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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 income toward unsecured debts. For example, if you earn \$2,000 per month after taxes, then you might not be able to afford more than \$200 in unsecured debt each month. This means you should not have more than \$2,000 in unsecured debt. If you have more than \$2,000 in unsecured debt, you should consider paying off your debts as quickly as possible.

**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 trillion. 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 grace period, and the late fee.
- Read and understand the agreement.
- Read the cardholder agreement carefully.
- Know the terms of the card, such as the interest rate, the grace period, and the late fee.

**Comparing Credit Cards**

Consider the following before you sign up:

- Annual fee
- Annual 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?
- What services are available?
- How do you compute my APR?
- How do you compute my finance charge?
- How do you compute my late fee?
- How do you compute my 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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