BORROWING: WHAT TO CONSIDER BEFORE BORROWING MONEY

Before borrowing money, it's important to make sure that the loan you are signing up for is the right one for you. To do this, keep the following considerations in mind.

THE FULL COST OF THE LOAN

- Be sure you understand the total amount of money you'll repay when you add up the amount of your loan as well as the interest you'll pay.
    - If your interest rate isn't fixed for the whole loan, it may be difficult to get an exact amount but it's important to know roughly how much this will cost in the end.
- Ask yourself whether the loan is still worthwhile in light of that final figure.

PAYMENTS

- Make sure the payments are comfortable and affordable for you.
- Consider whether you will be able to afford the payments if your financial situation changes down the road.
- How much change can you tolerate before you will be unable to afford the payments?
- Will you be able to make your payments if interest rates rise?
- Be sure you know what will happen if you miss a payment or are late making a payment.
    - Will you be charged a fee or will the interest rate increase if you miss a payment?

TIME

- How long will it take you to pay off the loan? Is that a commitment you're willing to make?
- Can you increase your payment frequency to pay off the loan sooner?
    - eg. Accelerated bi-weekly payments rather than monthly payments will help you to pay off the loan more quickly and may reduce the amount you pay in interest over the life of the loan.
- What will happen if you pay off the loan early? Will you have to pay a penalty?
- Is there a fee for extra payments?
    - Can you make extra payments to a certain amount or percentage of your loan per year without penalty?

QUALIFICATIONS

- Do you meet all the necessary qualifications to get the loan?
- Can you qualify for the loan on your own? Will you need a co-signer?
  - If so, is there someone you trust who is able to co-sign on the loan?
- Are you able to wait and work on your qualifications so you can qualify on your own down the road?

FEES

- What are the processing fees? What are they for and when are they paid?
- How do the fees compare with the fees on other loan options you may have?
- Will the lender negotiate the fees?

INSURANCE

- Some lenders may require you to insure your loan and others may leave the decision up to you.
- Most loans can be insured in the event of death, disability, critical illness or loss of employment.
- Find out how much extra the insurance will cost and what it will cover.
- It’s important to think through how you will continue to pay your debts in case of an emergency or any unforeseen circumstances that come up in your life.

TERMS OF THE AGREEMENT

- Be sure you know and understand the terms of your loan agreement.
- Ask the lender any questions you may have.
- The lender must ask for your consent before they add any services to your loan, line of credit or credit card.

SECURITY

- A secured loan may give you a lower interest rate than an unsecured loan but you may forfeit that security if you fail to repay the loan.

YOUR RIGHTS & RESPONSIBILITIES

- Your rights and responsibilities will depend, to some degree, on the lender and type of loan you are getting.
  - eg. Federally-regulated financial institutions can only give you a loan if you have given your express consent.
  - If consent is verbal, they must not delay in giving you written confirmation of your consent.
  - They must also give you information about your personal loan in a clear and simple manner that is not misleading

- You must also be responsible to ensure you take the time to understand and read the terms and conditions of the loan and ask any questions you may have before you sign the loan agreement.
- If you want to know your rights for your specific loan and situation, a good place to start is by looking at the Canada.ca website under Credit and Loans: Know Your Rights.
- Be sure to read the terms and conditions of your loan in the paperwork you sign.
  - Many of your rights and responsibilities will be outlined in your loan agreement.

Borrowing money is a big decision and not one that should be made lightly. Take the time to research and think through your options. Ask questions and make sure you understand all the aspects of the loan before you sign the loan agreement.