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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 readers.
- 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.

The following three "R's" help lenders decide if you are creditworthy:

- **Reliability** - do you intend to repay your debts?
- **Resources** - do you have a good credit report?
- **Risk** - can you provide collateral (mortgage)?

Character - what are your resources for repaying the debt?

- How long have you been at your present address?
- How long have you lived at your present address?
- How long have you lived at your present address?

Capacity - can you repay the debt?

- Are you being a steady job?
- How long have you been at your present job?
- What is your salary?
- How many other loans 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. Some 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- Those who abuse the privilege will find it withdrawn.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.

Pay all bills promptly.

- Establish a **credit work record**.
- Open a **checking account**, and avoid financing checks or overdrawing your account.
- Open a **savings account**, and make regular deposits.
- Apply for a **secured credit card** or a major banking institution.
- Apply for a **local store credit card**, and make regular monthly payments.
- Apply for a **small loan**, using your savings account as collateral.
- Get a **workshop** or a **tool**, 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 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 be sure 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. The best credit card mortgage or rate at the 10% maximum debt figure.

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

Living the creditless lifestyle: if you are paying loans \$2,000 per month, then you should be paying no more than \$200 for unsecured debts. Remember, these debts do not include your term mortgage or your car mortgage unless you credit cards, rent, charges, gasoline, charge cards, medical bills, bank credit card, etc.

Accounting for tax: bank & Co. (FDIC), if you borrow more than 20% of your monthly net income, you will have your credit score (FICO) almost the highest level for obtaining credit, saving your 10% credit information. 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, are factors to consider in the case you are "bounced" by the lender, 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 expenditure equal to 100%. The average family spends more money than it makes, and this is all made up by the services they are receiving from others.

TYPICAL SPENDING

Category	Percentage
Housing	39%
Transportation	13%
Entertainment	9%
Health	8%
Food	7%
Life Insurance	6%
Retirement Plans	5%
Clothing	5%

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?
- Can you lower my annual interest rate? If not, can you, when would you be able to do so?
- How much is the card accepted?
- How long is the card good for?
- How are my payments calculated?
- Is there an introductory rate, what is it and how long does it last?
- How do you deal with late fees?
- Do you have an application fee?
- How do you handle late payments?



Synopsis

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

Book Information

Series: Quickstudy: Home

Pamphlet: 4 pages

Publisher: QuickStudy; Lam Crds edition (May 28, 2003)

Language: English

ISBN-10: 1572227664

ISBN-13: 978-1572227668

Product Dimensions: 8.5 x 11 x 0.1 inches

Shipping Weight: 0.8 ounces (View shipping rates and policies)

Average Customer Review: 3.0 out of 5 stars [See all reviews](#) (2 customer reviews)

Best Sellers Rank: #1,205,528 in Books (See Top 100 in Books) #238 in [Books > Business & Money > Personal Finance > Credit Ratings & Repair](#) #2086 in [Books > Business & Money > Personal Finance > Budgeting & Money Management](#) #278215 in [Books > Reference](#)

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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