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Getting Out Of Debt (Quickstudy: Home)

Getting Out of DEBT

BUILDING & REBUILDING CREDIT

What Do Creditors Look For When Deciding Creditworthiness?

- There are three factors that are used to credit check to understand how creditworthy you are: income, assets, and liabilities. Income is your salary and assets are what you own.
- All of these factors are closely related. If you have a high income, you are likely to have a high credit score. If you have a low income, you are likely to have a low credit score.
- The following three "C's" help lenders decide if you are creditworthy:
 - **Character** - do you intend to repay your debts?
 - **Capacity** - can you repay the debt?
 - **Capital** - what are your resources for repaying the debt?

How Much Credit Can You Afford?

It is recommended to use only 10% of your gross monthly income toward unsecured debts. For example, if you earn \$2,000 per month after taxes, then your credit limit should be about \$2,000. If you have a credit limit of \$20,000, you are likely to have a credit score of about 600. If you have a credit limit of \$2,000, you are likely to have a credit score of about 750. If you have a credit limit of \$1,000, you are likely to have a credit score of about 800. If you have a credit limit of \$500, you are likely to have a credit score of about 850. If you have a credit limit of \$250, you are likely to have a credit score of about 900.

How Americans Spend Their Money

The pie chart below shows the breakdown of how the average American spends their money. The total expenditure is \$17.1 billion. The average American spends more money on housing, food, and transportation than on any other category.

TYPICAL SPENDING

Category	Percentage
Housing	34%
Transportation	10%
Entertainment	10%
Food	14%
Life Insurance, Security, Retirement	10%
Health	10%
Other	12%

Building or Rebuilding Your Credit History

- Not all banking services are available to everyone. Some services are a privilege, not a right.
- There are three ways to build credit: 1) by using credit cards, 2) by using a credit line, and 3) by using a credit report.
- The following are some ways to build or rebuild your credit history:
 - Establish a credit record.
 - Pay on time.
 - Open a checking account, and avoid bouncing checks or overdrawing the account.
 - Open a savings account, and make regular deposits.
 - Apply for a credit card, and use it responsibly.
 - Apply for a small loan, and make regular payments.
 - Apply for a small 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

- Read the cardholder agreement carefully.
- Know the terms of the card, such as the interest rate, the annual fee, and the grace period.
- Know the penalties for missed payments.

Comparing Credit Cards

Consider the following before you sign up:

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

Questions to Ask About Credit Cards

- What would be my credit limit?
- Can you lower my annual interest rate if I use my card responsibly?
- If my interest rate is variable, what is the rate that it would be in a worst case?
- How long will it take to pay off my card?
- How long will it take to pay off my card?
- How long will it take to pay off my card?



Synopsis

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

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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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