# BEFORE

***Couples who rely on credit cards and home refinancing in order to maintain their lifestyle and make ends meet are building their homes on a faulty foundation that sooner or later will collapse amid the storms of growing expenditures.***

# YOU LOSE IT ALL...

BY JERRY MASON

Anxiety and depression dominate the lives of Bob and Ann Lane (names have been changed). Five years ago they refinanced their house so they could pay off credit card debt and an auto loan. But they continued to pile up credit card debt. Eighteen months ago they took out a home equity loan to again pay off card balances. Last fall they realized, after borrowing more money to buy a new vehicle, that their income didn't cover their outgo. Now they are considering bankruptcy.

*Think bankruptcy is your only option? Check out these tips for other ways of getting out of debt.*

Growing numbers of people are sucked into the black hole of easy credit. Interest-only loans allow families to buy larger homes than they can afford. Credit cards enable consumers to continue spending after they have exhausted their income. Easy credit enables too many to buy too much today instead of saving and waiting to make purchases in the future.

Laws of many nations allow their citizens the opportunity to file bankruptcy as a way to obtain relief from debt burdens that seem too heavy. While bankruptcy can give individuals and families what many consider a fresh start, anyone considering this needs to realize that the problems associated with bankruptcy often exceed the benefits. Here are a few of the cons:

- Difficulty obtaining loans
- Elevated loan interest rates
- Higher insurance premiums
- Negative credit rating
- Problems obtaining employment because of poor credit rating

ILLUSTRATIONS BY STEVE KROPP

**Do All You Can**

Our integrity in keeping our agreements should be heavily considered. Before seriously considering bankruptcy, you need to be sure you have done everything possible to bring debts current. This certainly includes meeting with your bishop or branch president or a financial adviser assigned by the bishop. You may be asked to complete the Church's Needs Assessment form, which is designed to help you and your adviser identify your financial strengths and weaknesses, key to working out a plan you can follow to repay your debts.

Many events can result in an individual or family accumulating so much debt that bankruptcy may seem to be the only option. The idea is to get your finances in order so that bankruptcy is never an option. Church leaders have counseled that we should not leave ourselves unprotected against financial storms. The solution? Build up savings. We have all been counseled to accumulate a year's supply—and that includes money.

Church members have long been counseled to avoid unnecessary debt. President Hinckley has said: "So many of our people are living on the very edge of their incomes. In fact, some are living on borrowings. . . . Avoid debt to the extent possible. Pay off debt as quickly as you can."[1]

**Where to Begin**

Be sure you have done all you can to pay back your creditors. This may seem impossible to some deep in debt, but here's where to start. First, with a pencil, make a list of all the expenditures you expect to make over the next year. List each expenditure in priority order with the most important (tithing) listed first and the least

## HELPS FOR HOME EVENING

1. Think about an item your family desires to purchase. Discuss the three questions at the end of the section “A Balancing Act” in relationship to your desired purchase. After a few days decide as a family if your purchase still seems necessary. Discuss the benefits of making purchases based on needs rather than wants. Testify of the value of using money wisely.

2. Carefully list all of your expenditures, such as your receipts, credit card statements, bills, and other monthly purchases. Discuss expenses that can be decreased and ways to increase your income. Using suggestions from the “Cut Costs” section of the article, think of changing some of your spending habits to follow President Hinckley’s admonition on debt (page 63).

important last. Get out your charge card and bank statements for the last three to six months, and try to determine where you spend your money. Remember to include expenditures that may only occur quarterly or annually, such as insurance payments, taxes, and educational expenses. Also, don’t forget to include savings for retirement, missions, and when possible a year’s supply of money. Total these expenditures.

Next, list all sources of income. Compute the total for all income you expect to receive over the next year. Subtract total expenditures from total income. Chances are you will end up with a negative number. If income is larger than expenditures, you may have overlooked or underestimated some items.

#### A Balancing Act

The next step is to try to get your income to exceed your outgo. To do this, ask yourself the following questions:

- Can I increase my income by asking for a raise or seeking a higher paying job?
- What unneeded or extra items can I sell, such as an extra car?
- How much money could I raise in a garage sale?

For most people, the quickest way to get results is to reduce spending. When determining how best to do this, understand two points.

