

# Quick Tips on Avoiding Debt When Money Is Tight

When finances get tight, many people turn to their credit cards or home equity when they need money. But racking up extra debt to deal with financial difficulties is a strategy that's almost sure to backfire. Below you'll find tips on avoiding extra debt when money is tight.

## **Continue to pay down debt**

The most important thing to remember when money gets tight is that you should continue to pay down your debt whenever possible. Even when you have less money in your wallet, you should be following the three golden rules about debt:

- 1. Always pay more than the minimum amount due.** If you pay just the minimum, you'll only be paying off the interest, and it'll take you years to pay off your total debt. Even if all you can afford is \$20 more than the minimum, you'll be better off than just paying the least amount possible.
- 2. Avoid running up unnecessary new charges.** This goes without saying during tough financial times. Read on for ideas on how to avoid new charges below.
- 3. Pay down your highest interest card first.** Figure out which of your cards is charging the highest interest rate and put more money toward that one.

## **Avoid new debt**

People often turn to credit cards or home-equity loans to cover basic costs during tough financial times. Though this strategy may cover your expenses for a few months, it will almost certainly put you in a worse situation down the road. If you don't have the money now, you probably won't have it later when it's time to pay back what you've borrowed. If your financial situation is tight enough that you are considering taking out a home equity loan or charging basic expenses to a credit card, you may need to talk with a financial expert or credit counselor about how you can reshape your finances. The program that sent you this article may be able to help you find a financial expert.

Here are some more ways to avoid debt when money is tight:

- **Remember that a home-equity line of credit is still debt** -- it just uses your home as collateral. Many people have been taking cash out of their homes to save up for an emergency, but they don't realize that they are actually losing money by doing so. Once you take out a line of credit, you'll be paying at least 5 percent interest, which is far more than you'll be able to earn if you keep the money in a savings account. It just

doesn't pay to use home equity to build a "financial cushion." You're far better off restructuring your expenses and saving the cash instead.

- **Cut back on expenses before using credit.** Most people can find some place in their spending for cuts. Go this route before you turn to credit cards or a home-equity line of credit to cover regular expenses.
- **Put a freeze on credit.** Sit down with family members and agree to not use your credit cards at all for a certain amount of time. This will help you tackle your current debt without loading on new debt. You may find it helpful to remove your credit cards from your wallet or to put a reminder note on your card so you're not tempted to use it.
- **Get help.** Again, if your financial situation is so tight that credit seems like the only place to turn, consider getting help from an expert. A financial counselor can help you create and stick with a budget and pay down your debt instead of racking up more.

It may not be easy to avoid debt during tough financial times. It might take discipline and sacrifice. But when money is tight, you'll feel better knowing that you're taking steps to secure your financial future, not putting it at risk.

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