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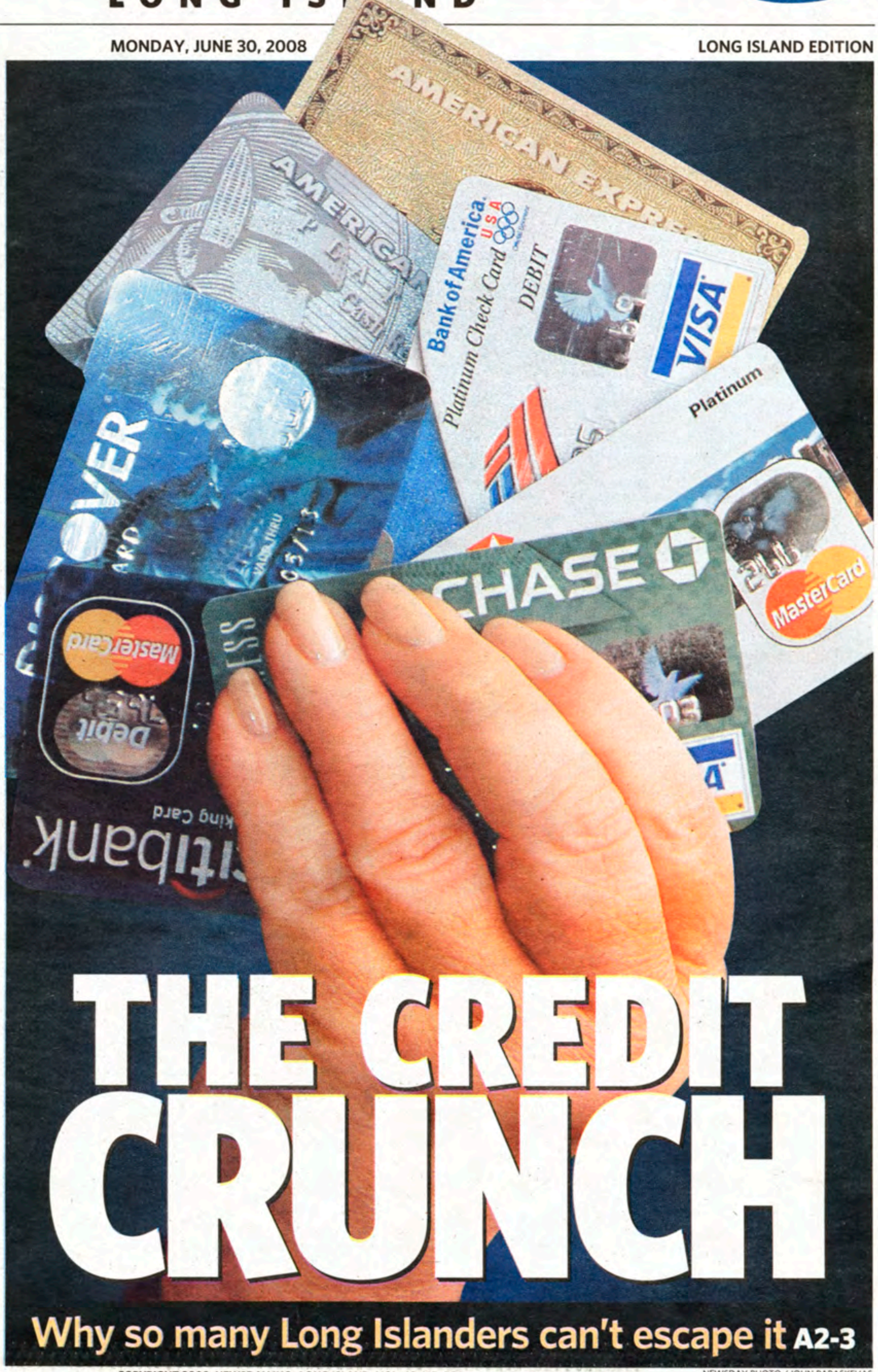
Newsday

LONG ISLAND

50¢ MONDAY, JUNE 30, 2008 LONG ISLAND EDITION



THE CREDIT CRUNCH

Why so many Long Islanders can't escape it A2-3

NEWSDAY PHOTO / JOHN PARASKEVAS

not in the cards

Here's some advice from counselors on what to do to avoid getting into trouble with your credit cards:

- **Create a budget and live by it.** Include necessities and some spending money and, if possible, a bit to save too.
- **Take that budget and trim all nonessential purchases by 20 percent.** You can't do anything about the mortgage, and there's only so much you can do about utilities, but takeout and movies can go.
- **Clip coupons and look for sales.** But don't buy something that's not on your list just because it's on sale.
- **Consider a second job.** Trim your budget to match your first job's income before you quit the second one.
- **If you already have credit card debt, make all minimum payments every month.** Then, if you have leftover funds, pay off the card with the highest interest rates first.
- **Get help.** There are nonprofit credit-counseling and debt-management firms and community organizations that can help you create a financial strategy, and will work with your creditors to eliminate future fees or reduce interest rates. There are also debt-settlement companies that offer to negotiate your debt into one lump-sum payment. But be careful. Some of those firms are known not to be reputable. Finally, if necessary, contact an attorney about bankruptcy protection, which can wipe out most, if not all, of your debt.

