



PREPARING TO BORROW

Borrowing money is a part of almost everyone's financial lives. Mortgages, auto loans and college loans enable us to afford things that are beyond our current financial reach. Credit cards provide convenience in our daily lives that many find essential. But borrowing money also carries serious responsibilities and too much borrowing or the wrong type of borrowing can cause many problems.

Some fundamentals

Before applying for a loan or a credit card, here are some things to consider:

Why are you borrowing? Borrowing for things that provide long-term and lasting value should come before borrowing for things that provide only momentary or limited enjoyment. It is much easier to justify borrowing for a home or a college education than borrowing for a great vacation or a great outfit that you may only wear occasionally.

Do you understand your responsibilities? Remember that any money you borrow must be repaid along with interest. Be sure you can afford the payments that the borrowing will require. Also, spend some time to find the loan with an interest rate and terms that best fits your situation.

Getting ready

Before sitting down to fill out a loan application or arranging a meeting with a loan or mortgage officer, here are some items you may want to have handy:

Your credit report. Most lenders will automatically order a credit report and you should know what it contains. For a small fee, you can order your credit report from the three large credit reporting agencies by calling them:

- Experian - 888/397-3742
- TransUnion - 800/888-4213
- Equifax - 800/997-2493

Proof of income. Depending on the type of loan, you may need to provide a copy of a recent payroll check stub or a W-2 from the prior year.

Tax return. If you are applying for a mortgage or a large personal loan, you will probably need to supply copies of at least one federal tax return.

Personal financial statement. For mortgages and other large loans, lenders may require that you supply a financial statement listing all your assets and liabilities. It is also a good idea to prepare a personal financial statement annually as part of managing your finances.

What lenders are looking for

Remember that lenders are loaning you money that they want repaid along with interest. This is their business and they want to make sure that you will be able to live up to your repayment responsibilities. Along with the items mentioned above, they will be looking at other aspects of your finances to get the comfort to approve your loan.

Stable employment. Having a steady job can help give lenders confidence that you will have an ongoing income to repay your loan. If you have a history of several job changes, it may raise a yellow flag so be sure you can explain them. For example, if you have frequently changed jobs for better opportunities, be sure to mention it.

Stable residence. Lenders like to see at least six months of residence at the same place.

Responsible handling of other debts. Having a solid history of timely and regular payments on other borrowing also helps give lenders confidence that you will be able to handle this debt in the same manner.

Final words

The decision to borrow money or to apply for a loan is serious and you should thoroughly understand your side of the transaction. Spending a little time to think about borrowing and being properly prepared will make the process easier and may improve your chances of getting the loan approved and being able to get more favorable terms.