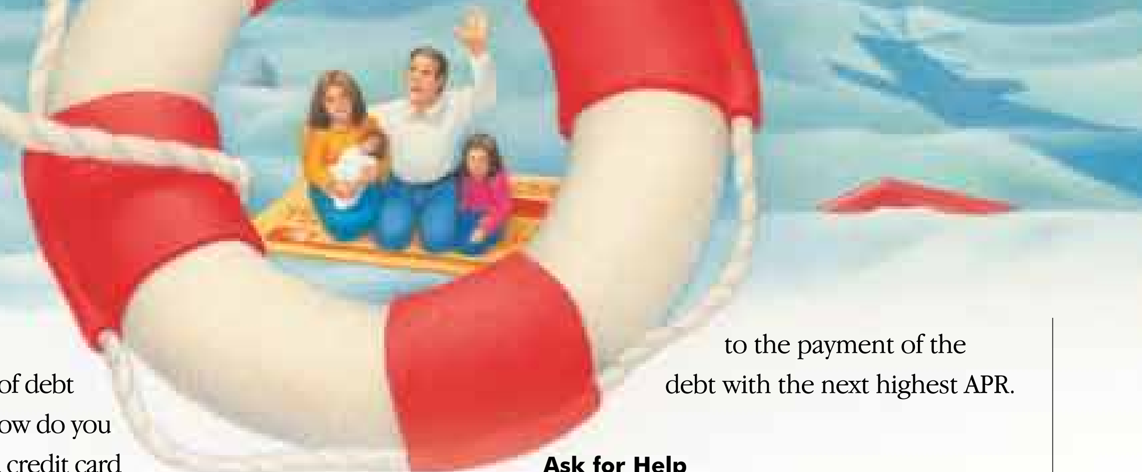
First, no expenditure is fixed. Yes, your mortgage payment is the same every month. But sometimes there are things you can do to lower the cost of your expenditures. For example, you can sell your current home and move into a less expensive one, or sell your car and get a cheaper one. Find ways to downsize costs.

Second, you don’t *need* everything. Most of the money we spend is to satisfy our wants. This applies even to basics such as housing, food, and clothing. Look around your home. Count your pairs of shoes and articles of clothing. Organize them into two piles. Pile A is for items you have used at least once during the last year; pile B is for items you have not used in the last year. You may be surprised how much bigger pile B is than pile A. The amount of clothing you own is your own business, but it is one way to illustrate how we spend money on our wants. It is perfectly OK to spend money on wants, but spending too much can create financial problems. I know a woman who asks her children three questions before buying them anything: “Is this a want or a need? What’s the worst thing that can happen if we buy it or don’t buy it? If we leave without buying it, will we still want or need it in a week or two?”

#### Cut Costs

Now, with an eraser, start trimming your expenditures. Begin with the lowest priority expenditure at the bottom of your list. Ask three questions of every expense. Can I eliminate this? If not, can I reduce it? If not, can I postpone it? Remember that only a few expenditures are strictly needs. Some, like food and clothing, include both wants and needs, but most, and hopefully those with the lowest priority, are exclusively wants.

Anyone confronting financial challenges is likely to find this exercise helpful. Many expenditures can be reduced or eliminated during this exercise. Many individuals and families that have completed this exercise find that by reducing their expenditures they reap an added bonus—by paying down their debts, they have simplified their lives. Completing this process can help you eliminate much of the financial clutter, and often much of the material clutter, that has trapped you.



***It is better to control your expenditures than to depend on others to rescue you.***

**Break the Cycle**

Another step in getting out of debt is to stop creating new debt. How do you do this? Every time you make a credit card purchase, log it in your check register just as you do your checks and debit transactions. Leave the space blank where the check number goes. Keep the balance in your check register current. When you reach a zero balance, stop spending until you receive income. When the credit card statement arrives, write one check, paying off the recent charges, and place that check's number next to each credit card purchase that you have recorded in your check register.

You also need to make a list of all your debts. For this exercise you will need a piece of paper divided into three columns: column 1: name of the lender; column 2: amount of the monthly payment; column 3: each debt's Annual Percentage Rate (APR). Make the minimum payment the lender will accept on all debts except the one with the highest APR. Make as large a payment as possible on the debt charging the highest interest rate. Once that debt has been paid in full, add the amount of that payment to the payment of the debt with the next highest APR.

