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## HOW TO SURVIVE FINANCIAL HARDSHIPS

By Victor Sy, CPA, MBA

As the economy bends from the weight of **mortgage problems**, step away from spending habits that could make you a casualty of the **sub-prime lending collapse**. Lenders across California issue more than 50,000 default notices for late payments each quarter. Foreclosures in June 2007 ran at about 800% of June 2006. Those who acquired their homes at the top of the real estate boom with **no money down** or who financed their acquisitions with **adjustable rate mortgages** (ARM) with low teaser rates may be in danger of losing their homes. When high adjustable rates kick in after a couple of low fixed-rate years, monthly payments skyrocket. Homeowners miss payments. **Default notices** follow. Home equity loans that saved homeowners in the mid-90s are no longer available because there's no equity to begin with when homes were purchased with no money down. Refinances are harder to come by because of new stricter lending guidelines. **Foreclosures** could follow. Threats of losing homes by low-income households have spread to middle-income groups. We hope to see some relief – but probably only after 2008.

Read the following tips to help you survive financial hardships:

1. **Get rid of that ARM.** Refinance your mortgage if you can still qualify for fixed rates. Sure, banks have become stricter since the fall of sub-prime lenders, but rates are still low. Go for a fixed rate if you intend to keep your property during a prepayment penalty period of three to five years. Be careful about lenders slipping in a prepayment penalty clause – in small print - when it's too late to back out just before closing. Your best bet is a fixed rate program without prepayment penalty.
2. **Pay off credit cards with a new second trust deed or equity line on your residence.** The savings are dramatic. You can convert a 12%-20% non-deductible expense to a 5%-9% deductible expense. That could save you 40% to 60% from the combined savings on interest rate and income tax deduction, depending on your tax bracket. Nice.
3. Do not pay for **premium gasoline** unless you have an exotic car. Big oil companies settled with the Department of Justice for failing to produce evidence that premium grades produce more mileage. All premium does is reduce “ping” from a cold engine when you accelerate. In other words, cheaper regular gas is fine. My FJ Cruiser owner's manual, for example, recommends premium fuel. I tried regular gasoline and the engine fires just fine. No “ping.”
4. **Time your trips to the gas station.** Fill up late at night or early in the morning when fuel contracts from cold temperature. Filling up at the hottest time of the day when gasoline expands gets you less fuel for your buck.
5. **Shop at warehouses - Costco, Sam's Club.** If you have a storage room, buy items in bulk. Buy products using their own brands. Some Kirkland tires are manufactured by Michelin and sold by Costco - at about half the price. Sam's Club sells products from well-known manufacturers - at big discounts. Learn how to identify super bargains. Costco merchandise with a “.97” at the end indicates a discontinued or slow-moving item with more discounts. Sam's merchandise with a “C” at the end of an item number denotes canceled items with deeper discounts.
6. Do **comparison pricing** at PriceGrabber.com, Bizrate, Shopzilla, NextTag, and other websites. I bought a \$350 Canon SD 800 digital camera with wide-angle lens and shake stabilizer for \$280 at NextTag.
7. **Buy generic.** These products have the same ingredients as brand names – for much less. I bought Kirkland hair restorer for \$19 instead of Rogaine for \$49. Same content, same results. ☺
8. **Buy rechargeable batteries.** They cost about four times more but could be recharged about 1,000 times.

9. Have your insurance agent review your [life insurance policy](#). Ask your agent to explain the pros and cons of term, universal, and permanent life insurance (a 35-year old man can buy \$50,000 in whole-life coverage for about \$250 a year; the same \$250 can buy \$250,000 in term-life coverage). Consider a vanishing premium policy or the less expensive second-to-die policy especially when you have a much younger spouse. ☺ Sometimes we tend to forget that the objective of insurance is protection, not investment. If you want to invest, buy stocks, mutual funds, or foreclosed real estate.
10. Pay airline tickets with American Express or other credit cards that provide [flight insurance](#).
11. Consider raising [insurance deductibles](#) on auto and homeowner insurance. The premium reductions are usually dramatic. Don't report every little accident to your insurance carrier to keep your premiums low.
12. Before paying for [rental car insurance](#), check with your auto insurance agent. Your policy may already cover rental cars. Rental agencies could pressure you to buy expensive insurance that you may already have - a waste of vacation budget. Read your policy or call your agent before you leave for vacation.
13. Check [Consumer Reports magazine for reliability of cars](#) before committing to four or five years of fixed monthly lease or purchase payments. If you can buy a reliable car for about the same price as a model that looks good but breaks down a lot, you can save thousands of dollars on repair bills – repairs that could be avoided if you check reliability ratings at Consumer Reports and other publications. For example, Los Angeles Times reported that a 10-year old Lexus is as reliable as a one-year old Mercedes. Sorry. The funky, youth-oriented inexpensive Scions are at the top of the most reliable cars while expensive BMWs and Jaguars are at the bottom of the reliability list. Designs and brands are nice. So are repair-free cars that seem to run forever. Research before you buy big-ticket items. It helps you survive tough times when your vehicles run without the need for constant repairs that may compete with food and other basic necessities of life.
14. [Stop smoking](#). It not only saves you hundreds of dollars; it could also add a few more years to your life and the lives of those around you.
15. [Bring your lunch](#). It not only saves you a few dollars; it also spares you from MSG, sodium, animal fat, or trans-fat used by many restaurants.
16. [Keep your freezer full](#). It is more expensive to run a half-empty freezer than a full one.
17. [Run your dishwasher when it is full](#). A half-filled one uses the same energy as a full dishwasher.
18. Insulate your [water heater](#) especially if it is located outside your house. The cost of insulation could be recovered from lower utility bills or energy rebates in one winter alone.
19. Do not be intimidated into [subscribing newspapers and magazines](#) with mailers that keep arriving just before your old subscription expires. Renew only periodicals that you actually read the most.
20. [Do not use directory assistance](#). You pay charges for a number listed in that phone book beside you.
21. Time your [long distance calls](#) when rates are lowest. Use VOIP or phone cards for international calls.
22. [Learn what expenses are deductible for income tax](#). Save supporting documents for deductible expenses. It saves you time to prepare your tax returns. It also gives you peace of mind should the IRS audit your income tax. Keep these receipts for at least four years to cover both federal and State statutes of limitation.

I hope some of these tips help you make ends meet.

Good luck.