Type of Loans

Most loans come under one of the categories we just discussed, but the fact that they have unique names indicates that each loan is slightly different from all the rest.

- Business loans
- Real estate loans
- Lines of credit
- Service loans
- Government guaranteed student loans
- Government guaranteed
- Small Business
- Administration loans
- Personal or signature loans
- Debt consolidation loans
- Interim financing
- Life insurance loans
- Retirement loans
- Margin loans
- Government guaranteed FHA home mortgage loans

If you must use credit, be sure you use the type of credit that best fits your purpose.

Read the fine print. Make sure that you understand what kind of credit is being offered to you. If you don’t understand all of the terms of your credit agreement – how long you have to repay, when your payments are due and for exactly how much, whether you have pledged collateral or not in return for the credit – don’t sign the agreement.

Don’t be afraid to ask the loan officer as many questions as you need until you completely understand the loan terms and what is expected of you.

BORROWING STRATEGIES

- Consider these important factors when borrowing money.
- Identify a variety of sources and institutions which lend money.
- Evaluate the terms of a loan.
- Know how to calculate the cost of credit.
- Determine your own debt limit.

Where Can I Borrow Money?

Most consumer credit comes from banks, savings and loan institutions, credit unions, finance companies, and credit card companies.

In addition, people often borrow from relatives or other individuals who may or may not be good credit sources. Often, individuals who loan money but don’t have a permanent place of business may offer you loans that charge more than the legal interest rate. **BEWARE!** Wherever you borrow money, be sure to get a signed contract and, ***always read the fine print***.

Rules of Thumb

A conservative rule of thumb for consumer credit is the ”20-10 Rule.“ This means that total household debt including your housing payments shouldn’t exceed 20% of your net household income. Remember your net income is how much you ”bring home“ in your paycheck and monthly payments on the debt shouldn’t exceed 10% of net monthly income. Another conservative rule of thumb for mortgage debt is the ”28/36“ rule. This means that your non-housing debt shouldn’t exceed 28% of your gross (your total) income, and your total debt – consumer debt plus housing debt – shouldn’t exceed 36% of your gross income.