

Take Control Of Debt and Basics of Credit

Zoraida Reyes

Financial Services Director

Community Enterprises Corporation

Take Control Of Debt

□ **Get Your Debt Organized:** Write on a notepad the following information:

- Name of creditor
- Balance
- Interest rate
- Minimum payment
- Due date

(To identify how much each one costs you a year in interest, multiply the balance by the interest rate. Call the creditors periodically to request to reduce your rates, close the accounts, cut the cards up)

Take Control Of Debt

□ Get Your Finances Organized

Prepare a budget:

- List your income
- List all your bills
- List all your expenses
- List all your minimum debt repayments

(Subtract total bills amount from income. Cut out expenses that you don't need, such as, eating out, excessive cable or phone bill, magazine subscriptions, etc...until you have an amount that allows you to pay your debt)

Take Control Of Debt

□ Develop A Plan Of Action

- Open an emergency fund account (save until you accumulate \$1,000 or \$2,000)
- Pay off the smallest debt first
- Maintain minimum payments on everything else
- Review your plan periodically until everything is paid off

Take Control Of Debt

□ Follow Through

- Continue your Plan Of Action until you become debt free
- Keep paying the bill with the lower balance until everything is repaid
- Focus your attention on increasing income and decreasing outgo
- Increase your emergency funds until you save 3 to 6 months of living expenses.

Basics Of Credit

□ Credit

- Is using someone else's money today and paying it back in the future
- Obligation to pay back
- Pay a fee (interest) to use the money
- It's a responsibility – not a right!

Basics Of Credit

□ Credit is:

- Secured – backed by property, such as house, vehicle, etc..
- Unsecured – based on ability to repay

Basics Of Credit

□ Forms of Credit

- Short term – utility bills
- Revolving – Visa, Master card, etc
- Installment – car loan, mortgage

Basics Of Credit

□ How to Build Good Credit

- Open a checking account
- Must consistently use credit wisely
- Make payments timely
- Limit the amount of credit used (stay within 30% of your credit limit)
- keep your payments manageable
- Open new credit only as needed
- Inform your creditor in advance if you won't be able to make your monthly payment on time

Basics Of Credit

□ Benefits of Credit

- Buy today and pay later
- Buy large items
- Safer than cash
- Record of purchase
- Convenience

Basics Of Credit

- Risks of Credit
 - Impulsive buying
 - Pay more
 - Bad credit history
 - Debt Cycle

Basics Of Credit

□ Costs of Credit

- Annual percentage rate (APR)
- Finance charge
- Annual fee
- Late fees, over-limit fee, penalties