— RANDI F. MARSHALL

In LI Business

Many high-end customers are unwilling to let go of indulgences.

■ Rising costs in a reeling economy force many LIers into a vicious cycle of credit card debt as more are using plastic for day-to-day items

BY RANDI F. MARSHALL
randi.marshall@newsday.com

Where will the money come from?

Gas and food prices are rising, mortgage interest rates are adjusting higher, loans are harder to find and unemployment is ticking up.

There's only one place left to turn, many consumers think: credit cards.

Now, instead of using credit cards for large items such as a plasma television or new furniture, many area residents are charging gasoline, milk, food and even, in some cases, other bills, experts said. And many of them are only making the minimum payment on each card — if they can afford even that.

"A lot of typical Long Islanders seem to be overwhelmed by credit card debt," said Craig D. Robins, a Westbury bankruptcy attorney who said his clients have balances from $12,000 to $80,000 and interest rates of up to 30 percent on their cards. "Just one little financial calamity causes them to dig into their credit cards just to be able to make ends meet and pay day-to-day living expenses."

Adding to the mix, it's now far more difficult for many consumers to find a way out of debt, since other options, such as home equity lines of credit, aren't as readily available and it's not as easy to refinance a home or take out a loan with a lower interest rate, experts said. And there's evidence that the overall tightening of credit is spreading to credit cards, too, potentially reducing the availability of new credit and already starting to lower credit limits — moves that could impact consumer spending and overall economic growth.

Revolving debt hits record

Nationwide, revolving debt — almost all of which comes from credit cards — reached a record $957 billion in April, up from approximately $800 billion four years ago. Total credit card debt grew by just 0.4 percent in April, according to the Federal Reserve, an indication, some said, that banks are beginning to offer less credit and, possibly, borrowers are beginning to put the brakes on spending.

But consumers are already in plenty of trouble. And the moment they're late on a payment, all bets are off, debt counselors said.

"A lot of these people are now maxing out these credit cards and are at a point where they can't put anything more on them," said personal finance counselor Colin Nupp, with Debt Counseling Corp. in Hauppauge. "Then the minimum payment is only going towards the finance charges and a lot of people feel like they're spinning their wheels."

Uncollectable accounts

That ripples beyond the consumer, affecting credit card companies and other financial firms, which are seeing more and more accounts go bad. Moody's Investor Service reported that the charge-off rate — which measures those credit card accounts that are considered uncollectable as an annual percentage of all outstanding loans — reached 6.27 percent in April, its highest level since December 2005.

"Credit quality in the credit card world has deteriorated as of late, but it's not as bad from a historical perspective as conditions in the mortgage world," said Scott Hoyt, senior director of consumer economics for Moody's Economy.com. "And conditions are going to continue to deteriorate because credit quality in the credit card world tends to be driven by labor market conditions," which are weakening.

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Hard to play catch-up

The Moody's Investor Services report showed that it's now more difficult for borrowers to become current once they fall behind. Port Washington resident Dina Brand knows that all too well.

Brand, 36, had credit card debt as a teenager and eventually paid it off. But when she gave birth to her son, who is now 6 and has special needs, Brand stopped working and signed up for credit cards again. At the time, in 2002, credit was easy to get. The cards were in her name and she began to use them for day-to-day needs.

Soon Brand racked up debt on 10 credit cards. She'd use up the limit on one and begin on the next. But she could not work full time due to her son's needs and had trouble making the cards' minimum payments. So she missed a payment here and there. And then the fees and higher interest rates began to hit.

Soon each card had a 29-percent interest rate, and Brand, who was divorced in 2006 and now lives with her mother, had accumulated $22,000 in credit card debt.

"The one time you miss, you get so far behind," Brand said, noting that in some cases credit cards with a $500 limit would have $780 in charges because of fees and interest.

Hoping for a fresh start

Brand filed for Chapter 7 bankruptcy with Robins' help just a couple of months ago. She's hoping that will wipe her slate clean once again.

"I want a fresh start," said Brand, who now has no credit cards and uses just a debit card. "I'm now making a life I want for my son and for me."

Brand's story is far from unusual, credit counselors said.

"To bridge the gap between expenses and income, they're supplementing with credit," said Christian Moriarty, president of American Debt Resources, a credit counseling firm in East Northport. "We all know that all it takes is one missed payment, and before you know it, your interest rates are at 30 percent."

Small-business owners, too, are relying on credit cards more and more, said Marianne Garvin, who heads the Community Development Corporation of Long Island. They have the same problem as consumers, Garvin said, adding: "Whatever discretionary money they may have had to pay down their credit card debt is now being sucked up to pay their utilities and gas."

Equity not an option

Making matters worse, there are fewer ways out. Consumers used to use the equity in their homes to consolidate debt and utilize lower interest rates. With the credit crunch, this door is closing.

"Right now, you don't have the relief valve," said Brian Riley, research director for TowerGroup, a research and advisory firm based in Massachusetts.

Riley noted that credit card issuers could be the next corporate victims of the credit crunch as their risks rise. "It used to be in this business that bigger is better. Now, it's safer is better," he said.

The bigger problem, said Riley, is that everything — from higher unemployment and gas prices to tighter credit and lower home prices — is hitting at once.

"It's not a pretty world right now," he said.