The Basics

Worst-case scenario: no job, no money

If you've reached the end of your financial rope, don't panic and raid your 401(k). Here's where to find cash when the wolf is at the door.

advertisement

By Liz Pulliam Weston

To print article, click **Print** on your browser's **File** menu.

Go back

Cool Tools

Get market news by e-mail

Plan for your perfect retirement

Personal finance bookshelf

Find It!

Article Index
Finance Q&A
Tools Index
Site map

msn Money

Related Articles

5 financial strategies in tough times

Take control of your debt

You've canceled your cable television, eliminated eating out, increased your insurance deductibles and ransacked the couch for loose change. But you're still unemployed, or deep in the grip of some other financial crisis, and quickly coming to the end of your rope. How do you tie a knot and hang on?

Here's where to look for cash, and how to decide which pots to raid first:

First, get real

The biggest mistake people make in a financial crisis is that they're not realistic. They overestimate how much money they need to live, viewing luxuries as necessities, while underestimating how much time it will take to replace their lost income.

"It's helpful to be optimistic," said Steve Rhode, co-founder of credit counselor Myvesta, "but time is really not on your side." (For more on Myvesta, click on the link under Related sites.)

Don't let retirement sneak up on you. **Create a perfect plan.**

You need to take one more run through your budget before your start tapping any assets. The more you delay, the more money you'll spend on the wrong things while putting the important stuff at risk. You'll feel pretty dumb about insisting that you need HBO or that your children can't possibly go to public school if you wind up homeless.

In case you're unclear on the concept, necessities include:

- Food. We're talking food prepared at home, with inexpensive ingredients.
- Shelter. And this may not necessarily be the shelter you have now; see below.
- Utilities. You can reduce your consumption, but you still need to keep the lights on.
- Transportation. You've got to get to job interviews although, again, it may be in a different form than the car you have now.

Everything else is optional. There's some spending you shouldn't cancel unless you absolutely have to -- health and life insurance come to mind -- but you shouldn't put any item off limits that isn't covered by the four categories above.

Now that you've gone through your budget, your next step is to go through your possessions.

Sell your stuff

Most of us have way too much, anyway, and a lot of it can be converted pretty quickly to cash.

You can raise immediate green with a garage sale. Lightly worn or designer clothes can be hawked at a consignment shop. Collections -- of books, CDs, DVDs, artwork -- can be sold online or through dealers.

Animator Brett Newton plans to hang on to his most treasured comic books -- those he collected as a kid in the 1960s -- but is selling the rest of his collection both to raise money and to simplify his life.

"I looked at all this stuff I had accumulated in the opulent '90s and thought, this is the new millennium and this is your new life. You don't need all this," says Newton, a former Disney character animator. (Though his credits include "The Little Mermaid," he's had to face several stretches of unemployment since the animation industry cratered a few years ago.) "I thought, 'Why am I keeping these when I can get good money for them?'"

4 reasons not to refinance

Related Resources

See if you have too much debt

Try our savvy spending quiz

Use our debt consolidation calculator

Related Sites

Myvesta.com

Cars.com

American Council of Life Insurers

Sell your investments

If it's not in a retirement fund or some kind of custodial account for your kids, it's probably fair game. It makes no sense to hang on to investments while you spiral into debt.

The good news is that Congress has considerably lessened the tax burden for selling assets that have long-term capital gains. The tax rate can be as low as 5% for those in the 15% tax bracket and below, and 15% for those in higher brackets.

If you're not clear on the tax consequences of your investment sale, talk to a tax pro or use the capital-gains estimator in your personal-finance software.

Start a business

Not every start-up requires a huge infusion of cash. You probably have some sort of skill you can teach to others, or you can provide a personal service, such as dog walking, house sitting, errand-running or house cleaning.

Monica Friel started her home and office organization business, Chaos to Order, 13 years ago in Chicago when she lost her job as an event planner. She admired the way her soon-to-be husband, who was self-employed, bounded out of bed in the morning and wanted a job that provided her with the same enthusiasm.

What she really liked to do, though, was "stay home and organize my drawers," Friel says with a laugh.

Most of her friends thought she was nuts, but the first month she made enough money to pay her mortgage. Today, she has 10 employees and stays at home to manage the business and raise her three children.

Being self-employed "is not for everybody," Friel says. "But if nobody is hiring you, you might be better off starting your own business."

Once you've explored these options, it's time to dig a little deeper.

Rethink your ride

If you owe less on your car than what it's worth, consider selling and buying something cheaper. That should not only reduce or eliminate your monthly finance payments, but you'll probably pay less for insurance, as well.

You also may be able to lower your payments by refinancing your auto loan, either by using a home-equity loan or through a bank or credit union, says Mary S. Butler, senior editor for auto Web site Cars.com. (If you have no income and are applying for a loan, you may need someone who's employed to co-sign for you.)

