	360	30	
Car replacement	unknown	200	
Dental care	360	30	
Vision care	300	25	
Television	480	40	
Other electronics	1,200	100	
Total	\$3,700	\$509	

This sample grid is for a 24-year-old woman named Amy living on her own in a rented apartment. Amy owns a five-year-old car with 103,000 miles. She believes she can use it for two more years, as long as she buys new tires next year. In the meantime, she's saving for her next car.

Save what you can until you build a stronger backup fund to meet these and other now-and-then expenses. One effective strategy: As soon as you pay off a loan, divert that monthly payment to your savings or money market account.

**All amounts are estimates only; check actual costs in your area when setting your budget.*



your washing machine may spin its last cycle, or your Aunt Fannie's toffee could break a tooth. That's why savings are essential.

To begin saving, you'll need to reduce spending. Information about finding ways to reduce spending is provided later in this booklet (pp. 17 to 22). You'll also need to address other goals, such as setting aside funds to pay for large projects like a new roof or a party for your parents' 50th anniversary. Saving for retirement is another priority—addressed in the final chapter of this booklet (p. 29).

One way to put more money back into your budget is by repaying debt. The first step is to stop creating new

debt. You may be surprised at how quickly you can reduce your debt simply by making regular payments, as long as you do not add to the amount owed.

Step 4: Set goals

Setting goals is one of the best ways to stay on track for the future because it helps you control both short-term spending and long-term progress. It can be as simple as reminding yourself that if you spend \$30 today, you won't have the \$3,000 you promised to provide next year to help pay for a son or daughter's wedding.

Aim to set both short- and long-term goals. A short-term goal might include saving money for a family day at a local amusement park, while a long-term goal might be saving money for a down payment on a house or investing funds for your retirement. An intermediate goal may be to establish and build your emergency fund.

Setting goals will help you cherish the feeling of accomplishment that comes when you achieve a major expenditure without creating a debt you cannot repay—and without straining your spending plan.

Step 5: Protect your credit

Your credit score determines whether a financial institution will give you a loan and how much you'll be

Get your credit report from the three major credit bureaus.

debt so you can focus on repaying current obligations. Next, make a list of everything you owe, including the name of the lender, the date when payments are due, and the amount of interest you're paying. This can help you figure out which debts to pay first to decrease the size of your total obligation. Build this debt repayment plan into your spending plan. You may

charged in interest. With a good credit score (p. 8), you'll pay low rates and get easy access to

loans. With a poor credit score, you'll pay significantly more for loans as well as services from companies that check credit scores, including insurance companies and cell phone providers. Prospective landlords and employers

Contacting Major Credit Bureaus

- Equifax, *equifax.com*, 800-685-1111
- Experian, *experian.com*, 888-397-3742
- TransUnion, *transunion.com*, 800-888-4213

also may make judgments about you based on your credit score.

To maintain your credit score, follow these rules:

- **Rule 1: Get your credit report from the three major credit bureaus.** By law, you can get a free credit report from each of these bureaus once

Credit Counselors Help Manage Debt



Don't wait until your debt grows to a size that overwhelms your ability to make decisions about it to consult a credit counselor. Timely help from a counselor can help you avoid getting to that stage.

Credit counselors help you make a plan for repaying debt while meeting ongoing needs. They also may provide debt-management plan (DMP) services, which means the agency helps you consolidate and reduce credit card payments and lower interest charges. In some cases, you make weekly or monthly payments to the agency, which then pays your debtors as agreed in your DMP.

It's essential to choose a reputable credit counseling agency. Many agencies that advertise heavily are for-profit organizations that want to make

money off your debt and may even worsen your financial situation.

To make sure you work with an agency devoted to improving your financial situation, ask at your credit union for a referral to an accredited nonprofit agency, or contact the National Foundation for Credit Counseling (see p. 32) to get information about the nearest nonprofit Consumer Credit Counseling Service (CCCS). Many of these agencies combine free counseling with low DMP fees that are fully disclosed in a written agreement. Other criteria should include:

- Face-to-face or telephone counseling that lasts 30 minutes to 90 minutes and results in a customized action plan.
- Appointments that can be scheduled within a reasonable time frame, usually two days to a week.
- Monthly account statements that monitor your progress on repaying debt.
- A good record of service, which you can verify by contacting the Better Business Bureau or the state attorney general's office to find out if consumers have filed complaints.

every 12 months. It's a good idea to check all three reports each year—ordering a report from a different bureau every four months—because an error in one won't necessarily show up in another. To learn more, visit *AnnualCreditReport.com* or call 877-322-8228. If you find an error, follow up as directed. You also can get your credit score from some credit bureaus, but there will be a fee.

- **Rule 2: Pay on time.** This typically has the biggest impact on your score.

- **Rule 3: Pay down balances.** Aim to charge no more than 25% of your available credit limit.

- **Rule 4: Keep and use old cards.** This shows you have a history of handling credit responsibly.

- **Rule 5: Use a mix of credit cards and installment loans,** such as a mortgage or a vehicle loan.

- **Rule 6: Open new credit lines with restraint.** Too many inquiries about new forms of credit will hurt your score.

To learn more about your credit score, visit the Fair Isaac site, *myFico.com*.

Excellent Score Higher Than You Think

To get the best interest rates on mortgages and other loans, many lenders now require a credit score of 760 or higher to be in the “excellent” category, where that threshold used to be 720. What does that mean for you? Pay all bills on time. Keep your utilization rate—the amount of credit used in relation to your total lines of credit—less than 25%. And don't open a flurry of new accounts, or close old accounts you've had a long time, right before you apply for new credit.

Step 6. Avoid unwise practices

Poor financial practices can quickly undermine your budget. Think carefully about your approach to the items on this list. When used carelessly and routinely—the way that many people use them—they can have a devastating impact on personal finances.

- **Carrying a credit card balance.** Credit cards are convenient, but avoid

Break These Bad Habits

F

inancial counselors say four bad habits can undermine efforts to learn to spend within a budget.

1. **Spending too much,** often because you confuse “wants” with “needs.”

2. **Saving too little,** which typically is linked to spending too much because it leaves you nothing to save.

3. **Owing too much debt,** which is

linked to spending more than you earn and failing to save in advance for emergencies or ongoing obligations.

4. **Failing to plan for the future,** which lets you ignore the need for an emergency savings account to provide a cushion when misfortune strikes, as well as the importance of retirement savings to provide income as your earning power decreases.