

# Loan BASICS

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## LOAN PREP

Applying for a loan requires a lot of research—not just on loan specifics, but research on you too! Loans make some of our biggest life decisions possible, so it's crucial to be realistic about your goals, your financial situation and your future.

### What does your credit score look like?

Credit scores play a big role in loan approval and your interest rate. If your score is low, it's a good idea to work on it before applying for a loan.

### What does the application process look like?

Avoid setbacks by bringing all the documents you need to apply (e.g., proof of income, two pieces of ID) and by understanding the typical time frame for loan approval.

### What does your budget look like?

Before signing a loan agreement, you need to have a clear idea of your monthly expenses so that you'll know what repayment terms you can reasonably afford.

### What does your lender look like?

Lenders come in many shapes and sizes, including large national banks, local credit unions, payday lenders, etc. Look closely at your lender's history and reputation.



### Do your research

There are *a lot* of loan products out there. It's helpful to see what your basic options are before you visit a lender.



### Ask questions

Asking hypothetical questions such as "What happens if I miss a monthly payment?" is a great way to get practical information.



### Take your time

Taking out a loan is an important decision, so give it time. You should never feel pressured to agree to something on the spot.

## LOAN VOCAB

Brush up on some common lending and borrowing terms:

### Principal

This is the amount of money borrowed on a loan.

### Interest rate

This is the amount charged by a lender to a borrower for the use of the loaned money. It is typically expressed by a percentage of the principal.

### APR

The APR or Annual Percentage Rate is a standardized calculation that represents the yearly cost of your loan (your interest rate plus any additional fees or rates).

### Term

The time period in which you agree to pay back your loan.

### Liability

Financial obligations or money already owed. Liabilities can affect your loan application.

### Default

Failing to repay a loan.

### Co-signer

A co-signer assumes equal liability for your loan. If you default, they become responsible for its repayment.

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# Finding The Loan That's Right For You

Loans help finance some of our biggest goals in life. They can provide access to possibilities that we can't afford upfront—possibilities like going to school, buying a home or starting a business (to name just a few).

A loan is also one of the biggest financial commitments we make in our lifetime. Rushing into a loan without fully understanding how it will affect your budget can create a very stressful situation that can quickly spiral out of control.

The good news is that you can avoid this stress entirely by choosing the loan that's right for you: a loan you can afford, from a reputable lender, with a payment schedule that makes sense.

Not sure where to start? The five tips below will help you shop smarter for the loan that's right for you.

## **#1: Take your time**

Reading the fine print is not fun, researching loan options is not exactly exciting and asking financial questions can feel intimidating—but these all play an important part in helping you find the right loan product. The process is not easy, and if you're tempted to rush through it, just remind yourself that being thorough now can save years of financial stress down the road. You should never feel pressured to sign anything on the spot. Remember: this is your loan and your future—you're in control!

## **#2: Be honest about your budget**

In order to choose the right loan, you need to have a clear idea of how much you can comfortably afford to borrow. Spend some quality time with your budget (if you don't have one, now is a great time to make one). You'll want to come up with a range, so calculate a few different scenarios:

- If your income and expenses stay exactly the same as they are now, how much of a monthly payment could you afford?
- If you suddenly lost your job, how many payments could you make before running out of cash? Do you have an emergency fund in place?
- Is there an area of your budget where you can reduce spending to cover a planned (or unplanned) increase in your monthly payment?

Picturing your loan payment alongside your other budget items will give you a sense of what you can realistically afford so that you can confidently shop for a loan without worrying about the financial effect on your lifestyle.

### **#3: Give yourself some credit**

Your credit score plays a huge role in determining the loan rate you qualify for. Additionally, knowing your credit score before you go loan shopping will save you some time by making it easy to weed out offers you're not eligible for. In the meantime, keep up those good credit habits: pay your bills in full and on time, and try to use only 10% of your available credit limit each month.

### **#4: Do some research**

Start with brushing up on some basic loan terminology and then move on to learning about different types of loans (such as secured loans, unsecured loans, fixed-rate loans and variable-rate loans). Research loans online to get an idea of the interest rates for the products you're interested in. When comparing various loans, look at more than just the Annual Percentage Rate (APR). Consider the fees, the payment schedules, the eligibility requirements, and the application and approval process. Also, check out the history and reputation of the various lenders—especially if you stumble upon offers that seem too good to be true.

### **#5: Check in with your credit union**

Credit unions are known for offering competitive rates on loans. You may also qualify for discounts based on your existing membership or because you have other banking products with your credit union.

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Once you've done your research and you know your budget inside and out, then arrange to meet with a loan officer. And bring a ton of questions with you! Don't be shy—ask about any wording you don't understand. Ask for your lender's opinion and ask if they've worked with someone in a similar situation as yours. To really put your loan in context, ask a variety of "What happens if...?" questions:

- What happens if I miss a payment?
- What happens if I default?
- What happens if I want to pay off the loan faster than expected?
- What happens if I pay weekly instead of monthly?

The most important thing to remember is that taking out and repaying a loan is not intended to be a stressful experience—it's intended to make large purchases or investments affordable for you. It's easy to get sucked into horror stories about things like foreclosures and student debt, but a little knowledge and preparation will make your own loan story a lot happier and a lot less dramatic. So study up, focus on your specific needs and ask around—your perfect loan is out there!