Borrow from your life insurance

If you have "permanent" or cash-value life insurance, you may be able to tap the policy's accumulated savings. (This isn't a feature of term life insurance, which doesn't have an investment component.)

You usually have a choice of borrowing or withdrawing money. Typically, it's best to go for the loan. A withdrawal permanently reduces the value of your policy, and you may owe taxes on the money if your cash value is greater than the sum of all the premiums you paid in.

A loan, by contrast, isn't typically taxable, and you'll have the option of putting the money back into your policy when times are better, says Paul Graham, chief actuary for the American Council of Life Insurers. If you pay back the loan by the time you die, your heirs will get the full value of your policy. If you don't, the amount you take out will reduce the proceeds your heirs get.

Make sure, though, that you keep making your premium payments. If the policy lapses, you've lost your coverage and your loan becomes a potentially taxable withdrawal.

Borrow from your house

If your need for cash is likely to be short-lived, consider tapping your

home equity. While it's easiest to do so before you lose your job -- by setting up a home-equity line of credit -- you may still be able to get a loan against your house if you have sufficient equity.

This is probably not a good choice, though, if you're already having trouble making your mortgage payments. In that case, a more difficult remedy might be in order.

Sell your house

Radical? Not necessarily. Myvesta's Rhode believes too many people struggle too hard to hang on to unaffordable homes.

If you can't make your mortgage payments, or you soon won't be able to, you're often better off selling than letting the lender foreclose. If you sell, you may be able to preserve your credit rating and most of the equity in your home.

"It's much easier to regroup and buy another home someday if you don't have late payments on your mortgage or a foreclosure," Rhode says.

If you can't bear the thought of selling, you may have other options. You can talk to your lender about reducing or deferring your payments, but these fixes will only last a few months, at best.

If you have some equity in your home, or your spouse is still working, you may be able to dramatically cut your mortgage payment by refinancing to an interest-only loan. Recently rates on interest-only loans that adjust every six months were around 3%, which could trim your monthly payment by as much as 75%.

The dangers of these loans are significant. You don't build any equity with an interest-only loan, and you aren't locking in today's low rates if the mortgage is variable. When you're employed again and ready to refinance again, you could be faced with much higher payments.

You may need to hunt hard for these loans as well. Although some lenders will let you refinance up to 95% of a home's value without

demonstrating you have any income, others have a “no job, no loan” approach, says mortgage broker Don Scott of First Financial Bancorp. in Santa Monica, Calif. “They’ll just hang up on you.”

Other options: taking in a boarder or renting out your home and moving into something cheaper.

Did you notice something missing from this list? Read on, because this one can be costly:

Beware tapping your retirement funds

Unfortunately, this is the first pot of money many people raid when they lose their jobs, and it’s one of the worst sources of funds.

Withdrawals from retirement funds are typically taxed and penalized so heavily that you can lose one-third to one-half of the money to Uncle Sam. Once withdrawn, the money usually can’t be put back, meaning you’ve lost out forever on future tax-deferred returns. As I wrote in "A survival guide for the unemployed," a $10,000 withdrawal can easily cost you $100,000 or more in future retirement money.

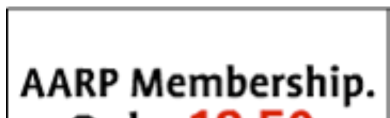
What’s more, retirement funds are protected from creditors in bankruptcy court. If you wind up there, you’re going to be sorry you used this money, particularly if you spent to pay off debts, like credit cards, that otherwise would have been erased by your filing.

If you’re still employed and have the option of borrowing, rather than withdrawing, money from your 401(k) or other workplace retirement plan, that’s an option to consider. But understand that the loan will come due if you lose your job, meaning you’ll have to pay the balance back quickly or the balance you owe will be taxed and penalized as if it were a withdrawal. That’s a significant risk, and one that shouldn’t be taken lightly.

More Resources

· **E-mail us** your comments on this article
· Post on the Your Money **message board**

advertisement



· Get a daily dose of **market news**

Only 12.50.

Shouldn't You Be A Member?

Search MSN Money tips

Savings, savings and debt, budgeting Go

Sponsored Links

3.25% APY American Dream Savings Account
Check with them - save with us. No fees. No minimums. Open your account online. 24/7 access. FDIC insured....
www.emigrant-direct.com

Wachovia Extra Free Checking
A free checking account with the works: free online banking with BillPay and a free check card with Visa...
www.wachovia.com

Get Fast, Easy, Secure Internet Banking
Don't use a branch. Why pay for it? Get low overhead, Internet checking, savings, CDs and money market wtih...
www.imperialcapitalbank.com

MSN Money's editorial goal is to provide a forum for personal finance and investment ideas. Our articles, columns, message board posts and other features should not be construed as investment advice, nor does their appearance imply an endorsement by Microsoft of any specific security or trading strategy. An investor's best course of action must be based on individual circumstances.