

## Coping with unexpected bills

Most people are pretty good at living within their budgets – except when the unexpected happens. It's not usually the day-to-day and week-to-week items that blow a budget, it's the one-off things you don't see coming.

No matter how well-organised or disciplined you are with money, there will always be the occasional time when you need an extra sum either to tide you over for a short period or to sort out a large bill.

Hopefully, you will have some funds put aside, which you can access quickly. If you don't, what are your options? Applying for a bank loan or extending your overdraft limit may seem like a good idea, but there are several things to consider first. For example, the interest rate you'll be charged is likely to be 10% or more higher than for mortgage rates.

Given that mortgages generally offer one of the cheapest rates of any loan type, you might consider increasing the size of your mortgage and then drawing down the cash you need. But be wary of adding the likes of a new car or holiday onto the mortgage – using your mortgage to fund your lifestyle is a very expensive way to live.

While there are mortgages with revolving credit facilities, these work best for people with very disciplined money habits. Remember, debt is like fire: if used properly it can be a great tool, but if misused, you can be badly burned!

If you do need a loan, it's best to see a recognised financial institution. In that respect, it pays to keep a good credit rating and to build up a good relationship with your bank. That could mean the difference between being granted a loan and being turned down, or being charged a lower rather than a higher interest rate.

Ultimately, the best option is to fund unexpected bills out of your own resources if you possibly can. This means holding an amount of cash in reserve (as opposed to having to sell shares or property, which are sometimes difficult to sell).

As a rule of thumb, three months' living expenses is a good cash sum to aim for. One option is to keep half in an on-call interest-bearing account or cash account and the other half in a 30-day term deposit, leaving it to roll over each month.

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