



PERSONAL  
LOANS 101:

# UNDERSTANDING PERSONAL LOANS



**When it comes to borrowing money,** consumers have a variety of choices, ranging from credit cards to home equity loans. Personal loans are used for various purposes, such as meeting family emergencies, purchasing home furnishings or consolidating other debts. These loans are generally short-term. Most personal loans range from \$100 to \$5,000 with the borrower paying equal installments at regular intervals over a determined number of weeks, months or years.

*This brochure will help you understand the terms of financing and issues to consider before entering into a personal loan.*

## IS A PERSONAL LOAN RIGHT FOR ME?

When deciding whether to obtain a personal loan, consider the benefits and responsibilities.

### A personal loan:

1

**Obligates future income.** You'll be required to set aside a certain amount of future income for loan payments.

2

**Requires discipline.** Borrowing wisely means not borrowing more than you can handle. Don't let the thrill of buying or having a sum of cash obligate you to more than you can afford.

3

**Makes it possible to meet unexpected expenses.** The ability to borrow and make affordable payments can be helpful if an emergency arises that requires extra money.

4

**Allows you to obtain products and services now and pay for them later.** A loan can provide an opportunity to purchase bigger-ticket items and use them right away.



## WHAT HAPPENS WHEN I APPLY FOR A PERSONAL LOAN?

You will be asked to complete a credit application that may include: your name; Social Security number; date of birth; current and previous addresses and length of stay; current and previous employers and length of employment; occupation; sources of income; total gross monthly income; and financial information on existing credit accounts.

Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Your credit history helps predict how creditworthy you are — how likely it is that you will repay a loan and make the payments when due. The creditor's decision to loan you money is based upon what appears on your completed credit application and your credit report.

## DO I NEED CREDIT INSURANCE?

Its purpose is to repay the debt if the borrower dies or becomes disabled. Credit insurance purchased in connection with a consumer installment loan is **optional** in most states.

In deciding whether to get credit insurance, evaluate what would happen if death or disability were to occur before the loan is repaid. If a borrower wants credit insurance, he or she is required by federal law to sign a statement to that effect. The cost of credit insurance coverage must be disclosed in writing. You are entitled to receive a copy of the certificate of insurance from the creditor.



## WILL I NEED A CO-SIGNER?

A co-signer may be needed if the borrower has: not applied for credit before; an income level too low to qualify for the loan; seasonal or sporadic income; a weak credit history; or excessive financial obligations.

A co-signer assumes equal responsibility for the loan. The account history will be reflected on the co-signer's credit history as well. You should exercise caution if asked to co-sign for someone else. Understand the terms and conditions before you co-sign and keep a copy of the loan contract.

The Federal Trade Commission's Credit Practices Rule requires creditors to advise co-signers about his or her potential liability if the other person fails to pay. State laws can vary in consumer protection provisions relating to co-signers.

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# How Do I Know If I Can Afford a Loan?

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Use the "Monthly Spending Plan" shown to determine if you have sufficient income to cover your living expenses. The only time to take on a new monthly credit payment is when you're spending less each month than you take home. The additional debt load should not cut into the amount you've committed to saving.

<b>MONTHLY TAKE HOME</b>	\$ _____
<b>SAVING</b>	- \$ _____
<b>MONTHLY EXPENSES:</b>	
<b>MORTGAGE PAYMENT/RENT</b>	- \$ _____
<b>UTILITIES</b>	- \$ _____
<b>GROCERIES/LUNCHES/DINNERS OUT</b>	- \$ _____
<b>TRANSPORTATION</b>	- \$ _____
<b>INSURANCE (HOME, VEHICLE, LIFE)</b>	- \$ _____
<b>TAXES</b>	- \$ _____
<b>CLOTHING</b>	- \$ _____
<b>PERSONAL</b>	- \$ _____
<b>ENTERTAINMENT</b>	- \$ _____
<b>GIFTS &amp; CONTRIBUTIONS</b>	- \$ _____
<b>FAMILY</b>	- \$ _____
<b>EDUCATION</b>	- \$ _____
<b>CREDIT CARD PAYMENTS</b>	- \$ _____
<b>OTHER CREDITOR PAYMENTS</b>	- \$ _____
<b>VEHICLE PAYMENTS</b>	- \$ _____
<b>REMAINING BALANCE</b>	= \$ _____

# Shop for the Best Deal When Applying for a Personal Loan

Review and compare the financing terms offered by more than one creditor.

