

Tough Times Series: Gas, Groceries on Credit a Slippery Slope

by Monica Steinisch

In June 2008, the Consumer Confidence Index, a survey of 5,000 representative U.S. households, fell to its lowest reading since February 1992 and half what it was in 2007. Americans may be unsure how the war will play out or who will be their next president, but in mid-2008 they apparently are quite certain that the outcome of these and other events will not improve their personal financial well-being.

In anticipation of a long economic slump, many consumers already have scaled back spending. But the increasing cost of daily necessities—most noticeably, gas and groceries—is again closing the gap between income and expenses. With no place left to make cuts, many Americans are resorting to credit cards to make ends meet. According to data from the Federal Reserve, consumers' total credit card debt reached \$951.7 billion in mid-April 2008, an increase of 8.2% from 2007 and the highest amount on record.

Though the use of plastic may work in the short-term, experts caution against viewing credit cards as a long-term solution to cash-flow problems.

Recession-, inflation-proof your finances

Be prepared to economize on necessities: "It's not the luxuries that have gone up."

Todd Mark, vice president of education for Consumer Credit Counseling Service of Greater Dallas, says his agency has seen a surge in the number of calls it receives from people with debt issues, evidence that more Americans are feeling the squeeze.

Even if they're not yet at a point where they can't make the monthly credit card payments, says Mark, these consumers are entering their own, self-imposed danger zone. For some, that means charging more than they used to. For others, it means revolving part of their debt when they used to pay off the full balance each month.

The advice Mark and the agency's counselors give is to be proactive. For those who just now are starting to be affected by rising prices, Mark suggests the following:

- ? *Figure out how much you're spending on gas, groceries, and other necessities every month compared with a year ago.* You may not even realize you're spending more, because you haven't changed your lifestyle, says Mark.
 - ? *Look for reductions in income.* For example, retired consumers may find they have to tap in to their principal to achieve the same annual income they used to get from the return on their investments.
- Experts caution against viewing credit cards as a long-term solution to cash-flow problems.*
- ? *Revise an outdated budget using the information you gather.* Identify where you can make cuts, and implement the new budget immediately. Start with any remaining

luxuries, but be prepared to economize on necessities. As Mark points out, "It's not the luxuries that have gone up."

- ? *Plan for further price increases.* Looking at your new budget, ask yourself how you would make ends meet if gas went up another dollar, groceries cost you an additional \$75 per month, or your overtime hours were reduced. Recession- and inflation-proofing your finances is all about planning, as opposed to reacting.

"It's not just how you're impacted today, but how you could be impacted if things continue this way or get worse," says Mark.

If you're already watching your debt climb and you can't see any alternative to using credit cards, you probably could benefit from having a professional help you assess your situation. Credit counselors often can see things their clients don't, such as places to further reduce expenses or ways to increase income. They also are familiar with all sorts of assistance programs, some of which you may qualify for.

How would you make ends meet if gas went up another dollar or groceries cost you an additional \$75 per month?

Counseling typically is free or low cost. Visit the [National Foundation for Credit Counseling](#) online for a listing of nonprofit agencies throughout the U.S. (For information about how to choose a reputable agency, read "[Steer Clear of Credit Counseling Bad Guys.](#)") The people at your credit union also can refer you to counselors, or someone on staff may be able to help.

Reliance on credit puts home at risk

Rising prices have many homeowners juggling their mortgage and other expenses. In many cases, borrowers pay for necessities on credit, reserving their limited cash for the mortgage payment. In this scenario, the homeowners hope that if they can stay afloat long enough, the economy and their financial situation will take a turn for the better and they'll be able to pay off the credit card debt. What happens too often is that the cards eventually get maxed out and, with no way left to bridge the income gap, the home is foreclosed.

"Nothing is more troubling to us than people being current on credit cards but behind on their mortgage."

In another scenario, homeowners who believe they're unlikely to be able to make their mortgage payments consistently over the long term are making a decision to pay credit cards and auto loans before, or instead of, the mortgage. Predicting that they will lose their home at some point anyway, these borrowers are focusing on keeping their cars and any remaining credit, which they may need to tide them over in the future.

"Nothing is more troubling to us than people being current on credit cards but behind on their mortgage," says Mark.

In addition to losing your home, defaulting on your mortgage could cause your credit card interest rates to jump to the much higher "universal default" rate. A common term of credit card agreements, universal default allows the card issuer to increase your interest rate if you miss, or are late with, your payment to that creditor or *any other* creditor. The increase can be as much as 10 percentage points or more.

Use the economic slump as a wake-up call to be proactive.

Also, if your home is foreclosed, you most likely will pay much higher interest rates on future credit—if you can get credit at all. Since a foreclosure appears on your credit report for seven years, the repercussions of your mortgage default could plague you long after an economic recovery is complete.

"A mortgage shortfall is something you need to deal with *now*," says Mark. Whether you request a loan modification, sell the house, or find another solution, Mark urges homeowners in trouble to "do something other than just using credit cards to postpone the inevitable."

A good first step is to contact Hope Now, an alliance of government agencies, investors, lenders, and counselors formed to help owners resolve mortgage issues and keep their homes. If you are behind on your mortgage payments or predict that you might have trouble maintaining payments in the future, call 888-955-HOPE or visit the [Web site](#).

Tap your emergency fund rather than credit cards to make ends meet.

If you're not in financial trouble now, says Mark, use the economic slump as a wake-up call to be proactive. One of the best things you can do, he says, is establish or augment an emergency fund. Then tap it, rather than credit cards, when you need help making ends meet.

And remember, the people at your credit union are here to help. Don't wait until you're in deep trouble to ask for a financial checkup. The earlier you ask for a review, the better the outcome.