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# Raising Emergency Cash

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When cash is needed for an emergency, clearly, the situation and the funding will be stressful events. How much worse would it be if the capacity to pay is in doubt? The key to remedying this type of situation—without overpaying or worrying about how to pay in the first place—is advance preparation for funding emergencies. Knowing this, though, what are the most common sources of emergency cash? Below are four key areas to consider for short-term liquidity needs:

- Savings
- Asset Sales
- Borrowing
- Equity Lines of Credit
- Retirement Accounts

*Savings*

Savings should be the first place to go for emergency cash because this type of funding is usually the lowest cost form of cash to spend. In fact, this is the purpose for having an Emergency Fund already in place. One objection often raised to any large amount of savings, though, is the opportunity cost of cash. These days, cash in a bank savings account is not likely to earn much in the way of interest, so there is a perceived cost to holding it as opposed to investing the funds elsewhere. Alternately, because cash saved will earn so little interest, some may consider spending it to be little lost compared with the spending high. However, be warned: the value of cash—especially, an Emergency Fund—is not in the amount of interest it can accrue on a periodic basis but rather on its ability to prevent a Worst Case scenario in the rare cases when these could happen. In this sense, an Emergency Fund is more like insurance focused on asset preservation than an investment to maximize. Precisely because of its ability to smooth out drops in income or times in between paychecks, an Emergency Fund is a necessary part of any financial plan.

*Asset Sales*

After savings, the next source of emergency cash can come from asset sales, especially smaller items that could be sold quicker through resale stores or online marketplaces such as Ebay. This is also a useful way of 'spring cleaning' or decluttering. Note that asset sales are likely a more expensive form of cash to spend because the value of the objects sold will not be as high during an emergency. This situation is often colloquially referred to as a 'fire sale', implying the need to sell quickly during a fire or other emergency.

For larger cash needs, more expensive assets such as jewelry, cars, and homes can be sold, but caution should be exercised here because many of these items are considered operational assets that are needed for critical activities. In other words, selling an asset that you are using in your daily life is going to result in some lifestyle changes! Nevertheless, asset sales are cheaper than other forms of emergency funding because the assets to be used for this are already owned.

*Borrowing*

Most of us are familiar with borrowing in the form of mortgage and car loans. This is considered 'secured' borrowing because the loan is backed by an asset (which can be taken back if the borrower does not make regular payments). In addition, credit cards and banks can offer 'unsecured' borrowing to some customers, which means that the loan is not backed by any particular asset. Instead, many lenders will rely on the individual's income history (as evidenced by tax returns, pay stubs, or other third-party income conformation) or past credit payment history (as evidenced by credit scores such as created by FICO) to determine how much of a loan they are willing to extend.

Both of these type of loans require payment plans and/or payment in full periodically, backed by an asset or personal guarantee. If a loan balance is not repaid fully at the end of each time period defined by the loan, the borrower will owe interest or additional money to the lending institution. Interest rates will vary widely based on the type of guarantee, the time period of the loan, the credit score of the borrower, etc. Some companies will lend against the promise of future income, albeit at higher interest rates to reflect the increased risk of non-payment—these are the infamous 'payday loans', which can charge significantly higher interest rates.

Most of us will borrow at some point in our financial lives. However, borrowing as a source of emergency cash will usually require additional fees or discussions with the lender and may take longer than the emergency will allow. Thus, the next section discusses a form or borrowing arranged ahead of time and held in reserve only for times when it is needed.

*Equity Lines of Credit*

Lines of credit are a form of borrowing that usually require advance preparation and 'equity' in an asset such as a house or investment account to act as collateral. They can be obtained through banks and brokerage companies. Once set up, the line of credit functions as a form of 'on demand' borrowing, with the benefit that interest is only charged if the line is used. One useful feature of these credit lines is that they can be used multiple times without additional setup time and cost, if borrowing is repaid in between each usage.

The most well-known equity line of credit is the HELOC (Home Equity Line Of Credit), where a borrower pledges their house as collateral (usually the primary residence but could be an investment property if the bank allows this, albeit fewer do). The lending institution will work with a borrower to set up a credit line that can access up to a certain percentage of the equity available in the home—maybe as high as 75-80%.

In contrast, an investment line of credit uses assets in a traditional, non-retirement brokerage account as collateral without the need to sell the particular investments in the account. As such, it can be useful as a way of monetizing owned securities without impacting an individual investment plan. One note is that borrowing capacity is usually lower than HELOCS, perhaps only up to 50-60% of an investment account's asset size.

*Retirement Accounts*

A final common source of emergency cash is available to those individuals who have assets in a 401k retirement plan through their employer.  Many employer plans allow plan participants with a minimum amount of assets in their plan to borrow against the plan value.  Sometimes, the borrower must show proof or claim of hardship in order to access funds.  Once a 401k loan is approved, though, the plan participant receives cash for their needs.  Be advised that this is an expensive form of borrowing, though, because the retirement plan balance is being drawn down.  In addition to requiring interest payments, this form of borrowing removes retirement assets from their investment purpose … with potential long-term consequences to the participant's retirement planning.  In addition, if the borrower leaves employment before the loan is fully paid back, it will be due in full at the time of severance, regardless of the reason for the severance, or it will be considered an early withdrawal with associated tax penalties.

In summary, comprehensive financial planning is all about tackling current and anticipated future situations with a finite set of resources.  Because of this, we must prioritize our needs and wants on a constant basis—balancing the present with the future (and sometimes with the past as well).  While this article is meant to help identify cash sources as a method for dealing with current emergencies, it's important to note that planning for future potential emergencies is a core part of our current financial responsibilities.  Determining in advance how we will pay for emergencies—with which sources and in what order—will make a significant difference when an emergency happens (as it inevitably will).

In the end, though, no plan is complete without supporting action. The Emergency Fund must be set up and funded.  Assets must be available or made ready to be sold, if needed.  And an equity line of credit must be created and approved by a lending institution in advance, based on collateral and solid payment history.  Good decisions allow good opportunities to compound.  If you need encouragement or a friendly guide in this process, asking for an initial (and usually free) discussion from a potential advisor to explain your situation and get the ball rolling is a great start.

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