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# Getting Out Of Debt (Quickstudy: Home)

Quick Study HOME

## Getting out of DEBT

### BUILDING & REBUILDING CREDIT

**What Do Creditors Look For When Deciding Creditworthiness?**

- There are many lenders who are eager to provide money to creditworthy borrowers. Banks, credit unions, and lenders finance computers and credit card interest.
- All of these lenders are always about who they lend their money to.
- They only want to do business with those individuals they are confident will pay them back.

**Character - do you intend to repay your debts?**

- The following three "W's" help lenders decide if you are creditworthy:
  - **Will you pay your bills on time?**
  - **Do you have a good credit report?**
  - **Can you provide character references?**
- Have your credit history, does it look like you possess the honesty and reliability to pay credit accounts?
- How long have you lived at your present address?

**Capacity - what are your resources for repaying the debt?**

- What property do you own?
- Do you have a savings account?
- Do you have investments to use as collateral?

**Capacity - can you repay the debt?**

- Are you truly a steady job?
- How long have you been at your present job?
- What is your salary?
- How many other bills payments do you have?
- What are your current living expenses?
- What are your current debts?
- How many dependents do you have?

**Building or Rebuilding Your Credit History**

- Not all banking services are available to everyone. New services are a privilege, not a right.
- Those who abuse the privilege will find it withdrawn.
- Those with no record and bad credit will find they simply are not desirable customers in mortgage loans and credit unions.

For the following list, go to **bank** or **rebuild** your credit history.

**For all bills, promptly:**

- Open a checking account, and avoid financing checks or overdrawing your account.
- Open a savings account, and make regular deposits.
- Apply for a personal credit limit or major banking services.
- Apply for a local store credit card, and make regular monthly payments.
- Apply for a credit loan, using your savings account as collateral.
- Get a co-signer on a loan, and pay back the loan on schedule.

**Before You Sign Up for a Credit Card**

- **Shop around!** For the best terms, check out [www.BankRates.com](http://www.BankRates.com) for the best credit card deals.
- Review of "teaser rate" expiration dates, fees, and APR, interest rates usually change immediately between 3 months to a year.
- While you are looking, what the interest rate will be after the "teaser rate" is over.
- Read and understand the contract!
- Don't make late paying anything.
- Check a contract to confirm you get a copy of it.
- Figure out the total price of all items when paying with credit.
- Make the largest payments possible.
- Know the penalties for missed payments.

**How Much Credit Can You Afford?**

**It is recommended to use only 10% of your yearly net income toward personal debts.**

For example: if you earn \$20,000 per month after taxes, this year greatly net income is \$240,000 (\$20,000 per month) to keep your recommended debt at about \$24,000. 10% of your annual net income (\$24,000 x 10%) = \$2,400. Do not exceed your mortgage or rent at the 10% maximum debt figure.

• Try to have your **monthly debt payments** to be only 10% of your monthly take-home pay.

- Using the example above, if you are paying \$2,000 per month, then you should be paying no more than \$200 for unsecured debts. Unsecured debts do not include your term mortgage or your car financing and are credit cards, auto, charges, gas, utility, charge, credit, medical bills, bank, school, education, etc.
- According to Fair Isaac & Co. (FICO), if you borrow more than 30% of your yearly net income, you will lose your credit score. FICO shared the method used for determining credit ratings. Your FICO score determines the type and amount of credit including mortgage and auto loans you will be offered in the future, as well as the interest rate you will be charged. See how FICO is calculated in the video on the "Personal AD" file, video, your score.

**How Americans Spend Their Money**

The pie chart below shows the breakdown of how the average American spends for their money, with the total expenditures equal to 100%. The average family spends more money than it makes, and this is all made up from one source: their credit cards.

**TYPICAL SPENDING**

Category	Percentage
Housing	30%
Transportation	15%
Entertainment	10%
Health	10%
Food	10%
Life Insurance	5%
Retirement Plans	5%
Utility	15%

**Comparing Credit Cards**

Consider the following before you sign up:

- Annual fee
- Annual Percentage Rate (APR)
- Finance charge computation
- Grace period
- Penalty fees for missed or late payments
- Transaction fees

**Questions to Ask about Credit Cards:**

- What would be my credit limit?
- Do you know my annual interest rate? If not, ask, what would you be able to charge me if I don't pay for a year?
- How much is the card accepted?
- What services are available?
- Is there an introductory rate, why is it and how long does it last?
- How do you deal with late fees?
- Do you offer a grace period?
- Do you offer a penalty fee?



## Synopsis

A complete quick reference guide to help you in building and rebuilding credit.

## Book Information

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## Customer Reviews

I was anticipating this quick study guide to be much more insightful. No new or useful information, I have already either researched the information listed or heard about it. Expected something totally different.

This product is very well put together and a wonderful learning tool for both school and yourself! I really love the detailed work put into the barchart series of self help guides. Two thumbs up.

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