BORROWING: WHAT DO YOU NEED TO BORROW MONEY

While all financial institutions have different specific requirements for a loan application, overall they are quite similar.

WHAT DO YOU NEED TO BORROW MONEY

- Most lenders will check to see that you have a regular income.
- They may ask you to provide a letter of employment.
- They may ask for several months of your pay stub.
- Lenders may ask for proof of rental income or proof of pension.
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- Lenders will usually do a credit check to find out your credit history and will look at your credit score.
  - They want to be sure they can count on you to pay back the money you borrow.
- They will likely need a Canada Revenue Agency (CRA) Notice of Assessment.
  - This will tell them whether you pay your taxes or if you have any taxes owing to the government.
- You can expect most lenders to ask you for a list of your assets (things you own) and your liabilities (thigns you owe).
- It is also likely that they will ask you to show them a list of your income and expenses.
- For some loans, another important thing lenders may ask you for is collateral.
  - This is something that is pledged as security for repayment of a loan, and it will be forfeited in the event that you fail to repay the loan.

In general, lenders are looking for information that will give them a good picture of how you manage your finances and whether you can be trusted to repay the loan if they lend you the money.

- If you are able to borrow money at a low rate with a manageable payment plan, you may be able to free up funds needed in other areas of your life.
  - eg. If you are buying a house an pay for it out of pocket without borrowing money, you may spend all of your savings and have no contingency fund for any repairs or other emergency costs that may come up. But if you borrow money at a reasonable rate with a plan to pay it off, you will be able to reserve some funds for some of the unexpected costs that come with owning a home.

REASONS TO BORROW THAT MAY PROVIDE A DISADVANTAGE

There are also times when borrowing money can put you at a disadvantage and may be harmful to your long-term financial health.

- It may be tempting to borrow money to indulge wants but this can lead to uncontrolled spending.
  - eg. If you borrow money on your credit card to buy items that you want but don't need, you may find it hard to pay back the money *and* the interest. This can harm your credit score and impact your financial future. The added interest will also increase the cost of that purchase, often by a significant amount.
- We occasionally face hard times when it's difficult to pay the bills.
  - If you make a habit of borrowing money to make ends meet, your debt will continue to grow exponentially until you reduce your bills and stop borrowing to make ends meet.
- Once you have accumulated some debt, it can be tempting to borrow more money to pay off your debt.
  - If this is not done in a strategic way (such as a consolidation loan), it may result in growing debt and leave you worse off than before.
- Borrowing money for someone else is never a good idea.
  - If they are unable or simply choose not to pay you back, you may be responsible for making the payments for *their* loan.
- Borrowing money to invest can be very risky.
  - It may work out to your advantage and you will earn a higher return on your investment.
  - Depending on how you invest it, the opposite may also be true and you may lose money and be left to pay back the borrowed money plus interest.

Whenever you are considering borrowing money, it can be helpful to stop and think about your reasons for borrowing the money. Ask yourself whether borrowing the money will provide you with an advantage that gives you more value in the long run, or whether it will leave you with growing debt or something that decreases in value.