Title:
Basic Financial Information Tips (Part I)

Word Count:
957

Summary:
Here are some financial tips, definitions, and information that will hopefully help you save money or get out of debt.

Keywords:
pay, payments, loan, interest, credit, loans, money, paid, bi-weekly, fees, rate, insurance, extra principal, total interest

Article Body:
Savings. Pay yourself first. Start now stashing 10% of your income in an "Emergency" savings. Don't use it for anything but real emergencies. Keep a "For Sure" savings account for yearly expenses you know are coming and you can estimate (e.g. Christmas, insurance, taxes, etc.). Also have a "Buy Stuff" account. If you do, you'll be able to avoid many financial disasters which will face you, and you can avoid borrowing money from high-rate lenders.

Borrowing. Don't borrow money unless you are willing and able to pay it back. Failure to pay debts - on time - causes severe financial, emotional, and family problems. Experts recommend you don't borrow for wants, only for needs, or for things that increase in value. Many lenders will loan you money you can't afford to pay back, especially high-rate lenders.

Co-signing. Don't co-sign on a loan unless you are willing and able to pay it back. Often, co-signers end up paying off loans they are unprepared for, and financial hardships follow. Numerous co-signors now have negative credit ratings because a primary borrower paid late. Many lenders do not notify the co-signor before reporting delinquencies or repossessions to the credit bureau.

Compare. Before you decide who to borrow from, compare! Find out who is offering the best deal at that time - look for the loan with the lowest rate (APR).

APR. The Annual Percentage Rate (APR). It is the standard rate, so we may compare the cost of borrowing. It is the cost of credit expressed as a yearly rate. When you borrow, always beat 13% APR (consider "13" to be unlucky when it comes to borrowing). Some have been illegally stating other rates such as weekly or monthly rates. Compare APR to APR. If you pay your bills on time, and you aren't over-extended, you can nearly always find loans or financing arrangements at rates lower than 13%. Beware though, because beating 13% does not always mean you are getting a good deal. For instance: the difference in total interest paid on an 11% versus an 8% 30-year, $100,000 mortgage loan is $64,283 (assuming all payments are made as agreed).

Consolidation Loans. A consolidation loan can result in great savings to borrowers if the new interest rate is significantly lower, and if you don't run-up debt similar to what was just consolidated. But beware, because consolidation loans usually result in substantially more money out of your pocket into the lenders'. For instance, mortgage loans usually involve closing costs. They increase the total debt. Many refinances involve reducing the monthly payment, but increasing the length of payback, which substantially increases the total interest paid. Borrowers, who refinance unsecured debt (e.g. credit cards) into a home mortgage, also increase their risk of losing their homes. Also, remember to keep all of your payments current until the old debt is paid off. Too many people have damaged credit ratings, and are in bad financial condition because they counted on money which didn't come when they expected it. Expect delays when applying for loans, especially consolidation loans. Don't spend money before you get it.

Desperation. Don't get desperate for money. The more desperate you are, the less likely you are to get a good loan.

Auto insurance. Keep your auto insurance current. If you fail to keep your insurance up-to-date, you could end up making loan payments for years after your car has been totaled.

Establish good credit. To avoid bad credit, don't borrow too much, and do pay your bills on time. Inexpensive ways to establish good credit: (1) Obtain a good credit card. When you charge things, pay off the balance each month - on time - and pay no interest. (2) Establish a revolving line of credit (an empty loan) as an overdraft protection against bounced checks, and don't use it as a loan. (3) Get a loan to buy a car, or furniture, or etc.) and pay it off within a few months.

Late fees. To avoid late fees (which multiply the cost of borrowing), pay early, or at least on time.

Repossessions. To avoid repossessions and associated fees, pay early or on time, and keep your insurance current.

Extra principal ® less interest. To pay less interest on loans, pay more than the minimum required payment. Even small amounts of extra principal, can significantly reduce the total amount of interest you would otherwise pay over the life of the loan. Before doing this, however, make sure your lender accepts extra principal payments, and find out what particular procedure you need to follow to ensure your extra principal is properly applied.

Bi-weekly payments. If you get paid weekly, or every other week, paying bi-weekly is a very convenient (almost painless) way to reduce your loan term and interest. For instance, if you make ½ of your required monthly payment every 14 days (a bi-weekly period), you pay the equivalent of 13.052 payments in an average year. If you don't get paid bi-weekly, or if your lender doesn't like biweekly payments, you can pay the equivalent amount in monthly installments. If you pay 1/12 of the sum of 13.05 payments each month, you will match the bi-weekly advantage (minor rounding differences).

Contrary to popular belief, the frequency of paying ½ payments bi-weekly doesn't accomplish much, the real advantage is paying the extra principal (13.05 payments, or more, each year) which reduces the term and the interest paid. If you are considering signing up for a bi-weekly program, pay close attention to the cost. Some servicers have large set-up fees and transaction fees. Also consider the credibility of any company handling your money, some have diverted payments into their own pockets, leaving borrowers to make payments twice (once to a corrupt servicer, and a second time directly to the lender).