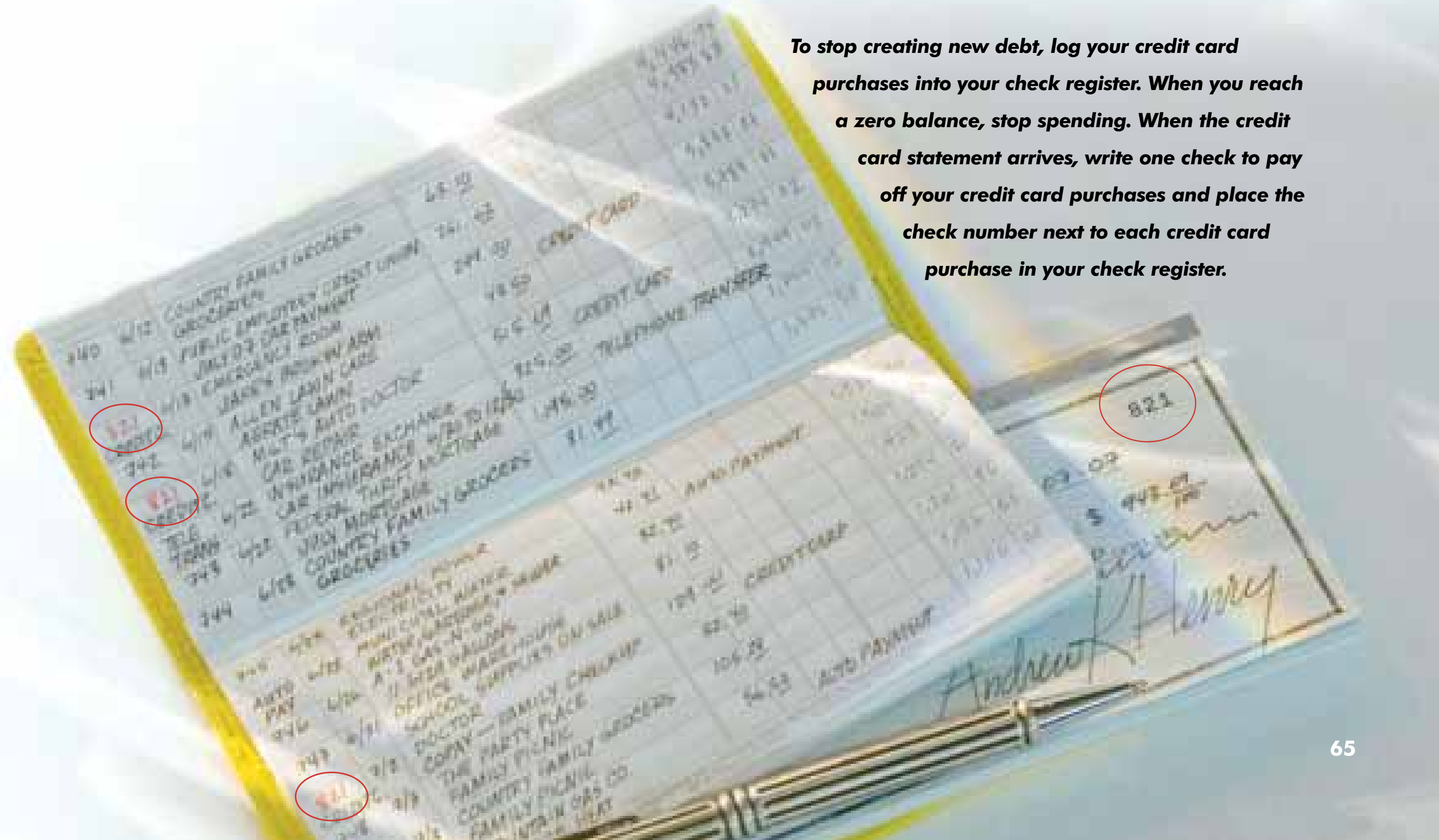
**Ask for Help**

It is important to know that lenders do not want to see anyone file bankruptcy, so be sure to contact each creditor, explain your situation, and see how they can help. In the Lanes' case, they started with the lender holding their first mortgage. If lenders are not willing to work with you, explore options with a credit counseling organization (such a visit is required by federal law in the United States).

Will you still need to file bankruptcy? This is not a decision to be made lightly. It will affect your entire family and your future. Carefully explore all your options for reducing and eliminating debt. Prayerfully consider inspired counsel from your bishop or branch president. Make sure you receive a comforting sense of peace regarding any strategy you select before taking action to improve your finances, especially something as drastic as filing for bankruptcy. ■

**NOTE**

1. "To the Boys and to the Men," *Ensign,* Nov. 1998, 53–54.



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PHOTOGRAPH BY CHRISTINA SMITH