	NAME OF CREDITOR	NAME OF CREDITOR
<b>AMOUNT BORROWED</b>	\$ _____	\$ _____
<b>ANNUAL PERCENTAGE RATE (APR)</b>	_____ %	_____ %
<b>CREDIT INSURANCE (OPTIONAL)</b>	\$ _____	\$ _____
<b>FINANCE CHARGE</b>	\$ _____	\$ _____
<b>FIXED RATE FINANCING</b>	_____ %	_____ %
<b>LENGTH OF PAYMENTS IN MONTHS OR YEARS</b>	_____	_____
<b>LATE PAYMENT FEE</b>	\$ _____	\$ _____
<b>MONTHLY PAYMENT AMOUNT</b>	\$ _____	\$ _____

## TERMS TO KNOW

1. Take the time to know and understand all of the terms, conditions and costs of a loan before you sign the contract.
2. Review your credit application and loan documents carefully.
3. Ask questions about any items you don't understand before you sign.

**Amount Financed** - *The total dollar amount of the credit that is provided to you.*

**Annual Percentage Rate or "APR"** - *A measure of the cost of credit expressed as a yearly rate.*

**Credit Insurance** - *Optional insurance that is designed to repay the debt if the borrower dies or becomes disabled.*

**Finance Charge** - *The dollar amount you pay to use credit.*

**Fixed Rate Financing** - *The interest rate and the payment remains the same over the life of the loan. Equal monthly payments of principal and interest are made until the debt is paid in full.*

**Length of Payment** - *The total number of months you have to pay the credit obligation.*

**Late Payment Fee** - *A fee that is charged when payment is made after its due date.*

**Monthly Payment Amount** - *The dollar amount due each month to repay the credit agreement.*

## WHAT HAPPENS IF I'M LATE WITH MY PAYMENT?

Creditors understand that circumstances such as unemployment or illness can make it very difficult to meet bill payments. If this happens to you, contact your creditor, explain your situation and work out a repayment schedule.

You also might be offered the option to "refinance" your loan. Each time you refinance, you pay additional fees and interest charges. Refinancing should only be an option if it benefits you and fits into your budget.

If you need outside help, contact a reputable nonprofit consumer credit counseling service or agency. These agencies can work directly with consumers and their creditors to help resolve debt problems.

# REMEMBER

**Budget your money** - Provide your monthly spending plan when you meet with creditors. It will help them make a responsible decision.

**Shop, shop, shop** - Compare the costs of credit from different creditors. Shop for credit like you would shop for anything else.

**Beware of “now or never” offers** - If it's a good deal, it will probably still be there after you've had time to think about it. Don't be pressured into making a quick decision.

**Ask questions** - Don't sign on the line until all your questions have been answered.

**Read the contract** - Don't sign a contract that you don't understand or has any blanks. (A signed contract with blanks can be completed as anyone wishes and it will be legally binding.)

**Keep your contract in a safe place** - It's important to keep all paperwork relating to your credit obligations. If questions come up later, you'll have your agreement in writing.

**Make your payments on time and in full** - This is one of the best ways to build a good credit history. Repeated late payments will trigger late payment fees, and hurt your credit report, which will make it difficult to obtain future credit.

**Additional products are not required to get a consumer loan** - Optional products that may be offered for purchase with your loan include motor club membership, term insurance, or warranties.

## ADDRESSES

### **Federal Trade Commission**

Washington, D.C. 20580

[www.ftc.gov](http://www.ftc.gov)

1-877-382-4357

### **National Association of Attorneys General**

state-by-state listing of attorneys general

[www.naag.org/current-attorneys-general.php](http://www.naag.org/current-attorneys-general.php)

### **CFPB**

Washington DC 20220

[www.consumerfinance.gov](http://www.consumerfinance.gov)

1-855-411-2372



## WHAT FEDERAL LAWS SHOULD I KNOW?

### **Truth in Lending Act**

Requires creditors to give you written disclosures of important terms of the credit agreement, such as APR, finance charges, monthly payment amounts, payment due dates, total amount being financed, length of the credit agreement and the consequences of not making a monthly payment.

### **Federal Trade Commission's Credit Practices Rule**

- Requires creditors to provide a written notice to potential co-signers about their liability if the other person fails to pay;
- Prohibits late charges in some situations; and
- Prohibits creditors from using certain contract provisions that the government found to be unfair to consumers.

### **Equal Credit Opportunity Act**

Prohibits the denial of credit because of your sex, race, marital status, religion, national origin, age, or receiving public assistance.

### **Fair Credit Reporting Act**

Gives you the right to learn what information is being distributed about you by credit bureaus.

### **Fair Debt Collection Practices Act**

Prohibits third-party debt collectors from using unfair or deceptive practices to collect overdue bills that your creditor has forwarded for collection.



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