



Your Family Finances

Borrow Confidently: Questions To Ask When Considering A Loan



(NAPSA)—Getting a loan can be a confusing process, even for those who really understand their finances. While responsible lenders should fully explain loan terms, all borrowers should take their own steps to ensure they fully understand the financial options available to them. Lisa Sodeika, vice president of consumer lending practices at Household (parent company of Household Finance Corp. and Beneficial), encourages borrowers to ask lenders a series of questions to get clarity. She offers the following checklist as a guideline:

✓ What are the monthly payments and when are they due?

Be clear on the sum of all expenses you will owe each month, when your payments are due and if the loan payments fit into your budget.

✓ Is this a closed-end or revolving loan?

With a closed-end loan, you borrow a lump sum of money and pay it off over a specific period of time. With a revolving loan, as debt is paid down, you have the option of borrowing additional funds as long as the outstanding balance does not exceed a certain limit.

✓ Is the interest rate of the loan fixed or variable?

A fixed rate loan sets one interest rate for the loan's duration.

With a variable loan, interest rates may go up or down periodically throughout the loan's term based on an interest rate index (usually within certain limits).

✓ Can the rate or the monthly payment change?

If you have a fixed interest rate and term, your payment will not increase during the term of the loan as long as you make payments on time. With a variable rate loan, payments can change based on the interest rate index.

✓ If you make every monthly payment in full and on time, when will this loan be paid off?

Be aware of the term of the loan so you can plan appropriately to achieve your short- and long-term financial goals.

✓ What is the annual percentage rate (APR)?

The annual percentage rate is the actual interest rate you pay on your loan (including the costs of obtaining credit).

✓ Beyond interest rate, what are the other costs involved?

Be aware if there are additional fees associated with your loan such as origination costs, annual fees or loan processing fees.

✓ Is the loan unsecured or are you using your home or personal items such as your car to secure the loan?

Unsecured (personal) loans are not secured by collateral (such as

your home) or personal property and thus typically have higher interest rates. Secured loans have lower interest rates, but require borrowers to secure the loan with collateral such as real estate, a savings or investment account or other valuables.

✓ Does the loan have a prepayment penalty?

A prepayment penalty is a fee charged for paying off a loan in full prior to the stated term. Some lenders now offer borrowers the choice of accepting a lower-rate loan with a prepayment fee or a higher-rate loan without one.

✓ Are there other products in addition to the loan, such as optional credit insurance, that you are buying?

Additional products, such as credit insurance, may provide additional security; however, it is important to ask your lender how much these products cost and how much they can actually help you.

For additional information about obtaining a loan and about other important financial issues, log on to www.household.com and www.yourcreditcounts.com. You can also write to Household Corporate Communications, 2700 Sanders Road, Prospect Heights, IL 60070-2799 for complimentary booklets on how to manage credit, spending and savings.